

# Labour market and social developments

## Introduction

The labour market and social situation has on average deteriorated in the EU as a whole as well as in the euro area since 2008 and especially since 2010. In certain member states, unemployment and the risk of poverty have risen to alarming levels. These developments, along with the appointment of a new Commission last autumn, have led to some renewed policy initiatives, in the EU and the euro area, that seek – at a rhetorical level at least – to restore growth as a means of addressing the situation. The most notable of these initiatives is the Annual Growth Survey with its three pillars: the Investment Plan, fiscal responsibility and structural reforms.

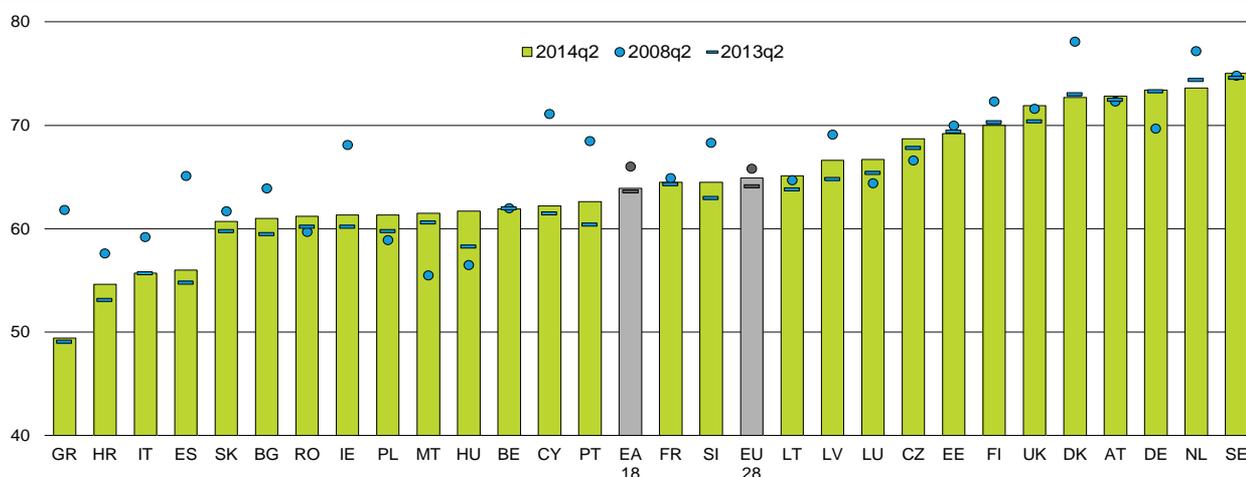
In this chapter, we provide a snapshot of the labour market and social developments in the EU, highlighting important dimensions such as job quality (which has been, in the current discourse, largely neglected or pursued by the wrong means), facets of the youth labour market situation, labour mobility, and in-work poverty. We also challenge a basic premise of the EU policy approaches, namely that the key to labour market recovery lies not so much in stimulating aggregate demand as in pushing through structural reforms. Finally, we show that public social spending has failed to respond adequately to deteriorating social conditions, particularly in those member states most severely affected by the crisis.

### Topics

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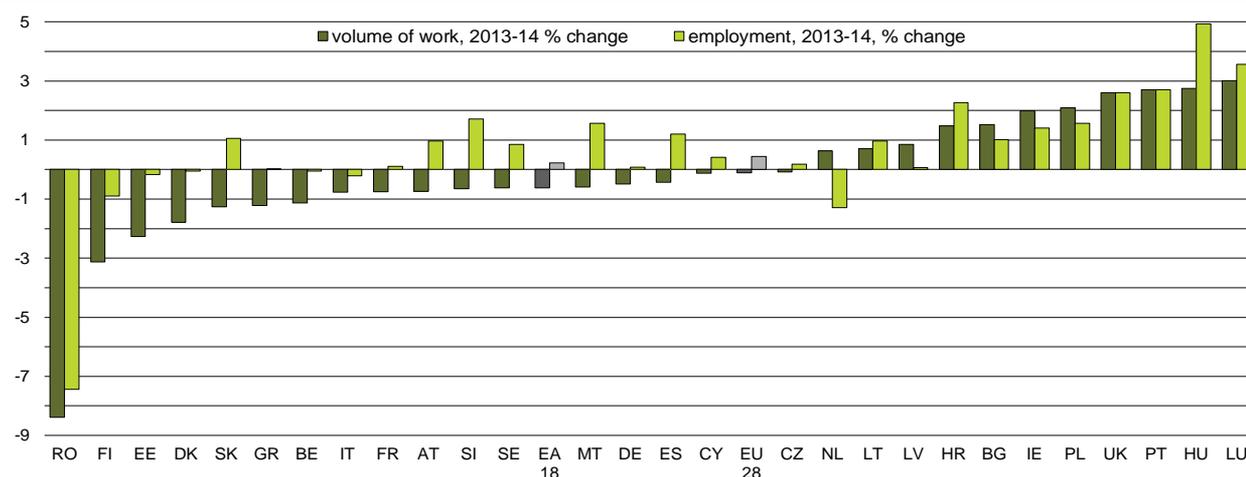
## Overview of labour market developments

Figure 2.1. Employment rates (age 15-64)



Source: Eurostat [lfsq\_ergan].

Figure 2.2. Work redistribution (age 15-64)



Source: Eurostat [lfsq\_ergan].

### Labour input still declining

In 2014q2, 64.9% of the population aged 15-64 in the EU28 was employed. While this figure represents a slight increase on the previous year (64.1%), it remains below pre-crisis levels (65.8% in 2008q2). Considerable divergence across the EU persists, so that there is, for example, a

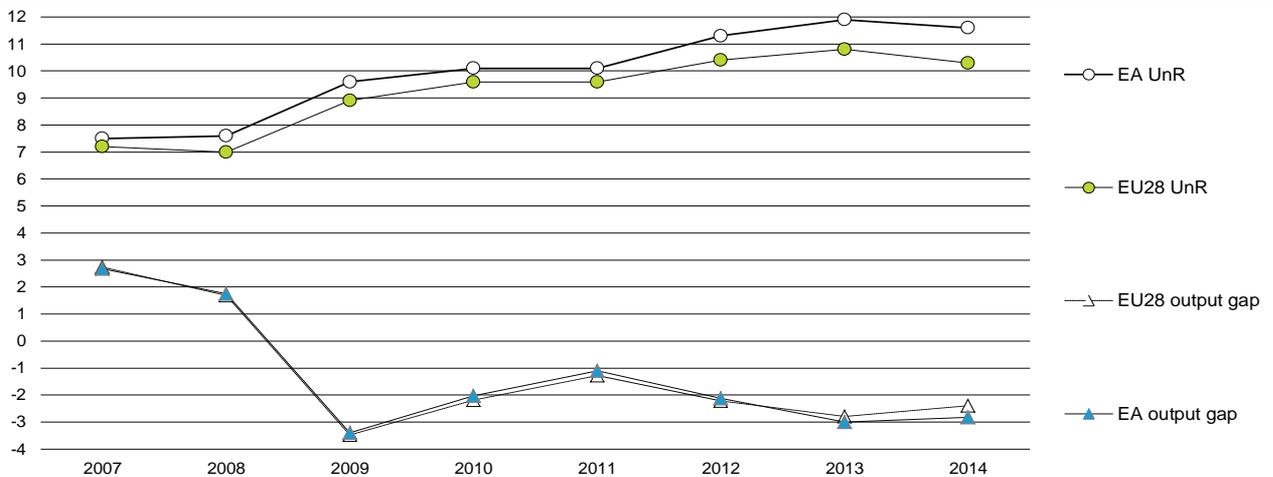
25.6 percentage-point gap in employment-rate levels between Sweden (75%) and Greece (49.4%). Moreover, 17 EU countries currently have a lower share of population in employment than in 2008; it is in Greece, Spain and Cyprus that this decrease has been most striking.

Five EU countries saw a further decline in the employment rate in the last year (2013q2 - 2014q2), while others saw growth or stability. These latter features have, however, been largely driven by a continuing redistribution of work (see ETUI and ETUC 2014). Despite a

0.4% increase in the employment rate in the EU28, the volume of work has actually shrunk by 0.1% over the last year (Figure 2.2) and in 10 EU member states (e.g. Germany, Austria, Spain or Sweden) increases in the employment rate in the past year occurred in parallel with a decline in the volume of work. Accordingly, the supposed 'increase' reflects the spread of involuntary part-time jobs (see also Figure 2.9), mini-jobs or zero-hours contracts, rather than an increase in the demand for labour (reflected in total working hours) in the EU.

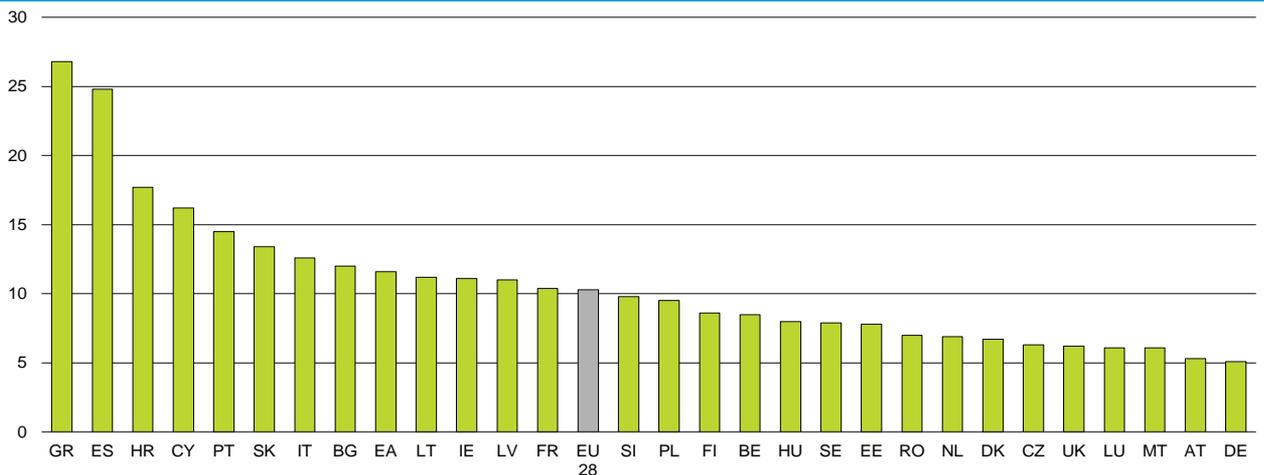
# Overview of labour market developments

Figure 2.3. Unemployment rate and output gap in the EU28 and EA



Source: AMECO, ZUTN, AVGDGP.

