Key employment and social trends in the face of a long delayed and fragile recovery[1]

1. Introduction

The protracted economic and social crisis affecting all EU Member States, albeit to varying degrees, has in 2013 been finally accompanied by the first tentative signs of economic recovery. However, both labour market and broader social conditions remain highly challenging, and the inclusive character of the possible recovery is uncertain.

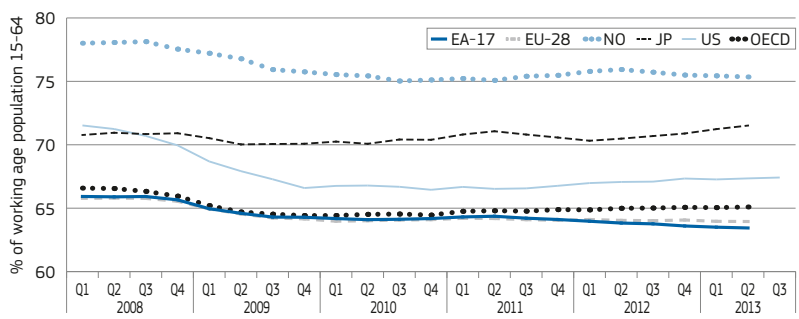
The challenges have been compounded by growing divergences between Member States, especially within the euro area. Southern EU Member States have been particularly hard hit. High unemployment, low employment, rising poverty and social exclusion, and declining household incomes have hit the Member States directly affected but may also impact on other Member States through trade (as they weigh on aggregate demand and competitiveness) and eroded confidence.

Reflecting this situation, this chapter begins with an analysis of the situation in the EU compared to that in some other key global economies. It continues with an overview of the key elements of the divergent employment and social developments, especially in the euro area. The final section looks in more detail at the employment and social situation in the EU [2].

(1) By Ana Yancheva, Frederic Lagneaux, Isabelle Maquet-Engsted, Laurent Aujean, David Arranz, Emmanuel Joseph

(2) See also Chapter 5 in this review on 'Convergence and divergence in the EMU: employment and social aspects'

Chart 1: Employment rate developments in the EU and OECD



Source: OECD, LFS, data seasonally adjusted.

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2. The EU in the global context: how does it compare to its main partners?

The effects of the prolonged crisis have adversely affected the EU labour markets, exacerbated poor social conditions, and weakened the public finances of the Member States. While similar trends are to some extent observed globally, the EU has performed worse on average in comparison to its partners. However, the overall trends and outcomes in the EU conceal significant variations between Member States.

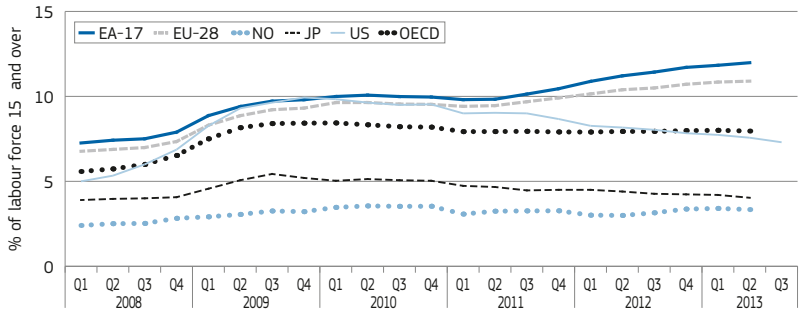
Some Member States weathered the initial crisis well compared to Europe's global partners and quickly recovered, while others have seen prolonged problems and systematically underperformed. This divergence in labour and social outcomes within the EU is linked to the national institutional and policy framework, as well as to their different economic structures. The following analysis provides an overview of trends in employment, social situations, welfare spending, and competitiveness in the EU vis-à-vis its global partners, highlighting the importance of institutional and policy design for labour market and social systems.

2.1. Employment trends and labour market resilience

The 2008 crisis had a substantial negative impact on labour markets across the world. Global unemployment peaked in 2009 at around 6.2%, but subsequently dropped during 2010 and 2011 to 5.9%. However, in 2012, the global unemployment rate increased again, if modestly, and is projected to reach approximately 6.0% in 2013 with the unemployment rate in developed economies forecast to be 8.7% [3].

(3) ILO (2013), 'Global Employment Trends 2013' Note: The data points are taken from the Facts and Figures and Summary pages on http://www.ilo.org/global/research/global-reports/global-employment-trends/2013/lang--en/index.htm

Chart 2: Unemployment rate developments in the EU and OECD



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Source: Eurostat and OECD, harmonised series on unemployment, data seasonally adjusted.

During the crisis period, the labour market performance in the EU was, on average, worse than that in other developed countries. Employment rates in the EU between 2008 and 2013 were lower than the OECD average, while unemployment rates were higher, continuing pre crisis trends.

However EU labour markets proved to be relatively more resilient during the first years of the crisis, in particular in comparison to the US ([4]). This has been attributed to a lower exposure to shocks in the construction, property and financial sectors in some Member States (e.g. France, Germany), the activation of short-time working schemes and similar actions undertaken by the social partners that helped reduce job losses (e.g. Germany, the Netherlands), and a continuing growth of labour market participation of older workers and women ([5]).

These negative labour developments in the EU contrast with the moderate improvements that other OECD countries have experienced. While labour markets in the EU recovered moderately during the second half of 2010, in 2011 employment started falling again. As a result, unemployment increased rapidly and reached a historic high of 27.3 million in the first quarter of 2013 (11.5 %) ([6]). The deterioration in European labour markets was accompanied by negative GDP growth in both the EU and EA-17 in 2011 and 2012 at a time when the unemployment rate decreased in the US, Japan and Canada. Labour market improvements in those countries are partially explained by positive, if low, rates of GDP growth and, in the case of the US, decreasing labour participation rates. However, estimations that link unemployment to GDP growth (Chart 16) also indicate that the labour market resilience of the euro area decreased post-2011.

While the overall employment outcomes in the EU have been worse than those in other OECD countries during recent years, some Member States, such as Germany, Finland, Denmark, have consistently outperformed Europe's global partners. This demonstrates how the impact of the crisis has varied substantially across the labour markets of different EU Member States with labour market outcomes in the North and Centre of the Union being consistently better than those in its South and Periphery ([7]). Furthermore, during the past two years, the EU outperformed the EU-17 in terms of both unemployment and employment rates.

Differences in the severity of the crisis in terms of lost GDP do not completely explain divergences in labour market outcomes between the Member States. Countries that were affected by an international trade shock due to a reduction in world demand experienced smaller losses of employment compared to those affected by internal (if still linked to the global crisis) shocks in the financial, construction, or property sectors. Other country-specific characteristics also had an impact on the severity of the output shock.

Research suggests a number of factors that might account for cross-country differences in labour market resilience ([8]) including the degree of labour market segmentation, the share of temporary contracts in the labour market, the strictness of employment legislation protection, the use of active labour market policies, the average tax wedge, and the role of the social partners, with the relative labour market resilience being largely influenced by the institutional and policy environment.

2.2. Inequality and poverty trends

Recent analysis ([9]) highlights that income and wage inequalities have increased sharply across most OECD countries during the past three decades. While substantial differences between countries persist, in the great majority the incomes of those in the top decile increased much faster than those in the bottom decile. In addition, in some traditionally low inequality countries such as the Central European and Nordic states, inequality increased substantially post-2000, although it still remains below the OECD average. In comparison, in some traditionally high inequality countries, such as Greece and Turkey, it has fallen during the last years. The OECD report attributes these outcomes to a variety of forces, including globalisation and technological change and developments in policy and institutional features.

During the crisis, income inequality in the EU as measured by the GINI index and the S80/S20 quintile ratio did not rise significantly overall, although there were sizeable increases in a number of Member States, particularly in Southern Europe. Based on EU-SILC data, between 2008 and 2011 the EU-27 GINI decreased by 0.1 point although, for EA-17, it increased by 0.3 points. Moderate increases in inequality as measured by the GINI were observed in the US as well — 0.4 GINI points during 2008–2010. However the GINI coefficient provides only a limited understanding of developments in inequality since it does not show developments in different

(4) Between 2008-Q1 and 2010-Q1, unemployment in the EU-27 and EA-17 increased by an average of 0.22 and 0.14 percentage for each percentage point decrease in GDP in the same quarter, while in the US — by 1.52 percentage points (Commission Calculations).

(5) European Central Bank (2012), 'Euro Area Labour Markets and the Crisis'. See also European Commission *Industrial Relations in Europe 2010, and 2012.*

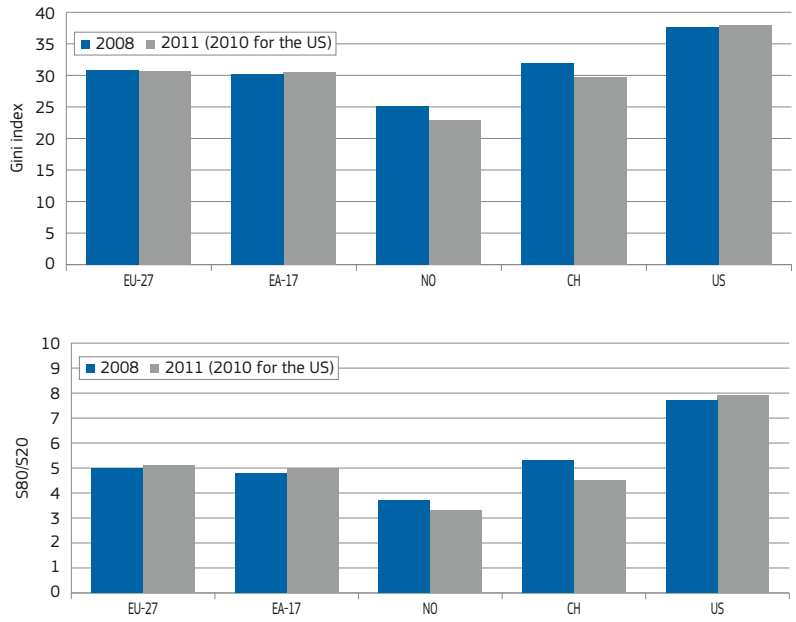
(6) European Commission (2013a), 'EU Employment and Social Situation: June 2013'.

(7) For more details on this issue, see Section 3 of this chapter.

(8) See for example, OECD 2012b, 'What Makes Labour Markets Resilient' or ECB 2012, 'Euro Area Labour Markets During the Crisis'.

(9) OECD 2011: Divided We Stand: Why Inequality Keeps Rising; European Commission (2011): Employment and Social Developments in Europe – Annual Review 2011; GINI project: http://www.gini-research.org/articles/home.

Chart 3: Changes in GINI and income share of top 80 against bottom 20 percentiles



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Sources: Eurostat and OECD (for the US).

Note: GINI post taxes and transfers. Eurostat and OECD have a different methodology for calculating equalised household income, so data might not be directly comparable.

income quintiles. On the basis of another measure of inequality (the ratio of the income received by the top 20% of the population to that of the bottom 20% of the population) similar trends, namely a very slight increase, were seen in the EU, the euro area and the US over the period of the crisis.