Figure 2.4. Unemployment rates in EU28 member states, 2014



Source: AMECO ZUTN.

## Output gap driving unemployment

The unemployment rate peaked at 10.3% in the EU28 and 11.6% in the euro area in 2014. As Figure 2.3 shows, the unemployment rate had started to rise in 2008; in 2014 it declined but only slightly. The unemployment rate in Europe followed closely the evolution in the output gap,

that is, the difference between how much the EU28/euro area *could* produce and how much it *actually* produced. A negative output gap means that actual demand is below potential output. As Figure 2.3 illustrates, there has been a negative output gap in Europe since 2008 and the fact that its evolution mirrors that of unemployment suggests that the evolution of the unemployment rate has been driven by low demand. This is confirmed by the unemployment figures of different member states. Unemployment rates have varied substantially, from

26.8% in Greece and 24.8% in Spain to just 5.1 and 5.3% in Germany and Austria respectively. The sharp contrast is related to the extent to which countries were affected by the sovereign-debt and current-account crises and more especially to the policies that were used (or not used) for adjustment (see Chapter 1).

## Overview of labour market developments

Figure 2.5. Labour market policies and institutions in member states with highest and lowest unemployment rates, 2008-2013

			AT	DE	GR	ES
Employment Protection Legislation <sup>1</sup>	Protection of permanent workers against individual and collective dismissals (0-6) 0=least restrictive	2008	2.44	2.98	2.85	2.66
		2013	2.44	2.98	2.41	2.28
	Regulation on temporary forms of employment (0-6) 0=least restrictive	2008	2.17	1.54	3.17	3.50
		2013	2.17	1.75	2.92	3.17
Unemployment Benefits Generosity <sup>2</sup> (Average of net replacement rates over 60 months of unemployment)	excl. social assistance benefits	2008	60	46	11	36
		2012	59	41	11	36
	incl. social assistance benefits	2008	64	65	21	47
		2012	69	60	11	47
Collective wage bargaining <sup>3</sup>	Coordination of wage-setting (1-5, 1=fragmented confined largely to individual firms or plants)	2008	4	4	2	4
		2013	4	4	5	4
Labour market reforms	Number of labour market reforms <sup>4</sup>	2000-2008	83	93	75	132
		2009-2013	59	40	117	121
		2000-2013	142	133	192	253

Sources: 1: OECD, 2: OECD, Benefits and Wages statistics database 3: Visser, J., (2013), ICTWSS: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts in 34 countries between 1960 and 2012, v.4, 4: own calculations using data from the LABREF database-DG Ecfm.

## Labour market institutions do not explain the divergence in unemployment rates

As in previous times of high unemployment rates in Europe (cf. OECD 1994), there have been persistent calls for labour market reforms as a remedy for high unemployment, especially as the most affected member states have been members of the eurozone where it is impossible to use the nominal exchange rate to help an economy adjust to adverse shocks (Canton *et al.* 2014). Indeed, structural reforms, of which labour market reforms always form a large chunk, are – together with the investment plan and fiscal ‘responsibility’ – one of the three pillars of this year’s Annual Growth Survey (European Commission 2014a).

The argument has been twofold. First, that, faced with an adverse shock such as a drop in demand, more flexible wages would reduce the impact on employment and unemployment rates.

Secondly, and more controversially, that more flexible wages will stimulate a recovery that will lead to lower unemployment. Drawing largely on the success of the US economy in reducing its unemployment rates in the 1980s and 1990s by contrast with Europe, the argument was that less generous unemployment benefits, less protective employment protection legislation and decentralised collective wage bargaining are more conducive to low unemployment (OECD 1994).

Empirical research conducted before the global crisis broke out (for example, Baker *et al.* 2005; Theodoropoulou 2008) showed that the relationship between unemployment and the aforementioned labour market policies/institutions is anything but straightforward and that it depends on the broader political economy context, most notably the macroeconomic policies pursued in a country. More importantly, it was shown that economies with more regulated markets may not only enjoy low unemployment/high employment rates but also perform better in terms of combating poverty and inequality (Bassanini and Duval 2006).

In spite of these findings, the idea of labour market deregulation as a solution to the EU’s unemployment crisis re-emerged and gained traction. Figure 2.5 above provides some very simple but telling evidence of why this policy is misguided.

The Figure shows the measures of the generosity/restrictiveness of unemployment benefit systems and employment protection legislation (EPL), as well as the structure (coordination) of collective wage bargaining institutions in the two member states with the highest unemployment, Spain and Greece, and those with the lowest, Germany and Austria. All these policies have been actively targeted by adjustment programmes in the eurozone.

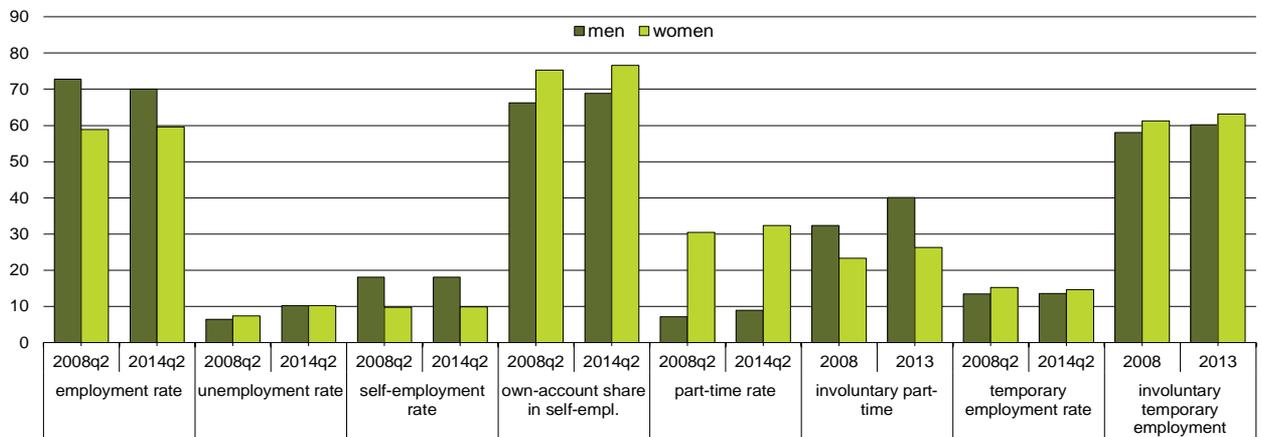
We see either that the difference between the best and the worst performers runs in the opposite direction to that argued by advocates of labour market reform or that it is non-existent.

Moreover, looking into the LABREF database (European Commission 2015) we see that between 2000 and 2013 there were in total 141 reforms conducted in Austria, 133 in Germany, 182 in Greece and 249 in Spain. In fact, during the 2009-2013 period, Greece and Portugal undertook approximately twice as many reforms as Austria and Germany.

The above table provides the following clear message: labour market institutions are not at the root of the current divergence in unemployment rates in the EU and can therefore not be at the heart of the solution. The difference between the two pairs of countries lies in their output growth rates in the last five years, and these are the outcome of the macroeconomic policies pursued.

## Overview of labour market developments

Figure 2.6. Gender differences on selected employment indicators and change over time, EU28



Source: Eurostat [lfsq\_ergan; lfsq\_urgan; lfsq\_esgaed; lfsq\_eppga; lfsa\_eppgai; lfsq\_etpga; lfsa\_etgar]. Notes: Involuntary part-time and involuntary temporary employment data for 2008 and 2013 (annual).

### Gender gaps narrowed by levelling down

While many of the gender gaps in the labour market have narrowed since the onset of the crisis in 2008, this can hardly be defined as progress, for a closer look reveals that the closing of gender gaps is mostly driven by worsening conditions for men. Between 2008 and 2014 (comparison of second quarters), the employment rate for men aged 15-64 in the EU28 dropped by 2.7 percentage points (from 72.8% to 70.1%), while for women it increased by 0.7 pp. (from 58.9% to 59.6%). The increase in female employment rates picked up again in 2010, after the post-2008 drop, yet it remains well below the pre-crisis upward trend trajectory. While in the period 2005-2008 the female employment rate in the EU28 rose by an annual average of 0.9 pp., in the period 2010-2013 this increase fell to 0.2 pp.

The gender gap in unemployment rates in the EU28 closed completely in 2014 (at 10.2% for both men and women in the 15-64 age group), the increase for men (by 3.8 pp.) having exceeded that for women (by 2.8 pp.). Though men remain

about twice as likely as women to be self-employed in the EU28, this gap narrowed slightly in 2014 as the self-employment rate for women grew by 0.2 pp. A more pronounced change occurred in the share of own-account self-employment, which in many cases can be characterised as a form of precarious work that is used by employers as a means of evading taxes or employment rights (EurWORK 2014). Own-account share in self-employment increased by 2.7 pp. for men (from 66.2% to 68.9%) and by 1.4 pp. for women (from 75.3% to 76.6%), thus reducing the gender gap.

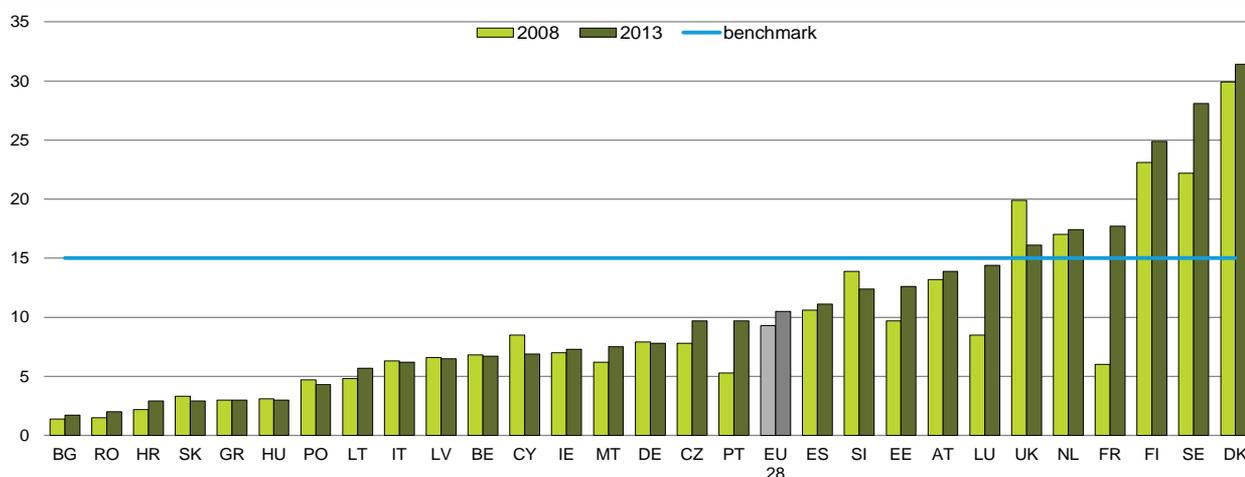
The gender difference in the part-time rate remained stable over the crisis despite unprecedented increases in male part-time employment. In the EU28, between 2008 and 2013, the number of part-time jobs increased more for men (by 1.61 million) than for women (1.46 million). That this development reflects, rather than men's lifestyle choices (for instance to combine paid work and family care responsibilities), a decline in the available work outstripping the decline in employment (see Figure 2.2) is illustrated in the substantial increase in the share of part-time work that is involuntary among men (from 32.4% in 2008 to 40.1% in 2013) and that has served to widen the gender gap on this dimension (for women 23.3% in 2008 and 26.3% in 2013).

The developments in temporary employment rates have been more

favourable for women, with the incidence of fixed-term contracts dropping from 15.2% to 14.6% (while increasing from 13.4% to 13.6% among men). However, for both men and women the incidence of involuntary temporary employment increased, reaching 60.2% for men and 63.2% for women in 2013. A somewhat steeper increase for men contributed to a narrowing of the gender gap, yet another example of why the reduction in the gap can hardly be regarded as progress.

## Between education and the labour market

Figure 2.7. Participation rate in education and training (last 4 weeks) by sex and age [trng\_lfse\_01]



Source: Labour Force Survey. Note: France and EU28 break in series for 2013.

### Lagging behind on human capital investment

The development of a knowledge-based economy at the global level has made skills one of the most important assets on which individuals and the economy at large can rely.

At the individual level, skills development has a positive impact on earnings and on the likelihood of being (re-)employed (OECD 2013). Moreover, investing in skills translates into social benefits insofar as individuals with high skills tend to report, compared with the low-skilled, better health and higher social engagement (OECD 2013). At the macro level, skills development fosters growth because it increases the competitiveness and labour productivity of workplaces and transforms technological advances into jobs (OECD 2013); moreover, it has proved to be the most effective way of reducing inequality by favouring a fairer redistribution of economic gains (Cingano 2014). In times of crisis and high unemployment, investing in human capital is crucial, as individuals have fewer opportunities and resources for training to enhance their skills.

Moreover, recent findings show that the level of key information-processing skills (literacy, numeracy and problem-solving in a rich technology environment) is strictly linked with the training received both within and outside the workplace (OECD 2013). Keeping skills updated and making the best use of them is also served through participation in lifelong learning.

In 2009, formal cooperation in education and training across the European member states was renewed and its strategic framework benchmarks included a target for the share of the adult population aged between 25 and 64 years old participating in education and training. The EU benchmark was set at 15% (ETUI and ETUC 2011).

Figure 2.7 shows that progress towards this benchmark between 2008 and 2013 was hardly rapid and that the 15% benchmark is unlikely to be achieved by 2020.

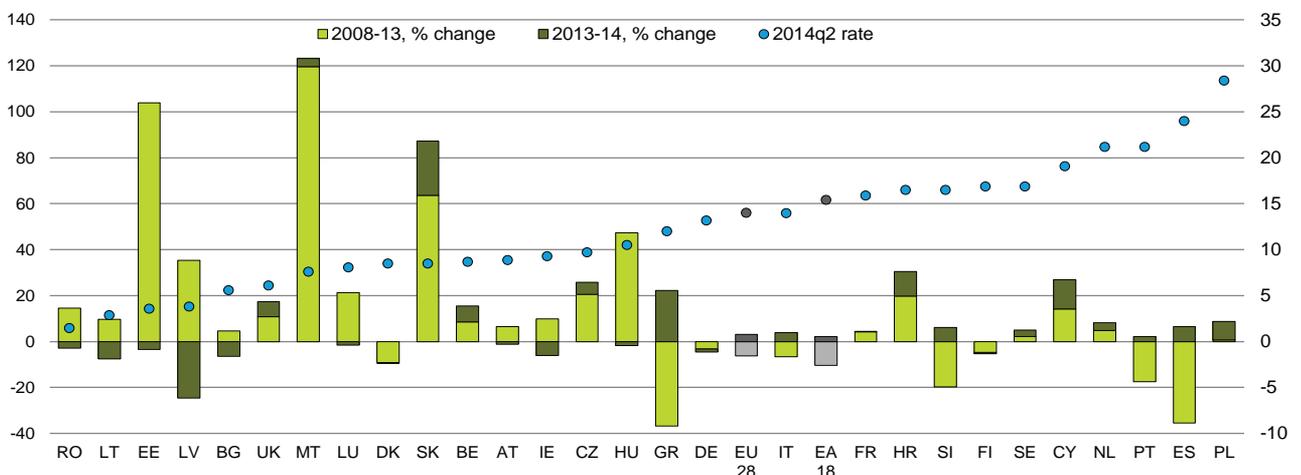
At the EU level, 10.5% of adults took part in education and training in the month prior to the survey. There are striking differences across countries: in 2013, in Bulgaria, only 1.7% of the adult population took part in education and training while for Denmark the share of participation was around 30%. The Nordic countries, France, and the Netherlands largely contribute to raising the EU average, as in more than half (17) of the EU countries the rate of participation

is below 10%. Countries also differ very considerably as regards the share of employed, unemployed and inactive persons participating in lifelong learning. Eurostat data on adult participation in education and training by employment status show that in Denmark, Sweden and Finland between 27 and 32% of the employed participated in education and training. By contrast, in 2013, in Bulgaria, Romania, Slovakia, Croatia, Hungary and Greece the share of employed who received training in the month preceding the survey represented less than 5% (Eurostat 2014).

Between 2008 and 2013, in spite of an increasing number of unemployed in need of training, the share of unemployed taking part in training decreased in some countries such as Malta (-3 percentage points), Greece (-2.2pp) and Italy (-1.3pp) (Eurostat 2014). Moreover, the latest OECD data on expenditure on education as a percentage of GDP (all levels, 2011) confirms important divergence across EU countries with, at the top, Denmark spending 7.9% and, at the bottom, Slovakia spending 4.4%, compared to an EU21 average of 5.8% (OECD 2014).

## Job quality

Figure 2.8. Temporary employment (changes since 2008 and rate in 2014q2, age 15-64)



Source: Eurostat [lfsq\_etgan2].

## Temporary employment on the rise with high turnover and volatility

In 2008 (second quarter) 14.2% of employees in the EU28 worked on temporary contracts. Their share slightly declined after the onset of the crisis and in 2013 stood at 13.7%, corresponding to a net loss of nearly 1.7 million temporary jobs compared to 2008. This was driven mainly by huge job losses among temporary workers in countries hardest hit by the crisis and characterised by a high share of temporary employment (e.g. Spain, Portugal, Greece), for the majority of the EU member states (20 out of 28) recorded some increase in the number of temporary jobs between 2008 and 2013.

Over the last year (2013q2 – 2014q2), the incidence of temporary employment rose to 14% in the EU28. The number of temporary jobs increased in 16 and decreased in 12 EU countries. In consequence, the temporary employment rate was higher in 2014 compared to 2008 in 22 EU countries, despite the

slight overall decline at the EU28 level over the same period. Only in Denmark, Germany, Slovenia, Portugal and Spain is the incidence of temporary employment currently lower than in 2008, while in Finland it is the same.

Despite the changes, an enormous divergence in non-standard employment persists among the EU countries. While in Romania and the Baltic countries less than 5% of employees have contracts of limited duration, in the Netherlands, Portugal, Spain and Poland the level exceeds 20% (Poland has the highest share of temporary employment in the EU amounting to 28.4% in 2014q2).