Significant variations in the inequality trends were observed between different Member States with changes in the GINI coefficient between 2008 and 2011 ranging from decreases of over 2 pps for Romania, Latvia, and Netherlands to increases of 2.7 pps for Denmark and Spain.

The average poverty rate also increased moderately for the 21 OECD countries in the EU. In comparison, in the US the poverty rate actually decreased between 2008 and 2010 by 0.2 pps. However, such changes in the poverty rate should be treated with caution since the poverty threshold is related to the general level of income, which can fluctuate between years. Trends in the poverty gap show the negative impact of the crisis more clearly, with substantial increases for a number of countries between 2007 and 2010, most notably Slovakia, Spain, and Sweden.

Variations in trends of inequality and poverty across different EU Member States are partially explained by factors such as the labour market changes, social protection spending, and other policy and institutional features. The significant job losses during the crisis contributed strongly to the rising inequality and poverty rates but the institutional and policy features that improve labour market resilience (discussed in the previous section) have played a major role in limiting the social effects of the output shock.

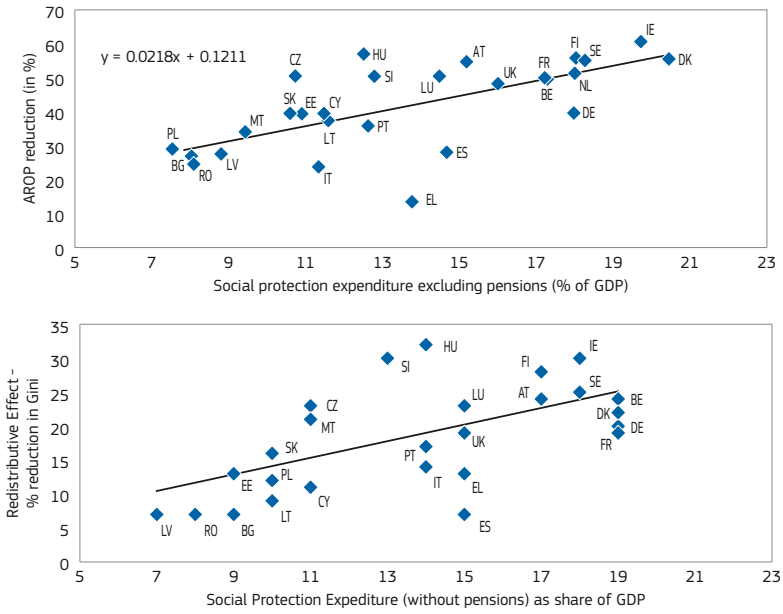
The effectiveness and efficiency of social protection spending has also played an important role in cushioning the effects of the crisis on inequality and poverty. Estimates presented in ESDE 2011 indicate that taxes and cash benefits decrease the GINI coefficient by 19% on average, and the P90/P10 ratio by 34%. However, there are large variations across Member States: GINI inequality in Hungary, Denmark, and Ireland is reduced by a third, while in Bulgaria, Romania, and Latvia the effect is below 10%. Again, social protection benefits contribute substantially to poverty reduction in the EU. However, social protection spending in the Southern Member States, and the Baltic and South-Eastern Member States has a below average effectiveness in terms of reducing poverty, while the Nordic States are well above average.

The size of social protection spending is directly related to its effectiveness in tackling inequality and poverty. The fiscal measures introduced to limit excessive government budget deficits have also had an impact on household incomes. Although the scale of the effect is difficult to establish given the limited data available, a EUROMOD simulation carried out by Avram *et al.* (2012) shows that depending on their design, fiscal consolidation packages impacted differently on high and low income households. In a few countries, regressive impacts put an additional strain on the living standards of low income households. Other Member States managed to avoid disproportionate effects on low income households paying careful attention to the distributional impact of their measures ([10]).

Efficiency aspects are also important for poverty and inequality reduction. An indication of the potential efficiency gains can be seen in the evidence that the same level of expenditure (as a % of national GDP, excluding pensions) reduces original GINI income inequality two or three times more in some Member States than others (e.g. Hungary vs. Greece and Spain). In the same way, social protection spending (which amounts to 14–15% of the GDP) reduces poverty much more in Luxembourg and Austria than it does in Greece and Spain. Reducing spending inefficiency could therefore support Member States in maintaining access to adequate social protection benefits, services, health and long-term care in order to contain and reduce poverty. Finally, the effectiveness of social spending in terms of poverty reduction is also positively correlated with the degree of benefit coverage, the replacement rate, and the take-up rate.

(10) EU Employment and Social Situation Quarterly Review — March 2013 (2013).

Chart 4: Social protection expenditure and reduction of inequality and poverty in the EU Member States (1)



Source: Eurostat, ESSPROS and EU-SILC, DG EMPL calculations.

(1) Pulled from ESDE 2012 (European Commission, 2013c) and ESDE 2011 (European Commission, 2012l), poverty and inequality chapters.

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2.3. Government spending and the functioning of the economic stabilisers

Social protection expenditure has a triple role, namely: redistributing income across generations and income groups; investing in social and human capital; and insuring individuals against individual risks (unemployment, ill health, old age, etc.) as well as macroeconomic shocks. As such, social protection expenditure can safeguard households against income shocks, prevent poverty and promote social equality, while it also contributes to short-term macroeconomic stabilisation by dampening the effects of business cycles, typically by supporting aggregate demand. Estimates from ESDE 2012 indicate that unemployment expenditures in the 1995–2005 period increased, on average, by 6% for each percentage point decrease in the output gap; social exclusion, family, and housing expenditures by 2%; and pensions and health expenditures by around 1–1.5%.

Public social protection expenditure in the EU is relatively high in comparison to its global partners. According to Commission services calculations, public social protection expenditure in the EU amounted to 25% of the GDP in 2005 (11). In contrast, social protection expenditure in the World stood at 14% of the GDP: in the OECD it was slightly higher – 19% of the GDP, and in the US it was 16%. It should be noted however that, account is taken of mandatory and voluntary social expenditures in the estimations, the gap in social spending between the EU and the world decreases substantially. On this basis, total public and private social spending in the EU was 28% of GDP in 2005 against 24% in the OECD and 26% in the US (12).

There are, however, substantial variations across Member States in spending patterns with social protection spending in 2005 ranging from around 30% of GDP in France and Sweden to around 13% in Latvia and Lithuania. Also, while some countries may appear to have different levels of social spending relative to GDP, the actual spending per capita measured in purchasing power standard (PPS) terms might be the same. Finally, the composition of protection spending and how the benefits are provided (in cash or in kind) also varies across countries.

While assessments of the outcomes from the working of automatic stabilisers may differ due, for example, to different benchmark as regards government budget (budget without stabilisers), research shows that public spending in the EU does translate into a substantial degree of output smoothing. Dolls *et al.* (2012) estimate that automatic stabilisers absorb 23% of the effect of a proportional income shock and 32% of the effect of an unemployment shock on aggregate demand in the EU.

This indicates that the degree of demand stabilisation by the tax and benefit system in the EU is comparable to that of the US in the case of a proportional income shock (19% for US), but that it is much higher in the case of an unemployment shock (again 19% for the US). However this analysis also shows a significant variation across Member States: demand stabilisation varies from 11.2% in Slovenia to 38.8% in Austria in the case of a proportional income shock and from only 5.4% in Italy to 58.9% for Portugal in the case of an unemployment shock. These different results for Member States reflect a number of factors, including the degree to which individuals are liquidity constrained, the characteristics of the labour markets and the size and design of social spending.

The effectiveness of automatic stabilisers can be partially discerned through changes in public spending during the recession. Due to greater need of social support during the crisis, the real public social spending for OECD countries increased on average by 12% during 2007–2011 (OECD) (13). In particular, in Chile, Estonia, Korea, and the United States they rose by 20% or more. Public social expenditures in the European Union during the same period grew very modestly by comparison – by 6% in the EA-17 and by only 2% in the EU-27 (14).

Differences between the developments in the EU and the OECD partially reflect a different composition of social expenditures (such as a larger share of unemployment benefits in public social expenditures in the OECD), but they also capture some of the decline in the volume of social spending after 2010 in the EU with large decreases observed in particular in Greece, Spain, Hungary, Ireland, Italy, Lithuania, Latvia, Portugal and Romania.

An overall reduction in tax and benefits contributions relative to gross household disposable income also occurred during this period. The increase of long-term unemployed relative to short-term unemployed persons in the EU contributed to these developments since unemployment benefits for the long-term unemployed are

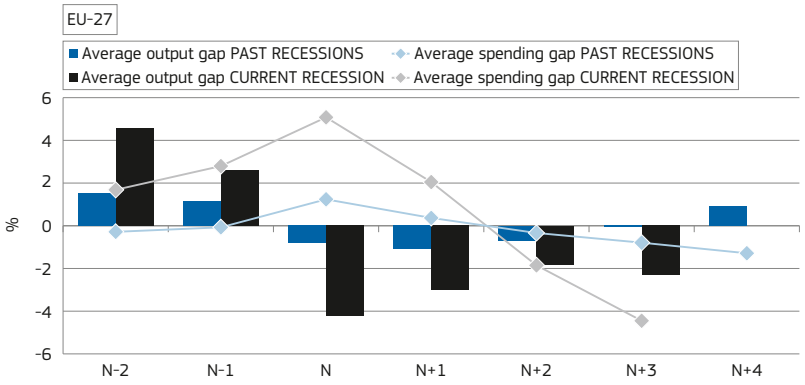
(11) Bontout & Lokajickova (2013).

(12) OECD (2009).

(13) Adema, Fron and Ladaique (2011) and OECD (2012a).

(14) Bontout & Lokajickova (2013).

Chart 5: Deviation from trend of public social expenditures and GDP in current crisis and past periods of below-par performance in the EU



Source: Eurostat, National Accounts and AMECO, DG EMPL calculations. In the current crisis, N is year 2009 in most countries. Reading notes: in the initial year of below-par performance in the current crisis, social expenditures were around 5% above their trend in Europe, while the GDP was about 4% below its potential (output gap of -4%) (1). Averages are unweighted country averages (since countries do not always experience a negative output gap the same year).

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(1) For more elements, see Bontout & Lokajickova (2013).

usually lower. In addition, fiscal tightening in countries such as Greece, Portugal and Hungary played a major role in the reduction in public social expenditures. In a number of countries, changes to the tax and benefits systems and widespread wage moderation (including cuts in public sector wages) also had an impact on the developments of household incomes, in some cases putting a heavy strain on the living standards of low income households in particular. The weak developments of disposable income contributed to subdued demand, although in some cases this was required by the existence of high external imabalances.

Developments in public social expenditure in the EU during the crisis not only differed from those in OECD countries, but also diverged from past trends. Recent results ([15]) show that, in the initial phase of the current recession, social expenditure reacted slightly more strongly to the economic cycle than in the past. However, in 2011 and 2012, the adjustment of social expenditure to changes in the output gap was well below expected levels, although it is not clear whether this was a result of a temporary correction in the cycle of social protection in the crisis or a permanent adjustment of expenditures as a result of fiscal changes.