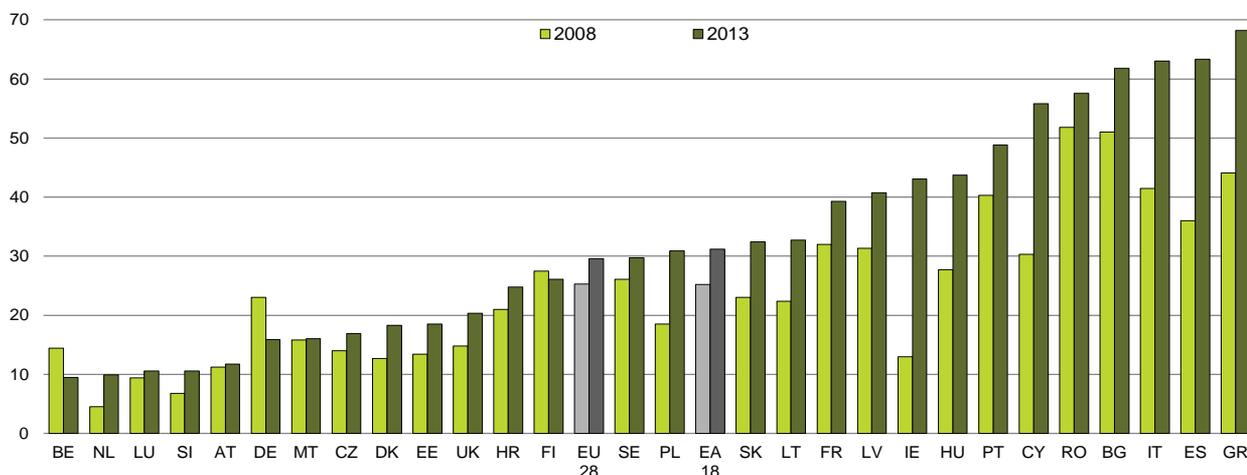
The growth of temporary jobs in the past year (2013q2 – 2014q2) has been unequally distributed across sectors of economic activity (not shown). It was concentrated in manufacturing, retail, accommodation and food, as well as in the public sector (i.e. public administration, education and health). By far the largest net creation of permanent jobs was noted in the health sector, followed by administration and support services, professional, scientific and technical activities, manufacturing, and also education.

It is sometimes argued (e.g. European Commission 2014b) that temporary jobs, together with part-time employment, play a positive role in contributing to job creation. At a first glance, the data on hiring rates may appear to support this

claim. For instance, in the EU27 (excluding France due to lack of data) in 2012, 58% of all hiring was through temporary contracts, while in Spain the proportion was nearly 90% (European Commission 2014c). However, over the same period in the EU27 (excl. France) permanent contracts remained at a stable level and temporary contracts shrunk by 3%, while in Spain permanent contracts shrunk by 3% (0.37 million jobs) and temporary employment shrunk by nearly 12% (a loss of 0.46 million jobs). Thus, if compared with changes in the volume of jobs, the hiring rates seem to reflect high turnover rates and high volatility of non-standard employment, rather than any genuine employment growth.

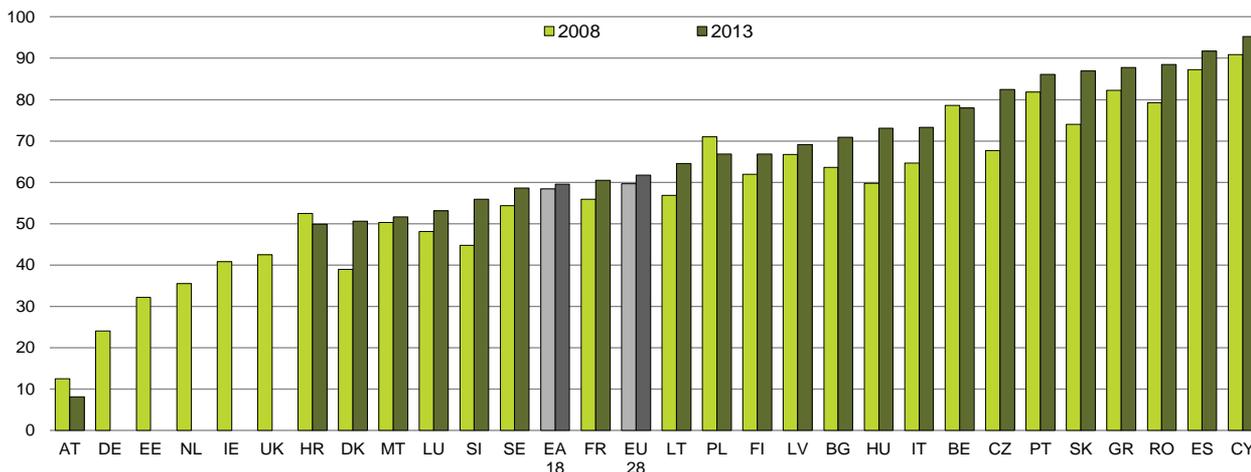
## Job quality

Figure 2.9. Involuntary part-time employment as % of total part-time employment, 2008, 2013, age 15-64



Source: Eurostat [lfsa\_eppgai]. Notes: UK data for 2009 (not 2008).

Figure 2.10. Involuntary temporary employment as % of total temporary employment, 2008, 2013, age 15-64



Source: Eurostat [lfsa\_etgar]. Notes: EA18 data for 2012 (not 2013); DE, EE, NL, IE and UK missing for 2013.

## Non-standard jobs increasingly involuntary

Forms of non-standard employment account for a substantial and growing part of the European workforce. While temporary and part-time work have been linked to lower job quality than standard

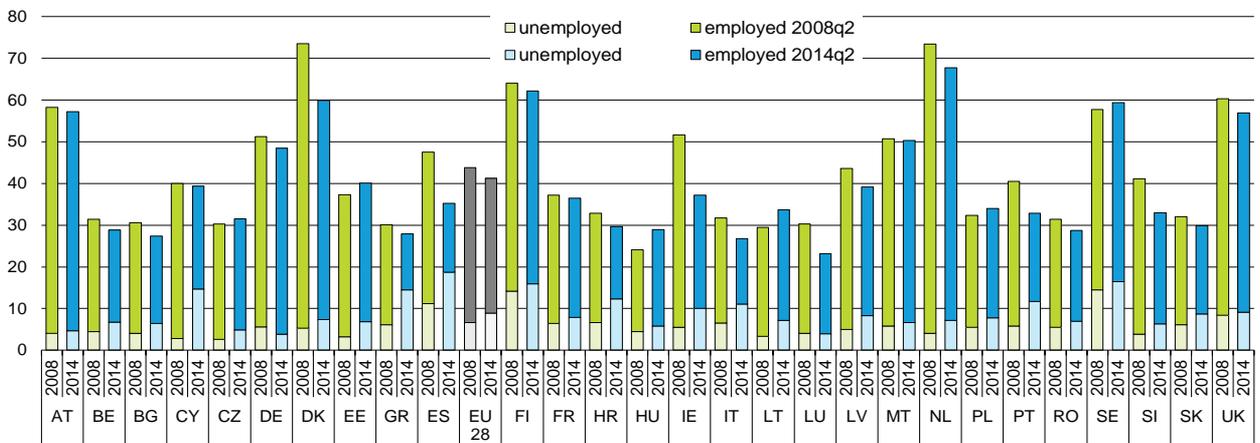
employment (e.g. Anxo *et al.* 2012; Boeri and van Ours 2008; Green and Mostafa 2012; Rubery 1998; Rubery *et al.* 1998), an additional worrying development is their increasingly involuntary character. In the EU28, 29.6% of part-time work was involuntary in 2013 (compared to 25.3% in 2008). The increases have been most pronounced in Ireland (by 30.1 pp.), Spain, Cyprus, Greece and Italy, while in three countries (Belgium, Germany and Finland) the incidence of involuntary part-time employment decreased between 2008 and 2013. In 2013, nearly

70% of part-time work in Greece and over 60% in Spain, Italy and Bulgaria was involuntary.

Even more worryingly, in 2013, 61.7% of workers in the EU28 remained in temporary employment because they were unable to find a permanent job. The incidence of involuntary fixed-term jobs increased in nearly all EU countries for which data for 2008 and 2013 are available. Over 90% of temporary work in Cyprus and Spain, and over 80% in Romania, Greece, Slovakia, Portugal and the Czech Republic, was involuntary in 2013.

## Youth

Figure 2.11. Activity rates for young people aged 15-24 by employment and unemployment (unemployment ratio) – 2008q2 and 2014q2



Source: Eurostat, Labour Force Survey.

## Out of the labour market but back to education?

The 2014 edition of *Benchmarking Working Europe* took stock of developments in youth unemployment (aged 15-24 years) rates across the EU in the first (2008-2010) and second (2010-2013) phases of the recession. It highlighted the divergent unemployment trends across the EU: some countries kept low levels (Germany, Austria, the Netherlands); others reduced their rates in the second phase of the recession (Baltic countries); yet others experienced a second increase between 2010-2013 (Spain, Greece, Italy and the UK).

Figure 2.11 provides an alternative yet complementary picture of the participation of young people in the labour market. In Europe there are different education systems and school-to-work transition arrangements (Pohl and Walther 2007; Eurofound 2014). These have important implications in terms of youth activity rates, for instance low activity rates among youth are often associated with a high participation in education and, as a result, the level of activity might inflate the unemployment

rate. For this reason, Figure 2.11 shows the share of young people employed and unemployed out of the whole population in percentage points (i.e. employment rate and the so-called unemployment ratio) for 2008 and 2014 (second quarter). The sum of the young employed and unemployed gives the overall activity rates.