Whatever the explanation, the decrease represents a weakening of the automatic stabilisation function of social protection systems in Europe. This issue is especially critical for those Member States in which the automatic stabilisers would normally play a strong role in terms of maintaining demand, but where fiscal tightening has brought about significant reductions in expenditures (e.g. Hungary, Portugal).

2.4. Competitiveness

Global competitiveness affects external demand and is an important determinant of economic growth and prosperity. In the past two decades, Europe's performance has compared favourably with its competitors, including the US and East Asia. The share of EU GDP that has directly or indirectly satisfied final demand in other regions of the world increased by 5 percentage points (pps) over the last 15 years and currently amounts to 15% of the overall GDP. However, the long-term competitiveness of the European countries is endangered by a number of factors, including slow productivity growth, high unemployment, ageing populations, resource limitations, and climate change. The evidence outlined in the sections below shows that the crisis period has begun to compromise EU's competitiveness and that a more effective and efficient use of resources, including labour, will be necessary to ensure economic growth and jobs in the future.

The World Economic Forum's Global Competitiveness Report ([16]) ranks countries based on a global competitiveness index which combines micro and macro-economic aspects, with competitiveness defined as 'the ability of countries to provide high levels of prospects to the citizens'. For 2013–14 EU Member States held 11 of the top 30 positions with Finland, Germany, Sweden and the Netherlands at numbers 3, 4, 6 and 8. These very competitive countries were those who weathered the recession the best (the USA fell from position 1 in 2008–09 to 7 in 2012–13, although it is back at 5 in 2013–14) but they were also those with relatively high shares of their GDP going to social expenditure, thus demonstrating that high social expenditure is not necessarily detrimental to competitiveness, and may be more of a positive contributory factor. Furthermore, this is consistent with the Wagner law ([17]), which holds that the most dynamic countries are more competitive, grow more and generate higher demand for services related to social expenditure.

3. Employment and social divergences in the EMU

Prior to the recession, the European Union saw convergence of most social and employment performance indicators. Since 2008, however, most employment and social indicators point to a growing divergence between the southern and peripheral European Member States and those of Northern and Central Europe.

3.1. Divergences and risks of impacts across borders

Across the EU, but particularly within the euro area, Member States have experienced widening gaps in terms of employment, income, poverty, inequalities, youth employment and many other important aspects of their social situation. Although many factors have influenced the overall economic performance of different Member States in the past years, much of the current divergence results from how labour markets and social systems have reacted to the global downturn.

Countries that before the crisis had relatively un-segmented labour markets, solid industrial relations institutions and strong welfare systems have tended to fare better during the crisis than those with highly segmented labour markets,

(15) ibid.

(16) http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

(17) In A. Wagner. 'Grundlegung des Politischen Ökonomie' (1863).

strained labour relations and weak or ineffective and costly welfare provisions. The ability of countries to cope with the shock was frequently determined by their initial public debt and deficit levels, as well as the property markets situation, and subsequent developments following the reaction of financial markets ([18]).

Chart 6 highlights developments in employment over the last five years with a further focus on recent trends. In this respect it can be noted that the Baltic States, which suffered the most from the labour market crisis, have posted significant improvements over recent quarters. Divergence is most striking between the North and core parts of the euro area and the South and periphery countries.

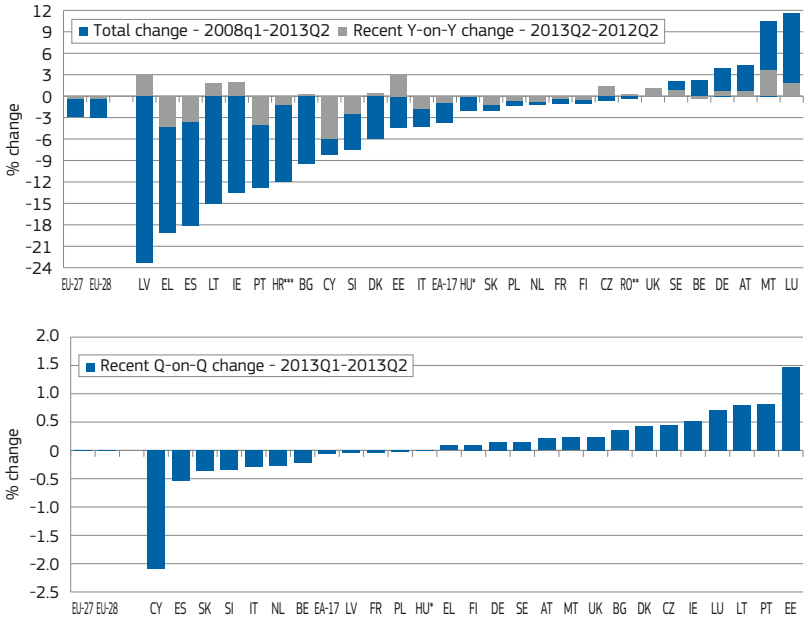
The average unemployment rate reached 17% in the south and periphery of the EA-17 ([19]), against 7% for the north. The gap has now reached 10.2 pps, against 1.7 pps between the North and Periphery of the non-euro area. In the mid-2000s, the currency union produced a convergence in unemployment rates across its Member States, partly because weak financial supervision and lower risk perception stemming from the launch of the currency union resulted in large capital flows into 'peripheral' countries. However, the financial crisis that erupted in 2008 has unleashed divergence on a much larger scale, partly due to the slow deleveraging process and the uncertainty around the recovery prospects of the 'periphery'.

When looking at other employment and social indicators, the divergence within the euro area is again larger than within the rest of the EU. The average rate of people who are not in employment, education or training (NEETs 15–29) reached 22% in the south and periphery of the euro area, against just above 11% in the north, and the gap between the two areas continues to increase, following a similar pattern to that of unemployment trends.

(18) For more information please consult the IZA/VEF Workshop paper 'Labour markets and social inequalities in Europe: Should employment, wages and social protection policies be more coordinated at the EU level?' presented by G. Fischer and R. Strauss in Bonn, on July 11-12, 2013, http://www.iza.org/conference_files/EULaMaFuEm_2013/fischer_g2202.pdf. Theme of the Workshop: 'A European Labour Market with Full Employment, More Income Security and Less Inequality in 2020'.

(19) For the purpose of this analysis, the 'North and core' of the euro area includes Belgium, Germany, France, Luxembourg, Austria, the Netherlands and Finland; the South and periphery of the euro area includes Greece, Spain, Italy, Portugal, Estonia, Ireland, Cyprus, Malta, Slovenia and Slovakia.

Chart 6: Changes in employment: since 2008, over the recent year and over the recent quarter for EU Member States



Source: Eurostat, National Accounts [namq_nace10_e].

Notes: * HU 2008q1–2013q1, 2012q1–2013q1, 2012q4–2013q1.
** RO 2008q2–2013q2, 2012q2–2013q2 (nsa), np Q-onQ change.
*** HR 2008q1–2013q1, 2012q1–2013q1 (nsa), no Q-onQ change.

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In the crisis, household incomes (as measured by the growth rate of real gross household disposable income) ([20]) in the North and central part of the euro area kept increasing though at a reduced pace (except for the year 2009) while, in the peripheral countries, household income in real terms stagnated or declined after 2009. Since 2010 household disposable incomes have been declining in real terms on average in the EU and in the euro area. Declines were especially strong (above 5 percentage points cumulated over the two years) in Greece, Spain, Ireland, Italy, Cyprus and Portugal and more moderate in the Czech Republic, Hungary, the Netherlands, Romania, Slovenia and Slovakia. In other countries household incomes stagnated or increased slightly.

The stabilising effect of social spending on household incomes weakened after 2010. Net social benefits and reduced taxes contributed positively to the change in gross household disposable income (GHDI) during 2009 and in the first two quarters of 2010, as a result both of automatic stabilisation and of fiscal stimulus measures put in place by Member States, in line with the European Economic Recovery Plan of November 2008. Yet, from mid-2010 on, the contribution of social benefits to the change in gross household income lessened, despite the further deterioration of market incomes. This may have occurred because of the increase in the number of long-term unemployed losing their entitlements, along with the partial phasing-out of the stimulus measures. In some countries, measures taken to reduce the level or duration of benefits, or to tighten eligibility rules had the effect of excluding some beneficiaries from some schemes. Finally, in some Member States the tapering off of the impact of social spending also reflected improvements in the economic situation and outlook. In addition, fiscal tightening — concentrated in southern EA countries — has adversely affected employment, and changes to tax and benefits systems along with cuts in public sector wages also contributed to the decline of real household incomes (Avram *et al.* 2013) ([21]).

The crisis was also a turning point in the evolution of poverty and income inequalities. The risk of poverty among the working-age population also increased more strongly in the South and periphery of the European Union than in the North. Before the crisis, inequalities were rising in the North of Europe, while they were

(20) The growth rate of real gross household disposable income is an important indicator of aggregate demand and helps assessing to what extent policies are able to stabilise the social situation and household demand in cases of economic shocks.

(21) See Quarterly Review of March 2013 (European Commission, 2013b) for more details.

declining from high levels in the South and the periphery, partly thanks to the maturing of welfare systems in these countries. Since 2008, however, the data shows a strong increase in differences in terms of income inequalities between the core and the periphery.

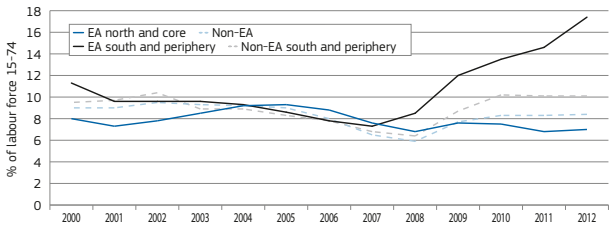
In the south and periphery of the euro area, the combination of rising unemployment and long-term unemployment, falling incomes, increasing poverty, and increasing inequalities provide an indication of the scale of the economic and social challenges ahead. They will require extensive policy responses given the importance of inclusive labour markets and a cohesive society for long-term growth prospects and societal developments.

Employment and social divergences are a sign that the EU does not fulfil its fundamental objective to benefit all its Member States by promoting economic convergence, and to improve the lives of all citizens. In addition, these trends are not only severely undermining the employment, social cohesion and human capital of individual Member States but are also affecting competitiveness and sustainable growth within the EU as a whole. Socio-economic divergence is of even greater concern within the EMU given the limitations that currency union membership imposes to counteract an economic crisis, particularly when pre-existing levels of sovereign debt are high, and insufficient attention has been paid to external and internal macro imbalances.