The Figure shows substantial differences in the activity rates and in the share of young people employed and unemployed across the board and over the years.

Data for 2008q2 and 2014q2 highlight a substantial increase in the unemployment ratio of some countries (Spain, Cyprus, Croatia, Italy); but also important drops in the activity rate in others (Denmark, Spain, Slovenia, Ireland).

Some of the differences in activity and employment rates are explained by a strong participation in full-time education (low activity rates) or, for instance, by a large share of training in the workplace (e.g. Austria) or a combination of work and education (Nordic countries) (i.e. high rates of activity).

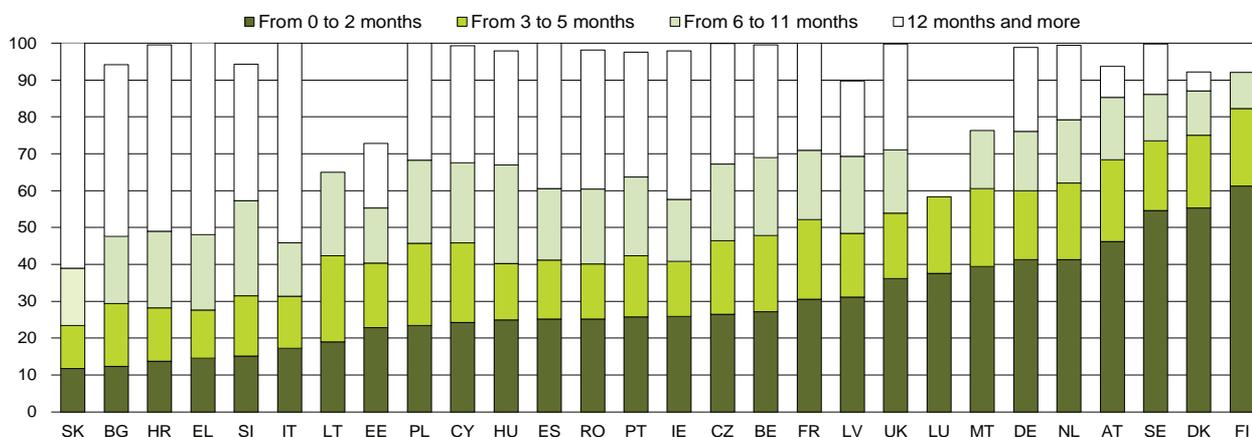
Between 2008 and 2013, Eurostat data show that those countries which had the most important drops in activity rates – such as Denmark, Spain, Ireland, Slovenia and Portugal – also had the highest increase (between 8.6 and 14.9 pp) in young people attending formal and non-formal education (not shown).

This suggests that one effect of the crisis has been to push more young people into formal and non-formal education. There are, however, exceptions, like Hungary which had the highest increase in activity rates (4.8 pp)(2008q2-2014q2), even while its ratio of young people in education decreased by 3.6 pp between 2008 and 2013.

While these data tell little about the transitions from one labour market position to another, they suggest that it is crucial to understand the directions in which young people move in order to design the right policies. As with incentives to work, policies promoting training and education can help young unemployed people invest in personal skills formation, thus contributing to the overall increase of skills in the workforce and preventing skills deterioration. Policy can also be designed to favour a better combination of training/education and work, so as to provide a first working experience for young people, which is a good predictor of subsequent successful labour market integration (Eurofound 2014).

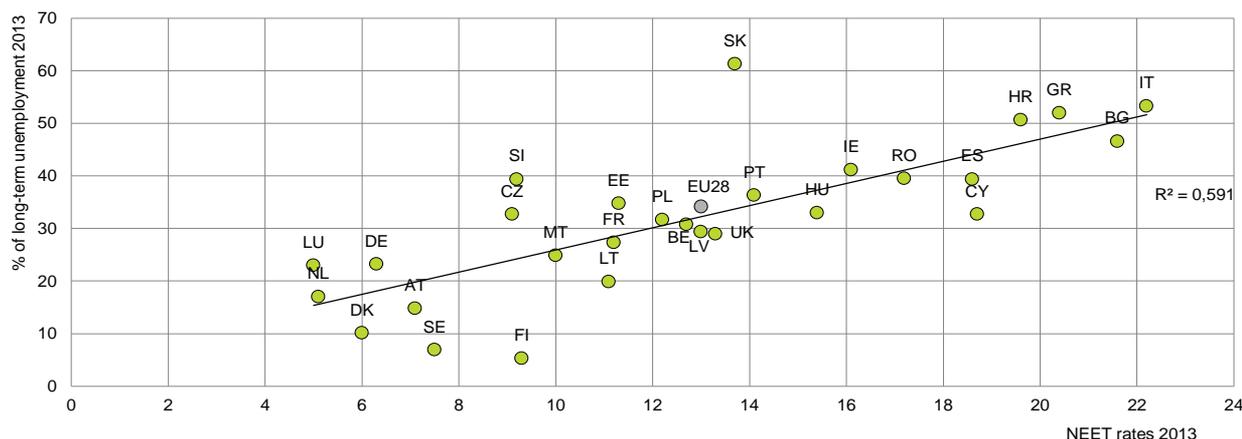
## Youth

Figure 2.12. Long-term unemployment by duration young people 15-24 - 2013



Source: LFS. Notes: data do not sum up to 100 for some countries because of missing data. The category 12 months and more also include 'no response'; the category from 0 to 2 also include the 'not started' category.

Figure 2.13. Correlation between the percentage of long-term unemployment as a percentage of youth unemployment and the share of NEETs, 2013



Source: Eurostat, Education and Training and Labour Force Survey.

## Unemployed for how long?

Prolonged crisis and lack of jobs have also reduced exit rates from unemployment and increased long-term unemployment for young people (ETUI and ETUC 2014). In 2013, in the EU28, more than 30% of young unemployed were out of the labour market for 12 months or more (Figure 2.13).

Figure 2.11 shows that Finland and Sweden have high activity rates but also high unemployment ratios (equal, for instance, to that of Spain). Figure 2.12 explains that, in these countries, young people do not stay long unemployed as more than half of them leave unemployment within less than three months.

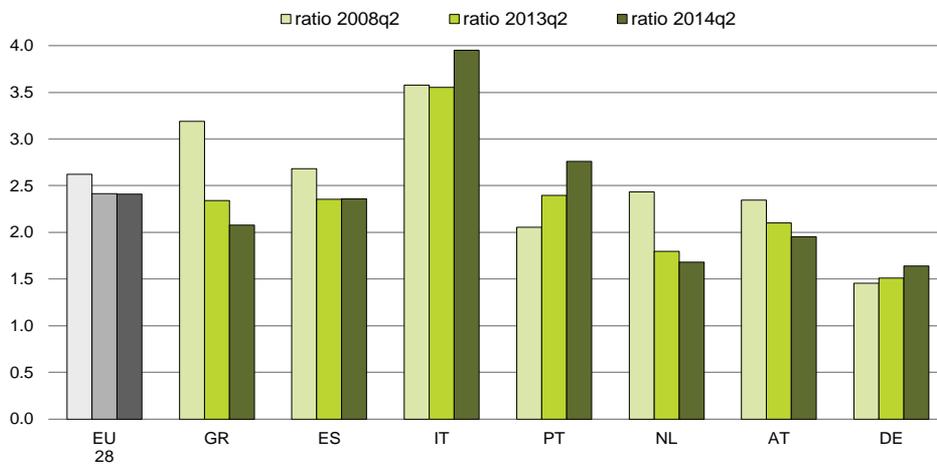
Identifying the type of unemployment and young people at risk of long-term unemployment is at the core of active labour market policies such as the Youth Guarantee (European Commission 2012). While recognising this risk at an early

stage remains crucial, a high reliance on limited socio-economic background variables and statistical profiling methods might overlook the multiple causes behind unemployment.

Figure 2.13 shows that countries with high rates of young people Not in Employment, Education or Training (NEET) also face high shares of long-term unemployment among youth, confirming the need to develop a multi-pronged approach to youth unemployment and inactivity.

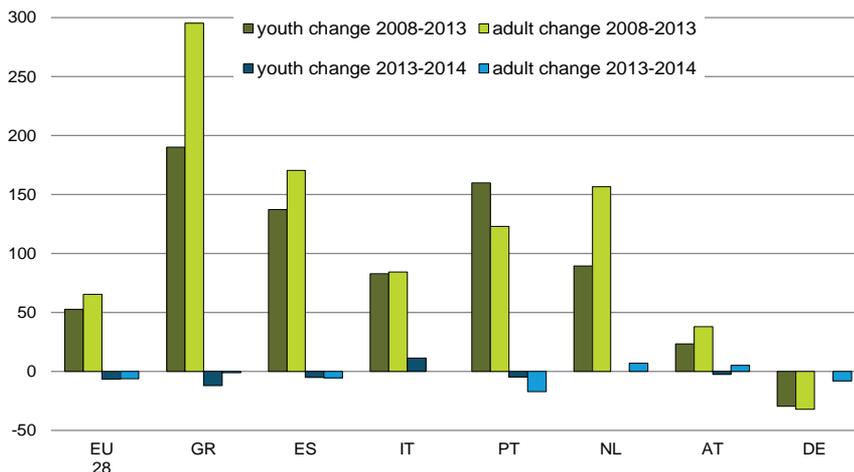
## Youth

Figure 2.14. Youth and adult employment ratio, 2008q2 – 2013q2 – 2014q2



Source: Eurostat, Labour Force Survey.

Figure 2.15. Change in youth and adult unemployment, 2008q2 – 2013q2 – 2014q2



Source: Eurostat, Labour Force Survey. Note: a missing bar means 0 % change.

## Comparing youths and adults

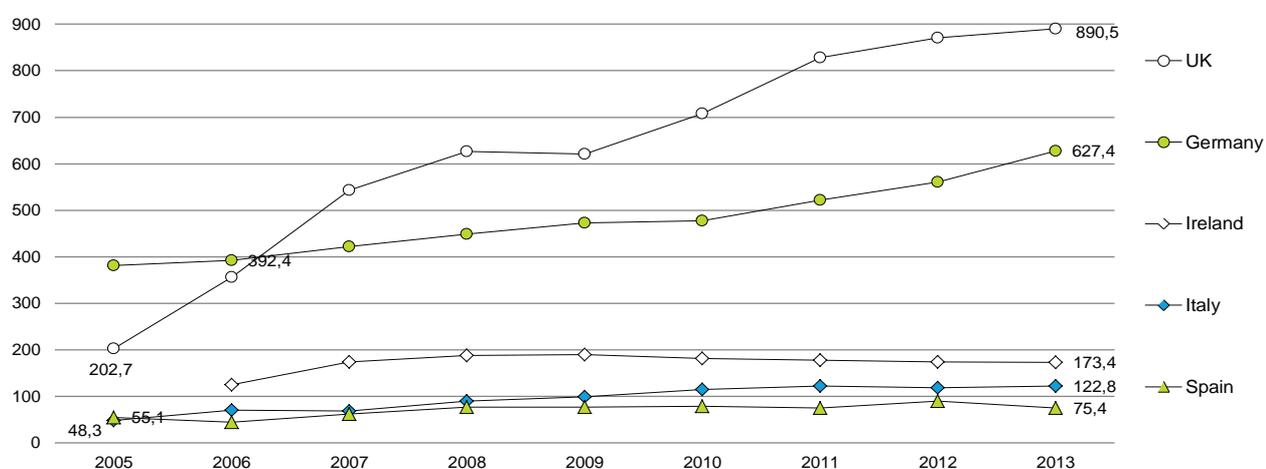
One way of comparing unemployment rates among young people (aged 15-24) and adults (aged 25-64) is to look at changes over time in the youth/adult unemployment ratio (Figure 2.14) as well as at the underlying changes in unemployment rates (Figure 2.15). We can see

from these Figures that young people are on average 2.6 times more likely to be unemployed than are adults (i.e. youth/adult unemployment ratio higher than 1). More surprisingly, however, adults experienced a relatively higher increase in unemployment between 2008(q2) and 2013(q2), with the notable exception of Germany where unemployment decreased among both youth and adults. In other words, adults were hit by the crisis at least as much as were young people, but the latter started out from unemployment levels that were already double

those for adults and this ratio persisted during the crisis. During the last year (2013/2014q2) no clear-cut trends were apparent. In some countries (the Netherlands and Austria) adult unemployment is still rising while in others severely affected by the crisis there has recently been some lowering of adult unemployment rates. Youth unemployment, meanwhile, appears to be either stable or falling slightly in all selected countries and in the EU28 on average, with the single exception of Italy where the youth unemployment rate continues to rise.

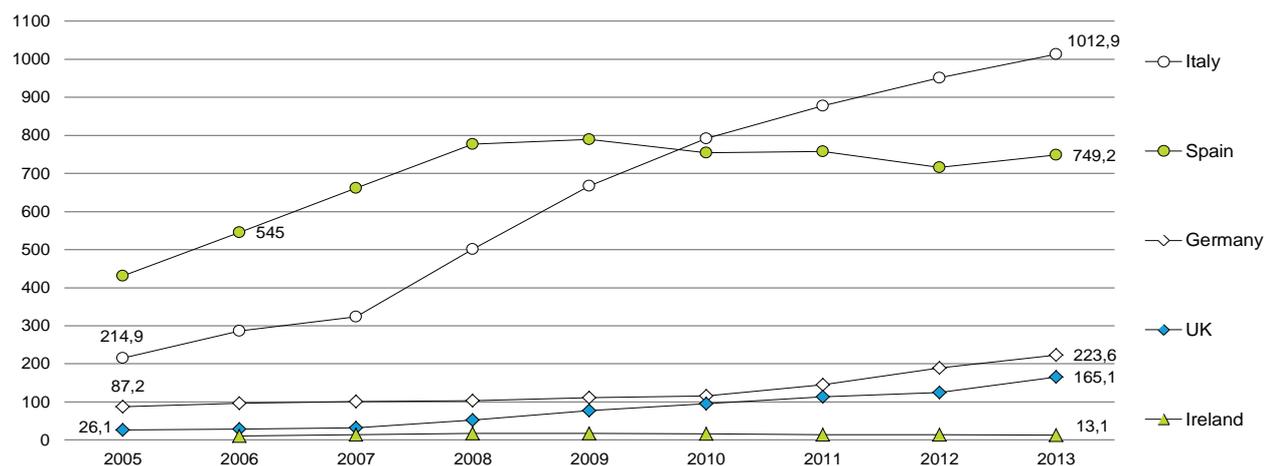
## Intra-EU labour mobility

Figure 2.16. EU8 population in major EU15 receiving countries, 2005–2013 ('000s; stocks)



Source: Eurostat 2014. Note: MT and CY included in EU8 but small numbers.

Figure 2.17. EU2 population in receiving countries, 2005–2013 ('000; stocks)



Source: Eurostat, 2014. Note: 2005 and 2006 figures from original graphs - data no longer available in latest Eurostat retrievals.

## Floodgates and tides

Intra-EU labour mobility has been hugely affected by the crisis with impacts on both sending and receiving country labour markets. Figure 2.16 shows an initial marked increase of the EU8 (2004 CEE accession countries) migrant population in the two EU15 receiving countries (UK and Ireland)

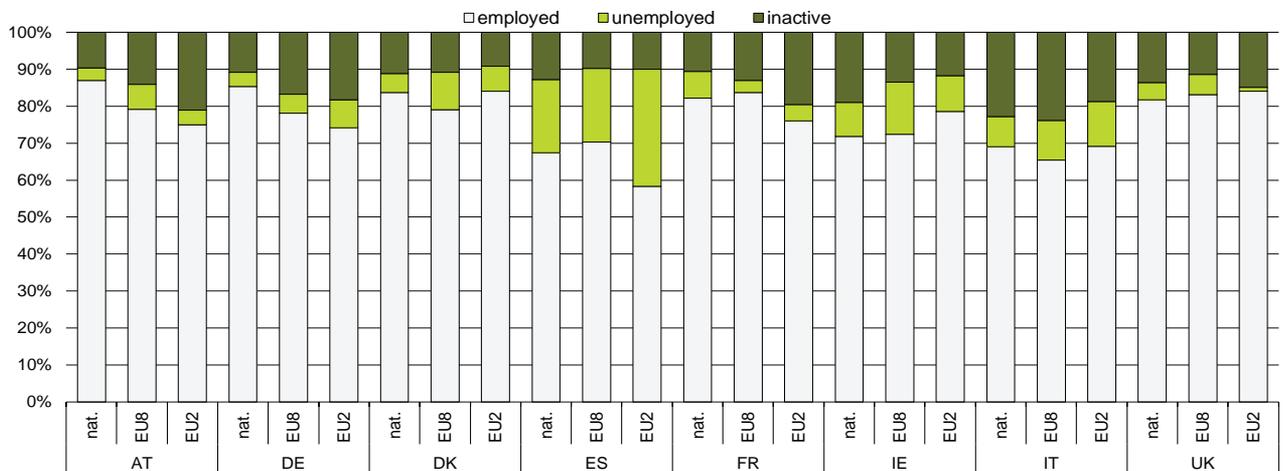
that opened up their labour market from the outset. The negative impact of the crisis, however, is visible particularly in Ireland which was especially hard hit. In the UK, EU8 population stocks flattened out between 2008 and 2009 but continued to go up again from 2009 onwards. Germany made use of transitional measures up until May 2011 and shows a steady but moderate growth in its EU8 population.

There was also a growing intensity of population flows from Bulgaria and Romania (EU2) with Spain and particularly Italy being the most popular

destinations (Figure 2.17). Interestingly Germany and the UK play a secondary role in terms of EU2 migration even if immigration flows are growing. The impact of the crisis on the Italian labour market has not put a hold on the steeply increasing EU2 migrant population stocks. On the other hand, the initial steep increase in EU2 population stocks in Spain flattened out and decreased after 2009 with very recent slight recovery. The large stocks of EU2 population in a number of EU15 countries is also due to the enormous economic (e.g. wages) and social differences.