Divergences in employment and social trends within the euro area

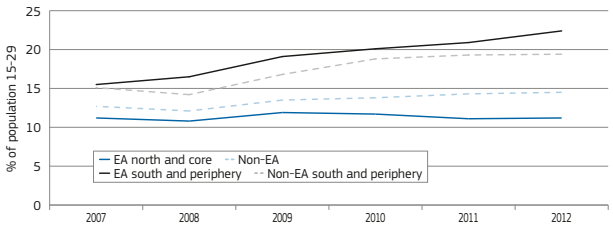
Definition of areas:
EA north and core: AT, BE, DE, FI, FR, LU, NL;
EA south and periphery: EE, EL, ES, IE, IT, CY, MT, PT, SI, SK;
Non-EA north: CZ, DK, PL, SE, UK;
Non-EA south and periphery: BG, HR, LV, LT, HU, RO.

Chart 7: Unemployment rates by groups of EA and non-EA Member States since 2000



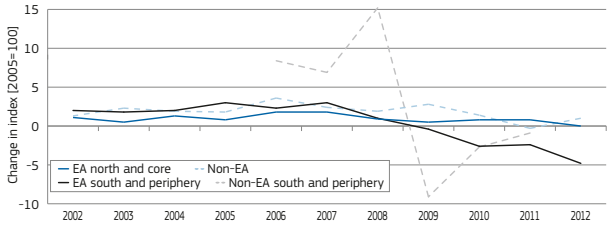
Source: Eurostat, LFS, DG EMPL calculations; weighted averages.
Note: 2001–02 HR excluded.

Chart 8: NEET rates by groups of EA and non-EA Member States since 2007



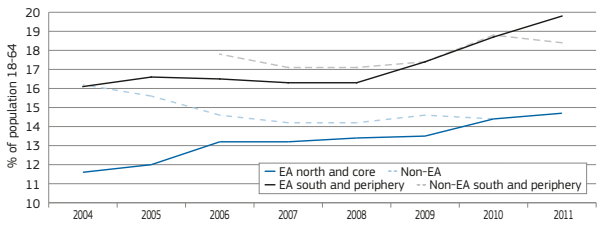
Source: Eurostat, LFS, DG EMPL calculations; weighted averages.

Chart 9: Real gross household disposable income, annual change by groups of EA and non-EA Member States since 2002



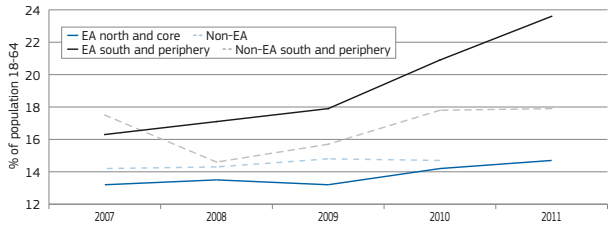
Source: Eurostat, National Accounts, DG EMPL calculations; weighted averages.
Note: Aggregates do not include: LU, MT and HR in 2002–12, and DK in 2011; 'non-EA south and periphery' excluded in 2012, because no data for RO.

Chart 10: At-risk-of-poverty rates in working age by groups of EA and non-EA Member States since 2004



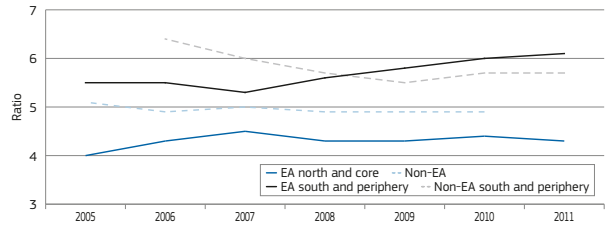
Source: Eurostat, EU-SILC, DG EMPL calculations; weighted averages — years refer to income year.
Note: 'non-EA south and periphery' excluded in 2004–05, because no data for RO; 'non-EA north' excluded in 2011, because no data for UK; aggregates do not include AT, BE and IE in 2011.

Chart 11: Anchored poverty rates (2008) by groups of EA and non-EA Member States since 2007



Source: Eurostat, EU-SILC, DG EMPL calculations; weighted averages — years refer to income year.
Note: 'non-EA north' excluded in 2011, because no data for UK; aggregates do not include AT, BE and IE in 2011.

Chart 12: Inequality (S80/S20 measure) by groups of EA and non-EA Member States since 2005



Source: Eurostat, EU-SILC, DG EMPL calculations; weighted averages — years refer to income year.
Note: 'non-EA north' excluded in 2011, because no data for UK; aggregates do not include AT, BE and IE in 2011.

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Given the high degree of economic interdependence among members of the EU, such employment and social crises are also likely to have an impact beyond national borders. The 'spillover effects' of fiscal measures and structural reforms ([22]) demonstrate how national situations or actions can generate macro-economic effects beyond national borders. The adverse employment and social developments described above have the potential to exacerbate and aggravate the macro-economic spillover effects that operate through trade (within the EU and the euro area) and international competitiveness. In addition, it is often argued that severe employment and social problems can affect the confidence in the capacity of a government to run sound policies and the political legitimacy of the European project.

Higher unemployment and social problems mean a loss of income for significant parts of the population or for society as a whole and weigh on national internal demand. Indeed, higher unemployment or poverty implies weaker aggregate demand (also depending on the effectiveness of automatic stabilisers), which, in turn, affects demand in other euro-area Member States as many euro-area Member States have most of their trade with the rest of the euro area ([23]) ([24]).

High levels of long-term unemployment, youth unemployment, NEETs, poverty and inequality also hold back competitiveness and the growth potential of the economies concerned, because present and future human capital is underutilised or lacks investment. Indeed, such trends erode skills and discourage labour market participation. As a result, the long-term growth potential of one Member State and, through trade, of other Member States is undermined. Such lasting output effects of a reduction in human and physical capital caused by a cyclical downturn are typically known as hysteresis ([25]). Reductions in public budgets for education, active labour market policies or other 'social investments' have a similar negative effect. A measure that bring fiscal rewards in the short-term but reduces the medium-term growth potential of an economy will lead to a less comfortable medium-term fiscal situation, due to lower growth. As the OECD puts it: '... GDP increases brought about by policies that increase labour utilisation are likely to have a greater effect in boosting fiscal sustainability' (OECD Economic Outlook, May 2013).

High unemployment rates and severe social gaps can also lead to social pressures on current and/or future public budgets that are perceived as unsustainable ([26]). More generally these tensions can weaken the capacity of governments to maintain the kinds of sound, long-term policies that are required in order to maintain confidence in the common currency. In addition, Vandenbroucke ([27]) argues that, if the creation of the monetary union fails to benefit all of its Members and appears to lead to divergence instead of convergence, 'it can undermine the credibility of the European project both in the countries perceived as 'losers' of the process and in countries perceived as the 'winners'. In all countries, public opinions may increasingly lose trust in the European project either because, in the South, they perceive the constraints of the EMU as the cause of their trouble or because, in the North, people perceive euro area members facing social distress as 'socially inefficient and economically uncompetitive. In such cases governments will then be hampered in their capacity to take the deepening measures that are necessary to secure the effective functioning of the EMU.

3.2. Major employment and social problems in the EU

This section focuses on employment and social problems that are likely to affect the sustainability of economic growth and which risk creating negative spillover effects between members of the EMU in the medium to long term. The analysis concentrates on five important indicators of such problems:

- Rising unemployment rates;
- Rising shares of young people not in education employment or training (NEET);
- Declining household disposable income;
- Rising risk-of-poverty among the working-age population;
- Rising inequalities.

The charts below present the data for four euro-zone countries which experienced quite different trends before and after the crisis:

- Germany;
- Spain;
- France;
- Portugal.

They illustrate how the five key indicators, supplemented by additional information on the labour market and the functioning of social policies, can help identify major employment and social problems.

(22) See e.g. B. van Aarle and K. Weyerstrass, eds., 'Economic Spillovers, Structural Reforms and Policy Coordination in the Euro Area', Physica-Verlag, Heidelberg, 2008.

(23) See for example ECB (2013), 'Intra-euro area trade linkages and external adjustment', Monthly Bulletin, January 2013.

(24) See for example ECB (2013), 'Intra-euro area trade linkages and external adjustment', Monthly Bulletin, January 2013.

(25) See for example J. B. DeLong and L. Summers, 'Fiscal Policy in a Depressed Economy', Brookings Papers on Economic Activity, Spring 2012, http://www.brookings.edu/~/media/Projects/BPEA/Spring%202012/2012a_DeLong.pdf.

(26) IMF (2012) 'Fiscal Monitor: fiscal adjustments that are seen as unfair are unlikely to be sustainable'.

(27) F. Vandenbroucke, R. Diris and G. Verbist (2013), 'Excessive social imbalances and performance of Welfare States in the EU'.

The evidence shows that the first signs of severe employment and social problems appeared in Spain in 2007 as witnessed in a deterioration of the labour market conditions, notably for young people. By 2008 and 2009, Spain also witnessed rising inequalities and increased poverty, indicating the need to carefully interpret this information alongside that on underlying institutional and economic factors. It can be argued that the strong increase in unemployment in 2007 partly reflected the uneven distribution of the economic shock across society accentuated by labour market segmentation and gaps in social protection. Already before the crisis, rising indebtedness of households, worsening transitions from temporary to permanent contracts, very high rates of early school leavers and increasing in-work poverty may have deserved greater attention from policy makers. During the crisis, labour market segmentation worsened and rising long-term unemployment led to increasing shares of jobless households and in-work poverty. Very high rates of youth unemployment and NEETs together with rising levels of child poverty are likely to impact on the quality of future labour supply thereby on productivity and competitiveness, and to further increase inequalities and poverty in the medium to long term.

In the decade before the crisis, Portugal experienced a significant improvement in the educational level of its work force which, together with the expansion of social safety nets, led to a reduction in what had previously been very high levels of inequality. These positive developments were undermined, however, by an erosion of employment rates coupled with increases in unemployment and long-term unemployment and a high degree of labour market segmentation, partly reflected in high and persistent levels of working-age poverty. These negative trends worsened in the crisis, while NEETs rates increased strongly adding to the high shares of early school leavers and of low skilled ([28]) remaining well above the EU average. The decline in market incomes starting at the end of 2010 was not significantly offset by the tax and benefit system, leading to a drop in gross household disposable income in 2011 and 2012. This partly reflects the weakness of safety nets in Portugal, still characterised by low levels of coverage. The debt to income ratio of households increased sharply between 2000 and 2007, reaching 125 % in 2007, and has stabilised since, affecting the spending capacity of households.

France and Germany resisted the crisis better than most euro area countries. However unemployment in France increased significantly during the crisis as its labour market remained segmented, with young people facing great difficulties finding a first and stable job.

Unemployment

Unemployment in Spain increased strongly in 2008, one year before the rest of the euro area. Before the crisis, employment rates in Spain had increased strongly, including for the low skilled, but the labour market remained segmented, though with moderate signs of improvements. Even if the share of involuntary temporary contracts had started to decline in 2006, it remained much higher than in the rest of the euro area, with transitions from temporary to permanent jobs declining strongly in 2007, giving an early signal of the weakening of the labour market. The share of people participating in activation measures dropped dramatically during the crisis, despite the increase in long-term unemployment. Moreover the crisis interrupted the upward trend in the employment rate of women and young people (25–29), with possible lasting consequences for the mobilisation of human capital.