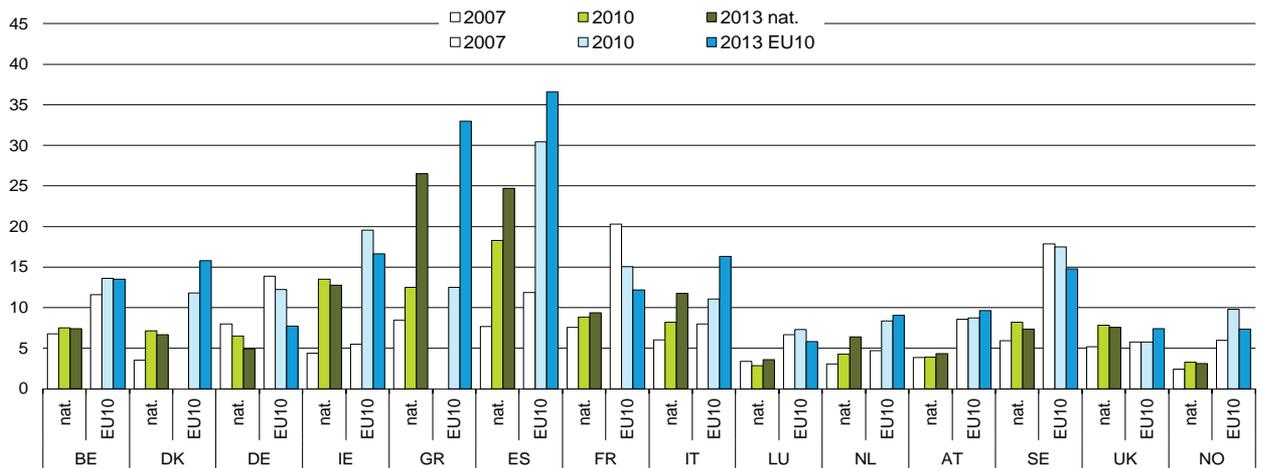
# Intra-EU labour mobility

**Figure 2.18. Employment status of nationals, EU8 and EU2 for the age group 25-54, 2013 (%)**



Source: Eurostat special data extraction, 2014. Note: UK, EU2 unemployment is based on low case numbers

**Figure 2.19. Development of unemployment rates of nationals and of EU10 citizens: 2007, 2010, 2013 (in %)**



Source: Eurostat special data extraction (2014).

## EU10 migrants in a more vulnerable situation

Figure 2.18 shows the employment status of nationals, EU8 and EU2 workers in the main EU15 destination countries for 2013. Employment rates of EU8 and EU2 workers tend to be comparable with those

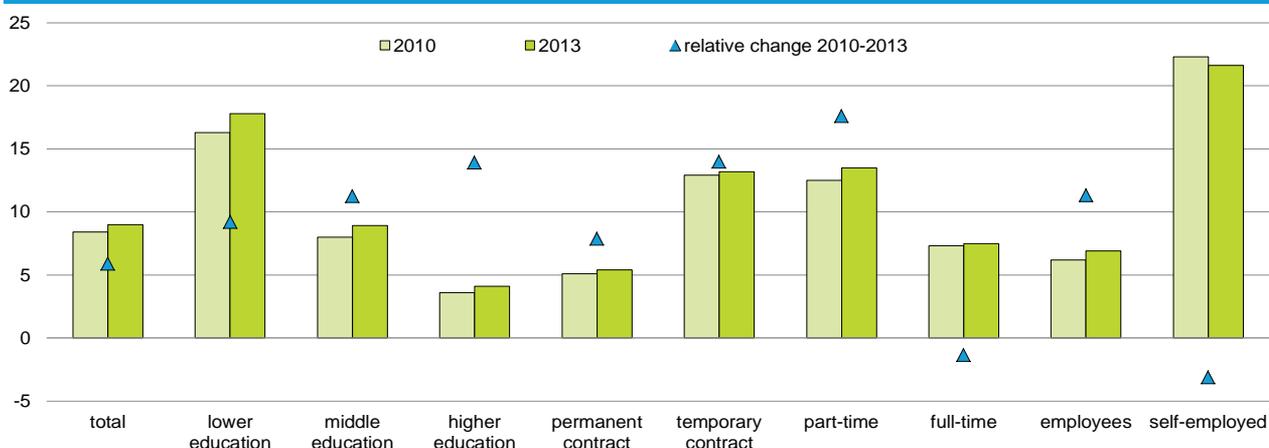
of nationals in most receiving countries, with the exceptions of Germany and Austria and/or EU2 workers in Spain among whom rates are lower. Figure 2.19 shows that unemployment, which tends to be higher among the EU10 (EU8+EU2) migrant population in almost all EU15 countries, increased disproportionately for EU10 migrant workers as compared to the national population during the crisis particularly in Ireland, Greece and Spain. The greater vulnerability of EU10 workers in the crisis reflects their higher concentration in sectors disproportionately

affected by the recession, as was the case of construction.

The fact that EU10 unemployment rates follow the national labour market trend (often with an amplification effect) and that employment rates remain high and comparable with those of nationals suggests that recent EU cross-border labour mobility – dominated by relatively young migrants – is employment- and not benefit-focused. The greater affectedness of EU10 migrants by the crisis is a sign of a higher vulnerability rather than of ‘welfare tourism’.

## Social protection and inequality

Figure 2.20. In-work risk of poverty by employment contract, working-time arrangement and qualifications level in the EU28, 2010-2013



Source: own calculations using Eurostat data.

### In-work risk of poverty high and rising

The in-work risk of poverty measures the incidence of what is commonly called 'working poor'. The measure is defined as the share of population in employment whose household income falls below 60 percent of the median average household income. This indicator combines individual activity characteristics (income from labour) with a measure of income that is calculated at the household level (the poverty line). For this reason, interpretation of its evolution over time and across countries cannot point unequivocally to the causes of this evolution, which could be developments in the labour market, structure of households, social and fiscal policies or some combination of these factors (Pontieux 2010: 28). To counter this difficulty, the data presented here refer to the EU28 average for different categories of employment contract. The implicit assumption is that across the EU and over the course of a relatively short period of six years, household structures did not change substantially and that any changes cancelled each other out on average, so that the question is whether

we can observe any indications of shifts in the in-work poverty rate that may suggest labour market, social and fiscal policy changes.

Figure 2.20 shows that the highest risk of in-work poverty in both 2010 and 2013 was faced by persons with only lower (that is, pre-primary, primary and lower secondary) education, temporarily employed, part-time employed and self-employed. While the in-work risk of poverty among self-employed people fell slightly, this is the category among all those considered where this risk is highest; among employees the risk rose by 11.3 per cent.

People with low educational attainment faced the highest in-work risk of poverty across levels of educational attainment both at the beginning of the crisis in 2010 and still in 2013. Other things being equal, higher educational attainment has thus been associated with a lower risk of in-work poverty, though this risk did increase across groups of educational attainment between 2010 and 2013. However, the risk of in-work poverty for those with highest qualifications rose by relatively more than in all other qualification-level groups.

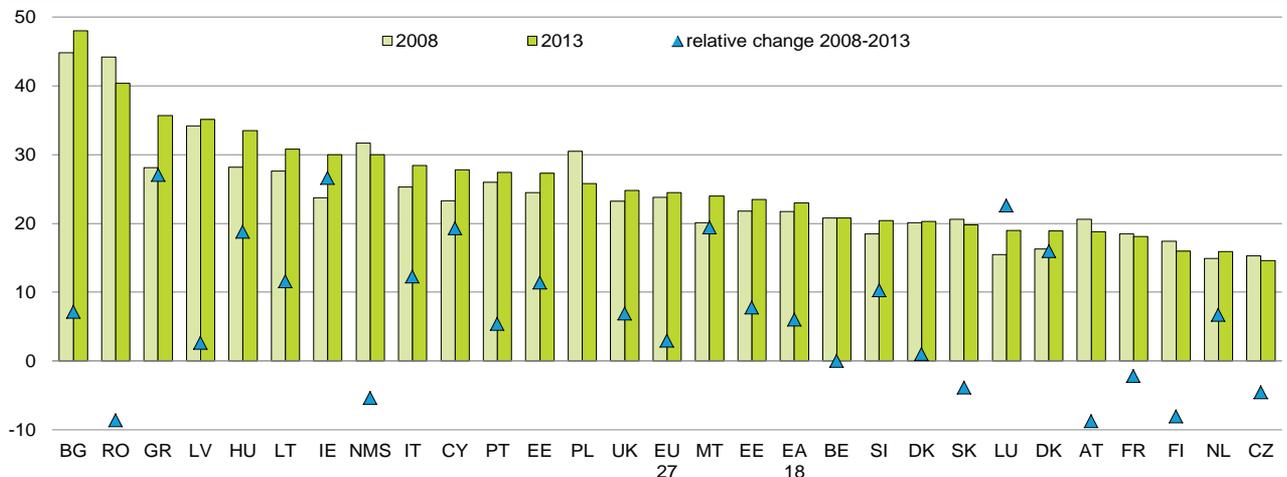
Among the different types of employment contract and working-time arrangements, the share of 'employed at-risk-of-poverty' increased relatively more among those employed in temporary jobs and those working part-time. In 2013 the

share of those at risk of poverty among employees on temporary contract was more than twice as high as among those with permanent contracts. The relative increase in the poverty rate between 2010 and 2013 was much higher (14 per cent) among the temporarily employed than among the permanently employed (7.8 per cent).

In other words, and assuming no substantial changes in the structure of households, the strength of association between work and its role for helping households escape poverty weakened between 2010 and 2013. While the difference in the risk of in-work poverty across groups of population with different levels of qualification is still substantial, this last observation constitutes a development giving cause for concern. Investment in skills has been central to the EU's growth strategies for inclusive growth, and for good reason given the substantial difference in in-work risk of poverty between those with higher and those with lower educational qualifications. However, the consequences of the crisis seem to have been associated with a lower effectiveness of higher skills in shielding people from the in-work risk of poverty, most likely because of developments on the labour market.

## Social protection and inequality

Figure 2.21. People at risk of poverty or social exclusion, EU27 member states, 2008-2013 (% of population)



Source: own calculations using Eurostat data.

### Rising risk of poverty

As Figure 2.21 illustrates, in 2013, the share of population at risk of poverty or social exclusion, that is, the share of the EU27 population either with income below 60 percent of the median average household income or facing severe material deprivation or living in a low-work-intensity household, stood at 24.5%, having risen by 0.7 percentage points (p.p.) or 2.9% in relative terms, since 2008. In the euro area, the share was 23% in 2013, having increased by 1.3 p.p. or 6% since 2008. This indicator is the one used in the context of the Europe 2020 strategy and does not, for that reason, focus on money-defined poverty alone.

Bulgaria, Romania, Greece, Latvia, Hungary, Lithuania, and Ireland were the member states with the highest shares of population at risk of poverty or social exclusion in 2013 (2012 for Ireland), all ranging from 30 to almost 50. Greece, Hungary and Ireland saw an increase in the share of their population at risk of poverty or social exclusion between 2010 and 2013 (2012 for Ireland). At the other end of the distribution the Czech Republic, the Netherlands and Finland had the lowest at-risk-of-poverty-rates in

2013, ranging between 14.6% (the Czech Republic) and 16% (Finland). By far the largest increase between 2008 and 2013 in the share of population at risk of poverty or social exclusion was observed in Greece (7.6 p.p.), followed by Ireland (6.3 p.p.) and Hungary (5.3 p.p.), while Romania, the member state with the second highest poverty rate in 2013, registered the second greatest reduction in its rate, amounting to 3.8 p.p. (8.6% in relative terms).

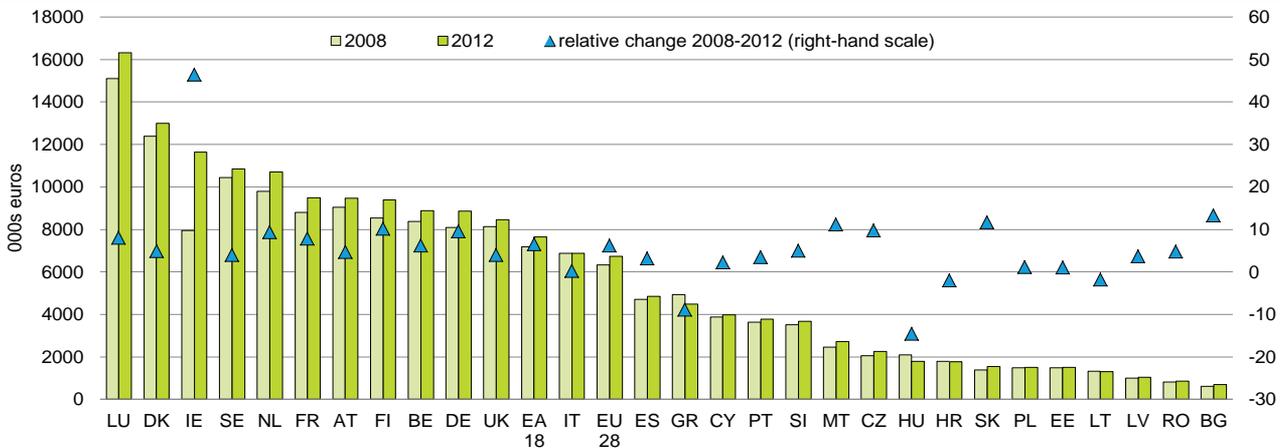
However, given the devastating effects of the crisis on several member states' output (see Chapter 1) and, thereby, on the level of income that defines the poverty threshold, it would be useful, in order to gain a more accurate sense of how the risk of poverty has evolved, to consider an indicator that uses 2008 incomes to define the poverty threshold. If we consider the risk-of-poverty indicator calculated on what would have been the median average household income in 2008, before the crisis started, the picture becomes more dramatic. In the EU27 the share of population at risk of poverty had risen in 2012 by an average of 10.8% (1.8 p.p.) and in the euro area (EA17) by 18% (2.9 p.p.) (Eurostat 2015). On the basis of the same indicator, the ranking of countries whose population faced the highest risks changes somewhat. Thus, in 2013, above-EU27-average risk was faced by populations in Greece, the Baltics, Ireland, Italy, Cyprus, Portugal, Spain, the

UK, Romania and Luxembourg. Greece, Ireland, Cyprus, Italy, Slovenia, Portugal, Lithuania, Latvia and Hungary, but also Luxembourg, saw the greatest relative increases in risk of (monetary) poverty according to this 'anchored' indicator. Most of these countries had found themselves in the eye of the crisis storm since 2008.

These figures suggest, therefore, that the crisis has had proportionately stronger effects on poverty in most of the member states that were hardest-hit by it.

## Social protection and inequality

Figure 2.22. Public social expenditure per inhabitant (at constant 2005 prices) 2008, 2012, EU



Source: own calculations using Eurostat data.

### Social policy spending per inhabitant rising unequally

Figure 2.22 shows the evolution of public social spending per inhabitant expressed in Purchasing Power Standards (PPS) for the EU28 member states in 2008 and 2012. On average, in both the EU28 and the euro area this spending increased, by 6.2 and 6.5% respectively. Behind these averages, there was, however, a wide variation. Public social expenditure per inhabitant rose everywhere except in Hungary, Greece, Croatia and Lithuania, where it fell. These are all member states with well below average public social spending per capita as well as countries that have been particularly hard hit by the crisis since 2008. More generally, in most member states that were most ill-affected by the crisis, the increase in public social spending per capita was below the EU average, with the exception of Ireland where the largest increase – of 46% – took place.

However, these figures seem to suggest that there has been a divergence in social protection provision among

members where there was in fact the most need for it and those where economic conditions did not deteriorate as much. In Greece, for example, not only was public social expenditure per inhabitant relatively low in 2008 and still in 2012 but it also registered the second highest drop in the EU28, in spite of the massive contraction in Greek output and the increase in unemployment. Similarly in Spain, public social expenditure per capita rose by less than average even though unemployment in Spain had reached 25% in 2014 after soaring way above the average increase in the EU during the 2008 to 2012 period.

## Conclusions

### EU labour markets on a wrong track for sustainable recovery and quality job creation

An overview of key changes in labour market developments and policies more than six years after the outbreak of global economic and financial crisis demonstrates that a path to sustainable job creation and recovery is far from having been identified. Labour markets in the EU remain severely affected by the economic downturn and unemployment has on average risen persistently since 2008 driven by lower than potential output growth. The projected output growth of 1.5% for 2015 provides no reason for optimism, the downside risks to this forecast notwithstanding. If labour productivity per worker were to increase at 1.2% and working age (15-64) population at 0.5%, that is, their average values in the ten years prior to the crisis, there would not be enough employment created to even begin reversing the losses of the last few years. Headline employment and unemployment rates have varied substantially across member states. Our evidence shows clearly that protective labour market policies and institutions and their reforms since the beginning of the crisis cannot explain this variation and cannot, therefore, be at the heart of the solution. The growth in employment rates that has been observed in the majority of member states reflects, for the most part, a process of ongoing work redistribution rather than any increase in the amount of available work (as measured by total hours worked).

In contrast to the weak recovery in activity rates in the recent period, the quality of jobs continues to deteriorate. Non-standard employment, largely involuntary, is on the rise, with negative consequences for labour market attachment, income, and career development, but

also for productivity in the long run. The high volatility of temporary jobs points to an increasing risk of segmentation of the labour force, with low transition rates into permanent jobs and weak contribution to the net growth in employment. The findings point to the urgent need to redirect European-level policies and strategies by putting job quality firmly back on the EU policy agenda and at the same time ensuring its high profile and application. The objective for the future and for the revised Europe 2020 Strategy is to redefine employment recommendations and targets so that not only the number of persons in employment but also the quality of newly created jobs is monitored and assessed.

The risk of in-work poverty has risen since 2010 when the shift to austerity policies took place in Europe. Those with the lowest educational qualifications and the self-employed are the two groups of employed people with the highest risk. Those employed on temporary and part-time contracts saw the highest relative increases in in-work poverty risk between 2010 and 2013, suggesting a strong link between precarious work and poverty. Equally worrying, however, is the relative rise – by 14% – of the in-work poverty risk among those with the highest educational qualifications, suggesting that the returns on investment in education as a strategy for avoiding poverty may be diminishing due to labour market developments during the Great Recession. Moreover, public social spending per capita does not seem to have developed in keeping with deteriorating social and labour market conditions in Europe.

In the last years youth unemployment has received significant political attention and several policy measures, such as the Youth Guarantee, have been implemented at the European and national levels. Data show that activity rates for youth in several European countries decreased between 2008 and 2014, and for some member states this trend has been accompanied by higher levels of participation in education. While investment in education and training is central for labour market measures targeting young people, data on lifelong learning show that in very few countries

is investment in continuing education actually valued and rewarded. In fact, since 2008, little improvement has been achieved in reaching the 15% target set at the European level for adult population participating in lifelong learning.

The data also reveal important differences in youth unemployment duration across Europe. Moreover, a rough correlation shows that countries with a high level of long-term youth unemployment suffer also from high levels of NEETs. The high levels of medium- to long-term unemployment and NEETs call for preventative policies but for also appropriate measures to reach out to young people who are already experiencing long spells of inactivity. Moreover, data for some selected countries show that the youth/adult unemployment ratio is still high but that its increase is due not only to an increase in youth unemployment but also to the vulnerability of adults on the labour market. Because of the heterogeneity of unemployed and inactive young people as well as the protracted nature of their inactivity, it seems highly unlikely that short-term and/or piecemeal active labour market policy measures could ever succeed in reducing unemployment. It is essential therefore that the focus be placed on the long-term sustainability and appropriate design of labour market policies.

Intra-EU labour mobility has been subject to a series of shocks in the last seven years in both economic and regulatory terms. Transitional restrictions and their consecutive lifting for EU10 citizens on the one hand and the effects of the crisis on both sending and receiving countries on the other have created a dynamic and fast changing environment within which labour mobility took place. Migration flows from east to west kept on growing, although the effects of the crisis were more severe on the EU10 population than on nationals. As we have shown, higher unemployment rates for EU10 population are in large measure due to their high concentration in economic sectors most severely hit by the crisis.