In Portugal, rates of unemployment and long-term unemployment were low before the crisis, with high rates of employment. The crisis accelerated the decline in the relatively high employment rate of young people which, before the crisis, was partly explained by higher participation in education, but should now draw attention to a risk of lost generation. The Portuguese labour market remains segmented with high shares of involuntary temporary contracts, but with better chances of moving to a permanent contract than on average in the euro area.

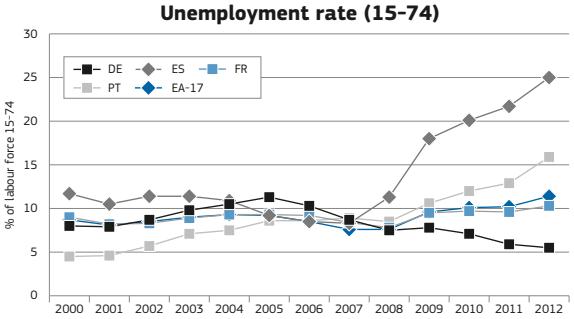
In France, unemployment rates are close to the euro area average but the long-term increase in the employment rates of young people and women was interrupted by the crisis. The labour market remains segmented with very low levels of transitions from temporary to permanent contracts.

Germany resisted the macro-economic shock much better than the rest of the euro area and is characterised by a less segmented labour market, even if wage polarisation and a certain level of gender segregation are sources of rising labour market inequalities (see below). The employment rate of young people (25–29) and women continued to increase during in the crisis.

(28) Low skilled relates to poorly educated people according ISCED classification: between levels 0 and 2.

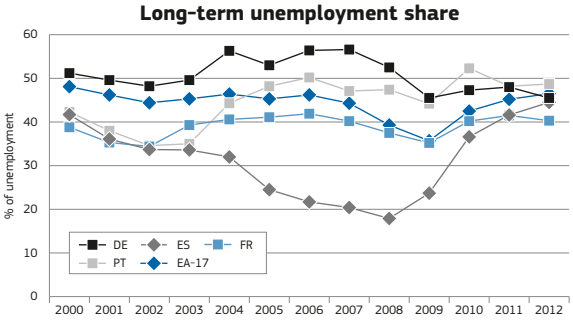
Panel Chart 1

Unemployment rate (15-74)



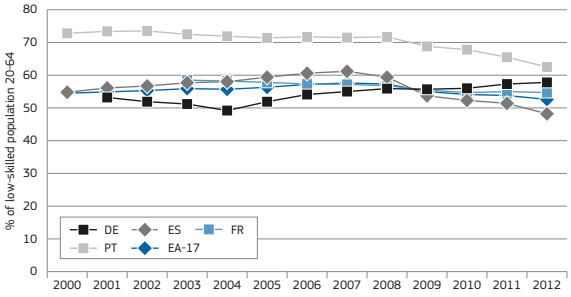
Source: Eurostat, LFS.

Long-term unemployment share



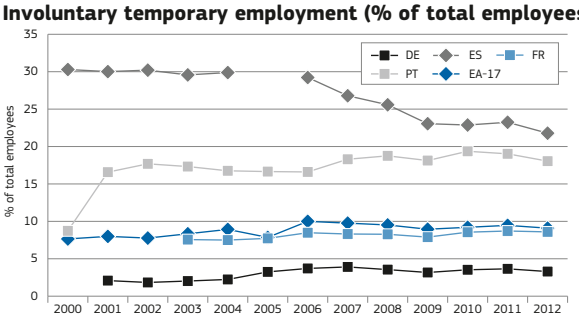
Source: Eurostat, LFS.

Employment rate (20-64) low skilled



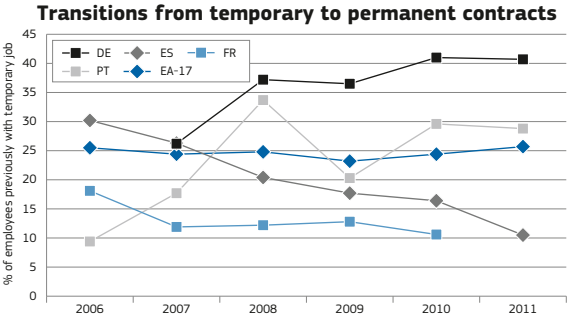
Source: Eurostat, LFS.

Involuntary temporary employment (% of total employees)



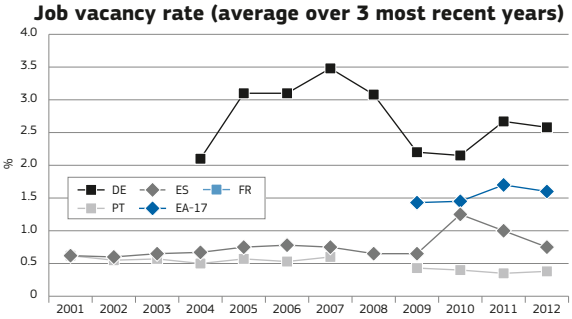
Source: Eurostat, LFS.

Transitions from temporary to permanent contracts



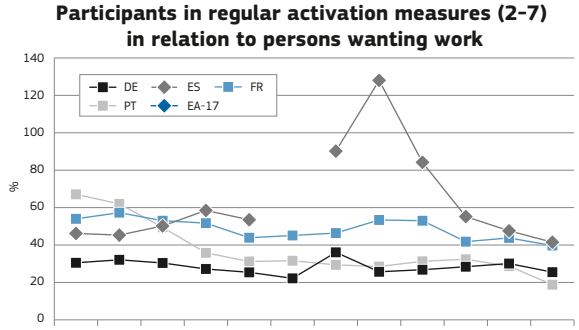
Source: Eurostat, LFS.

Job vacancy rate (average over 3 most recent years)



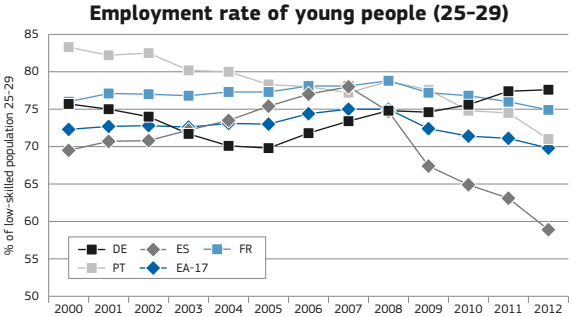
Source: Eurostat, EU Job Vacancy Statistics.
Note: Break in series for Spain in 2010.

Participants in regular activation measures (2-7) in relation to persons wanting work



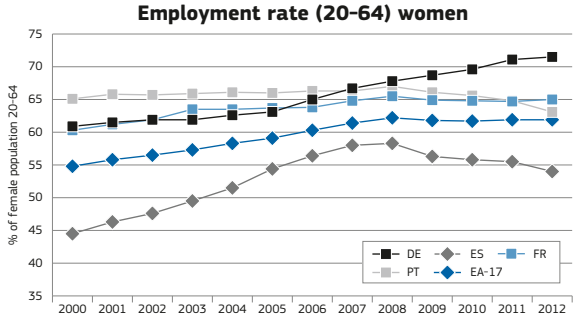
Source: Eurostat, LMP database.

Employment rate of young people (25-29)



Source: Eurostat, LFS.

Employment rate (20-64) women



Source: Eurostat, LFS.

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Young people not in education, employment or training

In Spain, the share of young people not in education, training or employment (NEET) was at the same level as the euro area average and following the same trend until 2006. However it began to increase sharply from 2007 onwards following the sharp rise in youth unemployment. Before the crisis, the share of early school leavers among the 18–24 population was one of the highest in the EU, and even slightly increased during the decade, contrary to the declining trend generally observed in other EU countries. The poor performance of the country's education and vocational training system (also signalled by the higher and increasing share of NEETS among the youngest age group — 15–19) may have been compounded by the attractive wages being offered to the low skilled in some sectors of the economy prior to the crisis. Such high and increasing levels of early school leavers are likely to have a detrimental impact on the quality of human capital in the future, both in the short and long term.

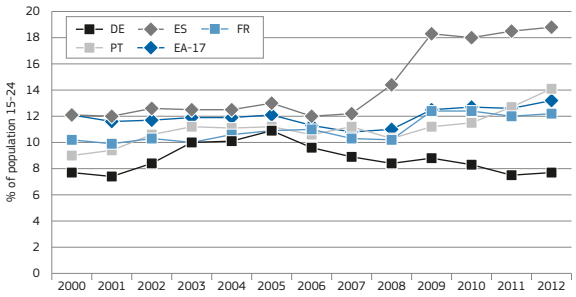
In Portugal, the significant improvement in the educational level of the work force observed since the mid-90s continued during the crisis. Since 2009, the increasing share of young people not in employment, education or training was mainly driven by the rise of youth unemployment. However, the shares of early school leavers and of low skilled remain well above EU average, calling for sustained efforts to improve access to education and training in Portugal.

In France, the share of young people not in employment, education of training remained stable at around 10 % before the crisis. Since 2009, the share of NEETs rose to 12 %, remaining just below the euro area average. Even if lower than average, the share of early school leavers did not follow the trend observed in the rest of the euro area, and the share of NEETs among the youngest population group (15–19) is on the rise.

In Germany, the educational attainment and the integration of youth on the labour market is significantly better than in the rest of the euro area, and has been improving since 2006.

Panel Chart 2

NEETs (15-24)



Source: Eurostat, LFS.

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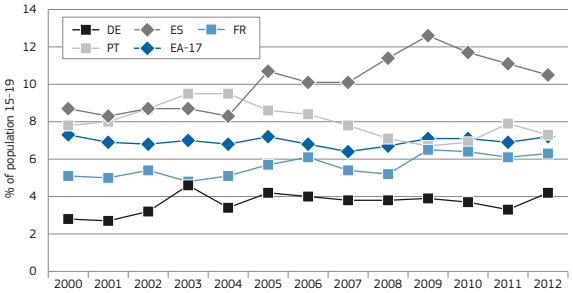
NEETs (15-19)



Source: Eurostat, LFS.

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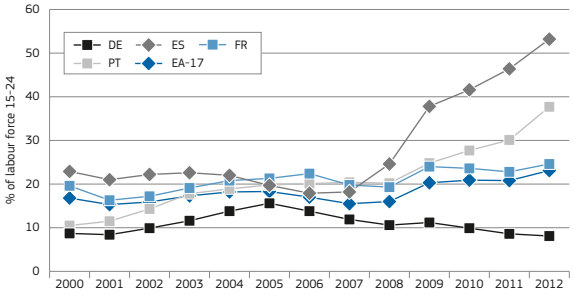
Youth unemployment rate (less than 25 years)



Source: Eurostat, LFS.

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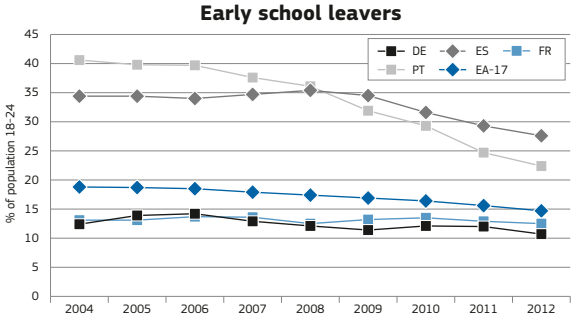
Early school leavers



Source: Eurostat, LFS.

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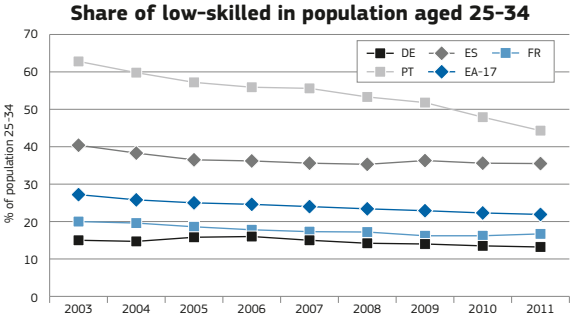
Share of low-skilled in population aged 25-34



Source: Eurostat, LFS.

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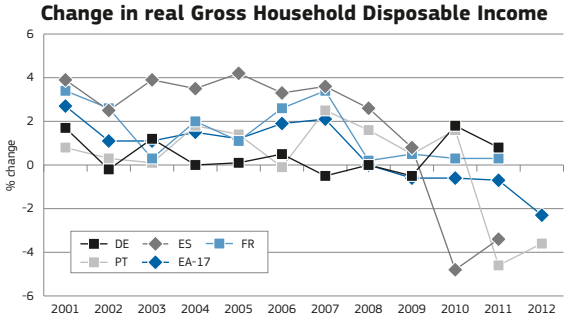
Household disposable income

A persistent decline in the real gross disposable income of households indicates that declines in labour market incomes (wage income and income from self-employment) are not being offset by replacement income schemes (primarily unemployment benefits and pensions), with a direct negative impact on aggregate demand and the general living standards of populations. After a decade of growth, the contribution of labour market incomes to household incomes started to decline in the second quarter of 2008, but was compensated by the strong reaction of automatic stabilisers (AS) in all countries.

In Spain, however, the stabilising impact of social transfers on household incomes lessened from 2010 onwards, despite the continuous deterioration of market incomes, thereby undermining private consumption and aggregate demand. Between 2007 and 2009, the gross saving rate of households increased by around 10 pps, which was probably necessary to reduce excessive debt, but nevertheless cancelled out a significant part of the stabilisation effect of the tax-benefit system on the economy. After 2009, saving rates dropped significantly reflecting the pressure on current incomes. The debt to income ratio of households nearly doubled between 2000 and 2007, reaching 125% in 2007, and has remained at that level since. Together with falling disposable household income and the decreases in real wages, it indicates that private consumption is likely to be hampered, as a factor in economic recovery, by the need for households to deleverage.

Panel Chart 3

Change in real Gross Household Disposable Income



Source: Eurostat, National Accounts.

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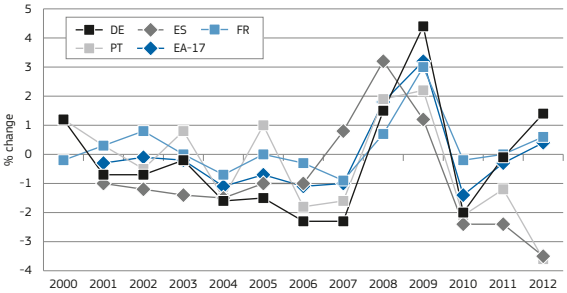
Real unit labour cost



Source: Eurostat, National Accounts.

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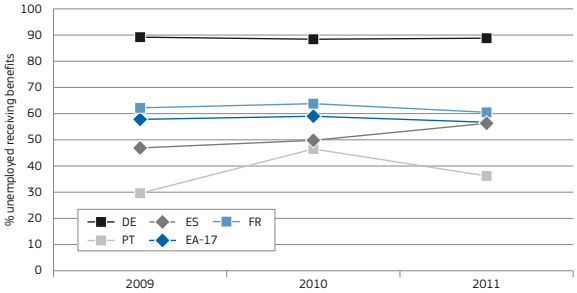
Coverage rates of unemployment benefit



Source: Eurostat, EU-SILC.

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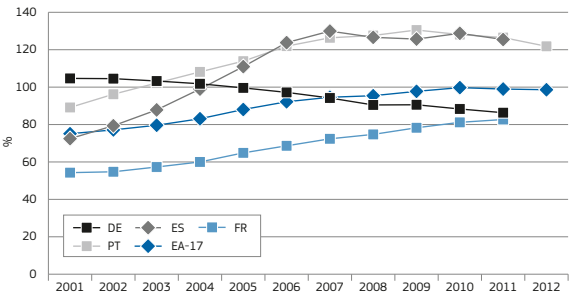
Debt to income ratio of households



Source: Eurostat, National Accounts.

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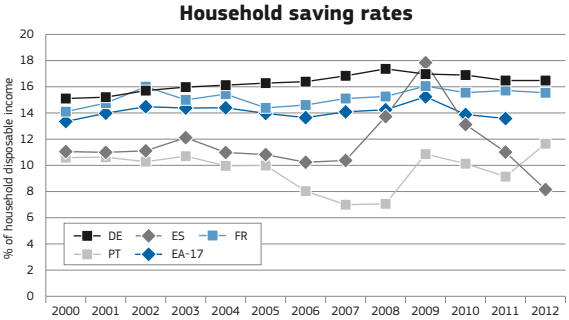
Household saving rates



Source: Eurostat, National Accounts.

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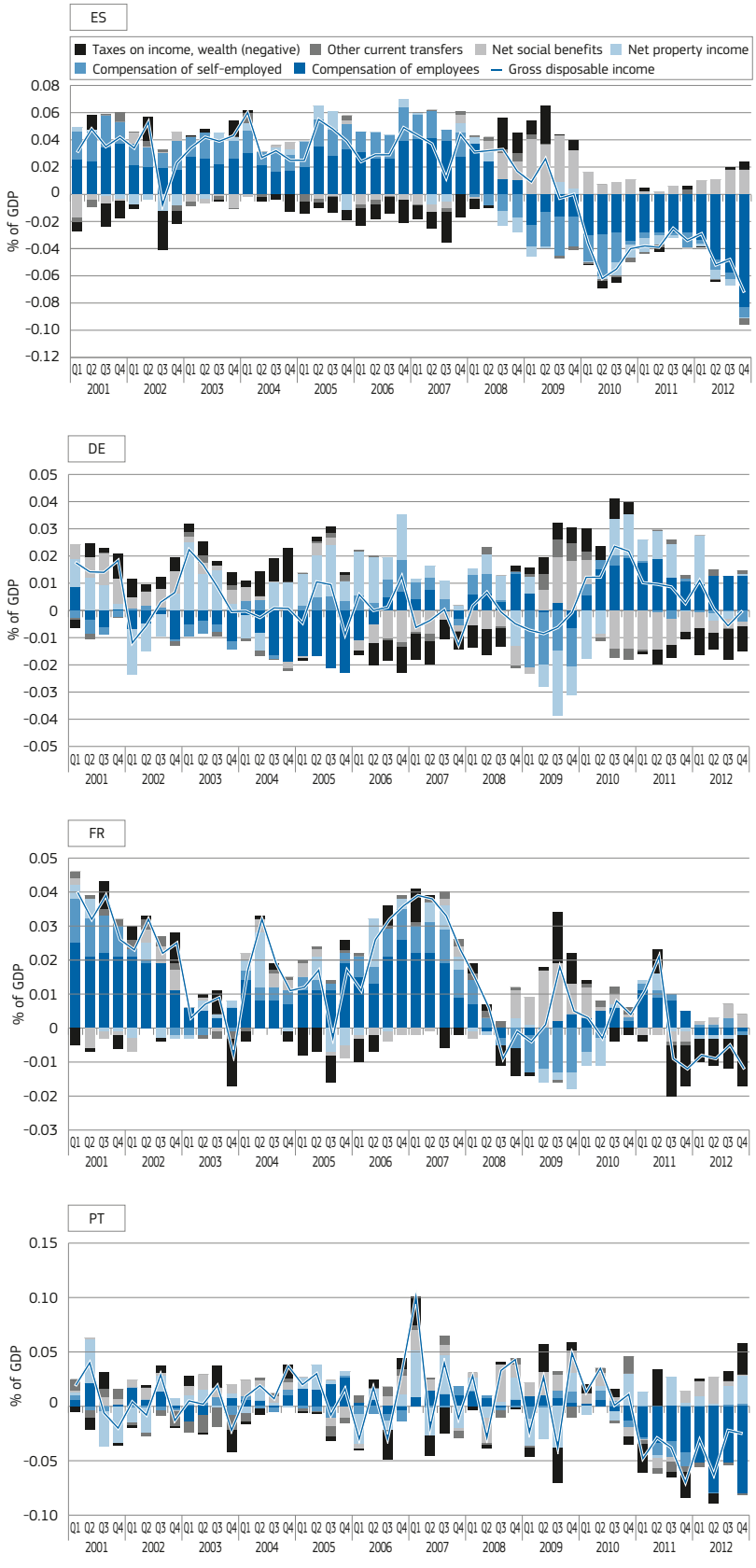
In Portugal, the decline in market incomes started at the end 2010, but the effects were not offset by the automatic stabilisers, leading to a drop in gross household disposable income as of 2011. This partly reflects the weakness of safety nets in Portugal which, despite recent improvements, are still characterised by low level of coverage. As in Spain, the debt to income ratio of households increased sharply between 2000 and 2007, also reaching 125% in 2007. In France, the working of strong automatic stabilisers and a mild recovery in market incomes sustained gross household incomes until the end of 2011. However, tax increases in 2012 and the very weak growth of market income led to a slight decline of household incomes.

In Germany, the growth of household incomes was much more moderate during the pre-crisis years but it remained positive until 2011 thanks to the working of automatic stabilisers and to the recovery of market incomes. In 2012, market incomes did decline slightly and this time the decline was not compensated by automatic stabilisers, leading to a decline of real incomes, which may undermine private demand in the medium term. During the period the debt to income ratio of households continued to decrease slowly while saving rates increased steadily.

Panel Chart 3

Change in real Gross Household Disposable Income and underlying components



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Source: Eurostat, National Accounts.

Poverty

Increases in the at-risk-of-poverty rate anchored at a point in time (2008) reflect a deterioration in the real incomes of the poor. When accompanied by a stagnation or decline in median incomes it inevitably means more people living on low incomes with highly constrained budgets.

Poverty among those of working age tends to suggest poorly functioning labour markets characterised on the one hand by segmentation, and on the other by a polarisation between job rich and job poor households. This, in turn, reflects an underutilisation of human capital (people that are jobless or underemployed) as well as an under-investment in human capital (poor access to life-long learning and skills training. Working-age poverty and low work intensity household is also strongly correlated with child poverty, which has shown quite strong divergent trends in the crisis.

In Spain, the downward trend in the anchored poverty statistic was interrupted in the first year of the crisis, and it started increasing in 2008 (SILC ref 2009) while the poverty gap indicator had already increased in 2007 (SILC ref 2008). Before the crisis, working-age poverty stagnated (despite the apparently favourable labour market conditions), and began to increase significantly in 2009 (SILC ref 2010).

In 2006–07, in-work poverty started increasing, and child poverty remained at a high level despite significant improvements in the overall income situation of households, indicating that the poorest households were not benefitting from growth at the same pace as the rest of the population. The financial distress indicator has been on the rise since the early 2000, and accelerated from 2007 onwards, possibly reflecting households' difficulties in facing high debt levels in a deteriorating economic context. In Spain, the gap in access to healthcare between the poor and the rich had been significantly reduced, but this has also been reversed during the crisis.

In Portugal, the downward trend in the anchored poverty was interrupted in 2009 (SILC ref 2010), and started increasing in 2010 (SILC ref 2011), reflecting the deterioration of overall living standards as of 2010–11 (see GHDI). Before and into the crisis, both working-age poverty and child poverty remained at a high level, and are likely to increase further, as signalled by the significant increase of the financial distress indicator after 2011, reflecting the impact of worsening labour market conditions since 2010.

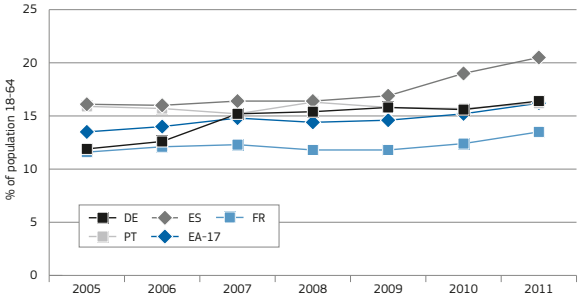
In France, working-age poverty was below average before the crisis and has not increased significantly since. However, child poverty has risen from 14% to 18% over the last 5 years, which could signal a weakening of the support to families with potential long-term consequences on the quality of human capital.

In Germany, anchored poverty remained at the level of 2008 over the period, reflecting a stable standard of living of households in this country before and after the crisis. However, child poverty increased significantly in this country, which may lead to a deterioration of human capital in the long run ([29]). In-work poverty has also increased, which may reflect rising inequalities on the labour market.

(29) In their paper on social imbalances, Vandenbroucke *et al.* argue that *'huge disparities in child poverty should be alarming since they signal problems that are relevant to the sustainability of the monetary union'* because comparatively high levels of child poverty reveal an '*investment deficit that may be the cause and effect of underperforming labour markets and education systems'*. In 'Excessive social imbalances and performance of Welfare States in the EU' by F. Vandenbroucke, R. Diris and G. Verbist (2013).

Panel Chart 4

At risk of poverty (18-64)



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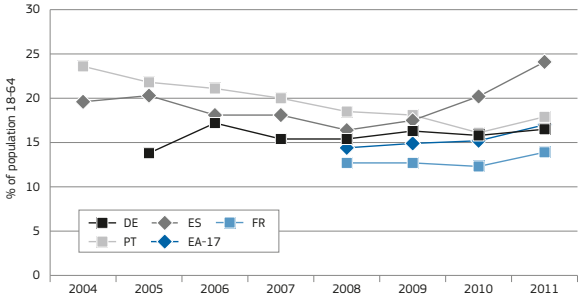
Source: Eurostat, EU-SILC.

Anchored AROP (18-64)



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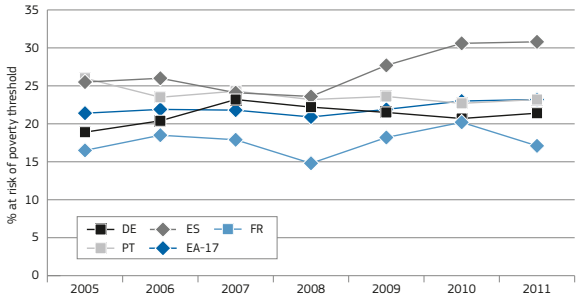
Source: Eurostat, EU-SILC.

At-risk-poverty gap



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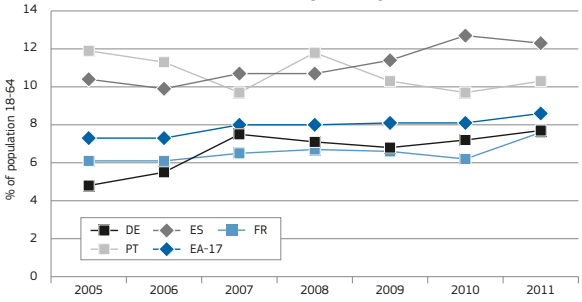
Source: Eurostat, EU-SILC.

In-work poverty



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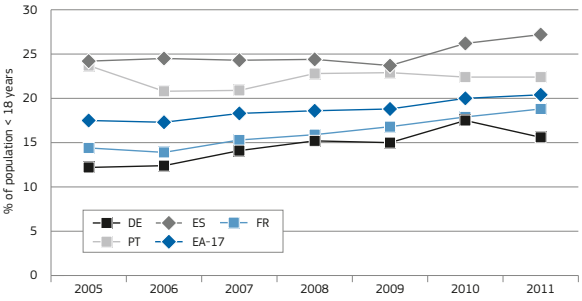
Source: Eurostat, EU-SILC.

Child poverty



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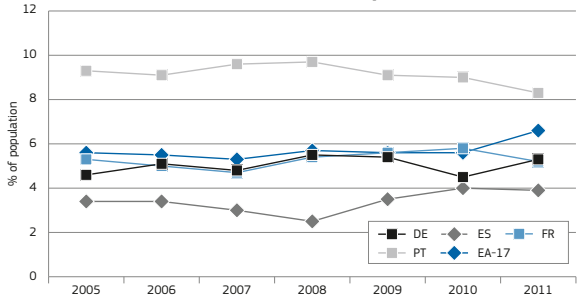
Source: Eurostat, EU-SILC.

Severe material deprivation



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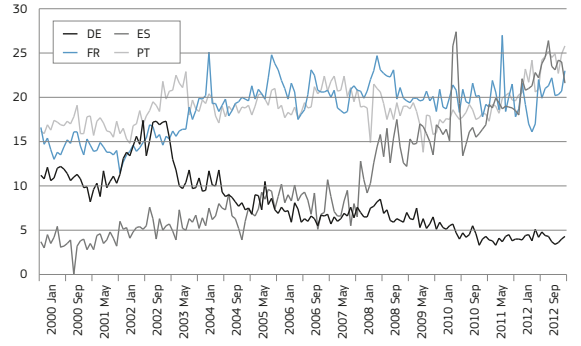
Source: Eurostat, EU-SILC.

Financial distress



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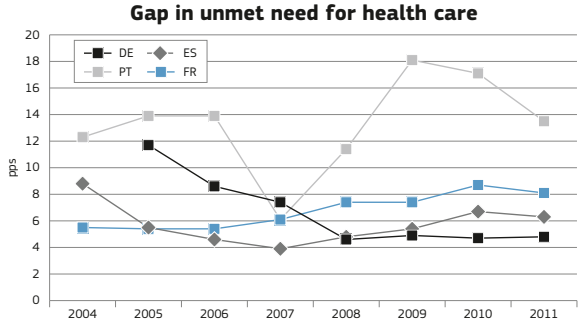
Source: Commission Services, Joint harmonised EU consumer surveys, DG EMPL calculations.

Gap in unmet need for health care



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Source: Eurostat, EU-SILC.

Income inequalities

High and rising levels of income inequalities indicate that the economic situation of a larger part of the population is deteriorating, affecting low and middle-income sections of the population, with a correspondingly higher concentration of income and wealth in the most affluent segments of society ([30]). High levels of income inequalities can undermine sustainable growth by depressing aggregate demand and by leading to unsustainable borrowing at the lower end of the income distribution where the propensity to consume is the greatest. Such inequalities impact on economic performance as a whole: they can limit opportunities for many people to fulfil their potential to contribute to the economy and society, and they can breed social resentment and weaken the legitimacy of political processes and institutions ([31]). Moreover excessive increases in earnings inequality (see below) can put a strain on public budgets by increasing the need for redistribution.

The analysis of income inequalities needs to be complemented by a focus on unsustainable increases in labour market inequalities (e.g. earnings inequality), resulting from both wage polarisation and unequal distribution of the quantity of work (i.e. due to segmentation and job precariousness) ([32]). This involves looking at indicators of such factors as in-work poverty, the gender pay gap, involuntary temporary employment, involuntary part-time work, as well as data on labour market transitions towards better quality jobs (by type of contract or pay level).

Information on jobless households illustrates the polarisation of jobs between job-rich and job-poor households, which has detrimental impacts on social cohesion and human capital both in the short and the long term (notably the impact on children brought up in jobless households). Inequality of opportunity to develop one's socio-economic potential, with its adverse impact on employability, productivity and competitiveness, can be compounded also by low performance of the education system, the extent of which can be gauged from data on the gaps in literacy scores (PISA).

Before the crisis, the labour market in Spain was strongly segmented, with high shares of involuntary temporary contracts, and low and declining transitions rates from temporary to permanent contracts, illustrating the limited opportunity for working people to progress towards better jobs, with stable earnings. In-work poverty started increasing in 2007 and income inequalities started to increase in 2008.

In Portugal, a downward trend in income inequality was interrupted in 2010 (SILC ref. 2011) and has remained higher than the EMU average. The increase in the gender pay gap, the increase in the share of involuntary part-time work, together with the decline of female employment rates, calls for specific attention to be paid to the situation of women on the labour market.

In France, the level of inequalities is below average, but has been rising slightly during the crisis while, in Germany, income inequalities increased prior to the crisis from a low level, to reach the EMU average, and stabilised afterwards. Germany is still characterised by labour market inequalities, with a higher than average gender pay gap.

(30) European Commission, Employment and social developments in Europe 2011, *Ch 2*.

(31) OECD, Why Inequalities keep rising, 2011.

(32) According to the OECD, the single most important driver of rising income inequalities aver the last decades has been greater inequality in wages and salaries, which reflects the fact that earnings account for about three-quarters of total household incomes among the working-age population in most OECD countries. The earnings of the richest 10% of employees have taken off rapidly in most cases, with those top earners moving away from the middle earners faster than the lowest earners, hence extending the gap between the top and the increasingly squeezed middle-class. Greater earnings gains for workers with higher skills, driven by technological progress, increased prevalence of atypical labour contracts (especially part-time work), more low-paid people in work and declining coverage of collective-bargaining arrangements in many countries all contributed to a widening distribution of wages.

Panel Chart 5

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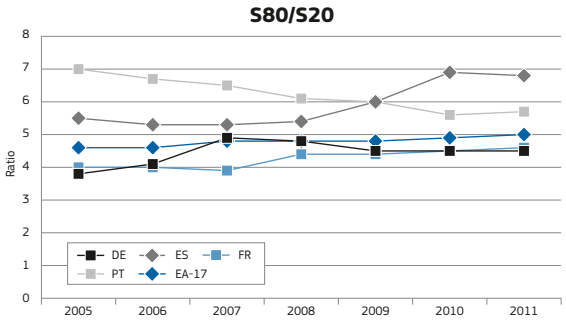

Source: Eurostat, EU-SILC.

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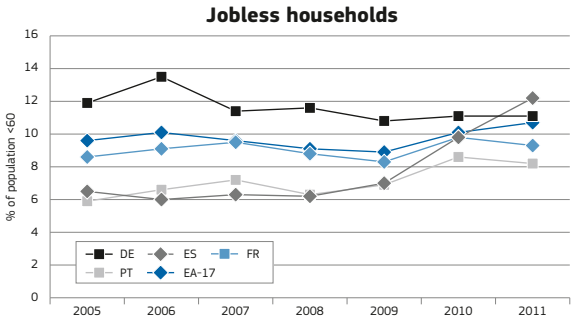

Source: Eurostat, EU-SILC.

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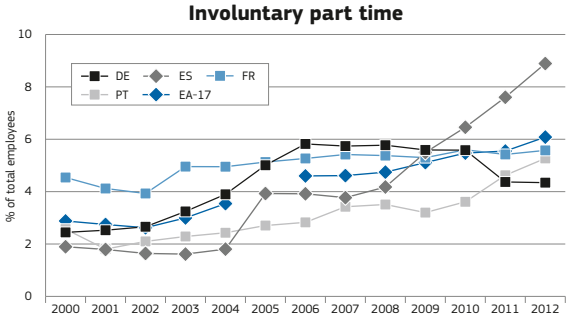

Source: Eurostat, LFS.

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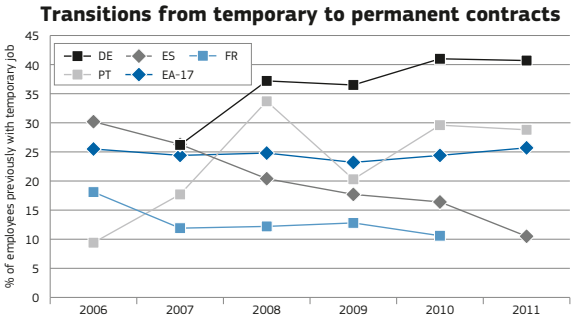

Source: Eurostat, EU-SILC.

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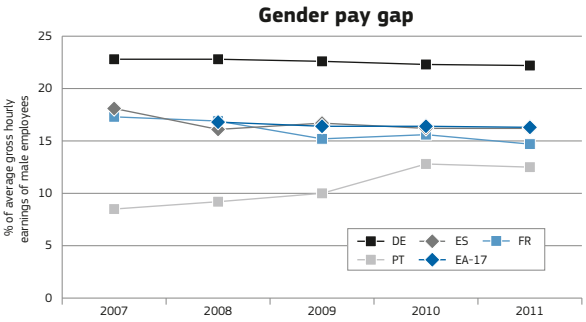


Source: Eurostat, SES.

As illustrated above, when viewed together, these five indicators provide a broad but focused picture of the types of ongoing key employment and social problems that exist in different Member States. Such indicators can provide early warnings of potentially serious employment and social problems when combined with other relevant information on underlying institutional and economic factors. Such an analysis can, in particular, help improve policy making within the EMU by taking better account of the expected employment and social consequences of macro-economic adjustments.

4. Challenging EU employment and social context

4.1. Protracted stagnation coming to an end?

GDP rose by 0.4% in the EU and by 0.3% in the euro area during the second quarter of 2013 compared with the previous quarter. The highest GDP growth among Member States was in Portugal, Germany and Lithuania while Cyprus, Slovenia, Italy and the Netherlands registered the largest decreases. Exports rose 1.7% in the EU and 1.6% in the euro area, while imports increased by 1.2% and 1.4% respectively. External trade thus made a small positive contribution in both the EU and euro area ([33]).

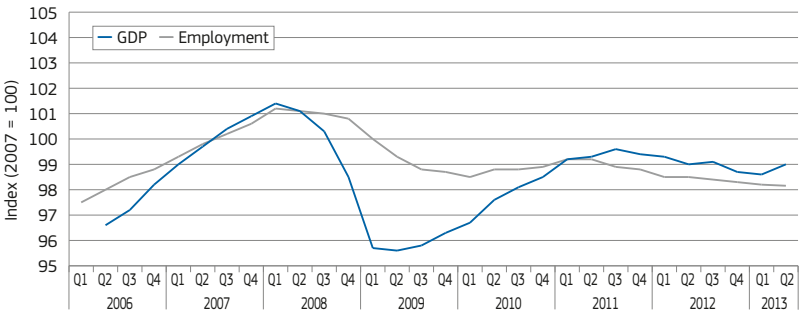
Current account adjustments in those Member States with large external imbalances prior to 2008 have pushed the euro area's current account into surplus. The euro area saw a surplus of 1.6% of GDP in early 2013. Ireland and Slovenia recorded substantial surpluses while Greece, Spain, Portugal and Italy have all seen substantial reductions of their deficits. In these countries most of the adjustment has been due to imports falling substantially. Although competitiveness, as measured by Unit Labour Costs, has increased, there is as yet relatively little increase in exports. This is the case for Greece, Spain and Cyprus, although Portugal and Ireland do show significant increases in exports.

4.1.1. A double dip recession over last five years

Seen over a five year period, the EU economy has experienced a double dip recession (see Chart 13) with negative growth interrupted by a timid recovery between the end of 2009 and the beginning of 2011. Chart 14 depicts changes in real GDP across the Member States since early 2008, which range from more than +10% in Poland to –10% or more in Greece and Slovenia (as well as Croatia which joined the EU on 1st July 2013).

The depressed macro-economic situation translated into even more unfavourable employment trends, due to positive productivity developments which were partly offset by reductions in hours worked during the first downturn in a few countries (see Box 2). This can also be derived from Chart 6, comparing the respective falls of GDP and employment between the peak in early 2008 and the apparent bottoming out in mid-2013.

Chart 13: GDP and employment growth in the EU



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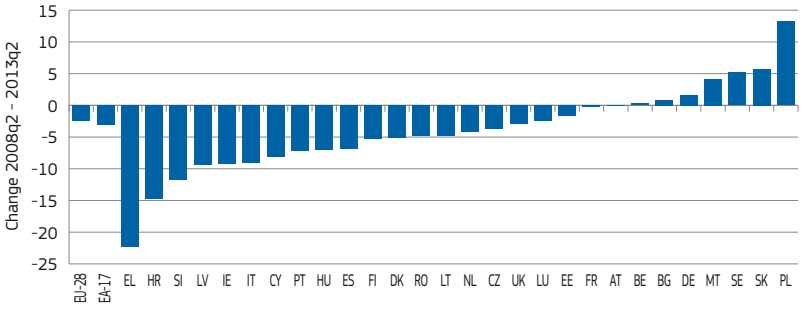
Source: Eurostat, National Accounts [namq_gdp_k and namq_aux_pem], data seasonally adjusted.

Chart 14: Change in GDP on 2008 for the EU Member States



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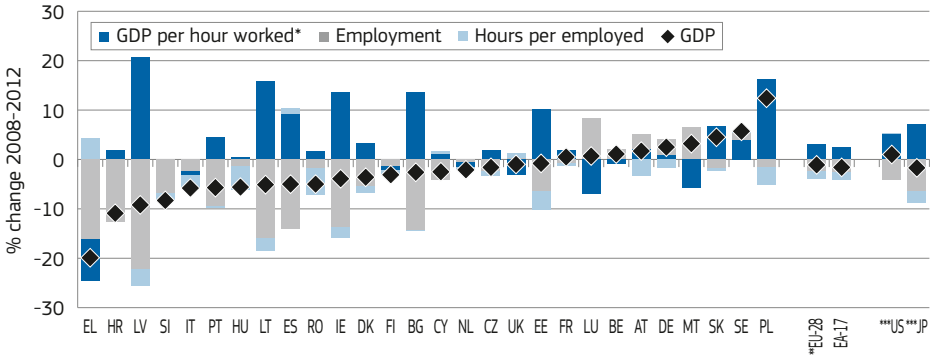
Source: Eurostat, National Accounts [namq_gdp_k and namq_aux_pem], data seasonally adjusted.

(33) Eurostat News Release 130/2013 — 4 September 2013.

Box 1: Decomposition of growth into employment, hours worked and hourly productivity

Between 2008 and 2012, while GDP at EU-28 level receded by 1.1 % (–1.6 % at EA level), employment was hit harder (–2.4 % in EU and –2.6 % in EA, see Chart 15). On the other hand, hourly productivity made headway (+3.1 % and +2.6 % resp.) while the number of hours worked decreased more moderately (–1.6 % in both areas). The latter phenomenon mainly stems from working-time reduction policies put in place in countries such as Germany, Austria and Belgium in the first years of the crisis.

Chart 15: Change in GDP between 2008 and 2012 and underlying components



Source: Eurostat, National Accounts and OECD, DG EMPL calculations.

Note: Productivity per hour worked and number of hours: no data avail. for BE, HR, LU: GDP = GDP / employed x number of persons employed; no number of hours worked data available for MT; * for BE, HR, LU: productivity expressed in GDP per person employed; ** for GDP per hour worked and hours per employed: EU-27; *** US, JP: OECD data for 2008–11.

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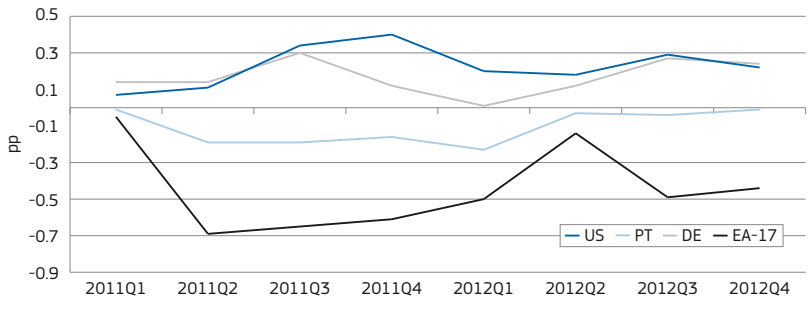
Over the four years to 2012, GDP growth was mainly driven by employment growth in Germany, Austria, Belgium, Luxembourg and Malta and by productivity gains in Poland, Sweden, Slovakia and France without major losses of employment. In countries which experienced severe falls in GDP (by more than 3 %), these translated mostly into employment declines, as in Greece, Croatia, Latvia, Slovenia, Portugal, Lithuania, Spain, Ireland and Denmark. Strong reductions of employment were avoided by a decline in the number of hours worked per employed and/or in hourly productivity in Italy, Hungary and Romania. In comparison, in the US, GDP growth between 2008 and 2011 was supported only by a growth in hourly productivity, while employment fell significantly and the number of hours worked per employed remained unchanged ([1]).

Similarly, estimations of Okun residuals indicate that, during the past two years, unemployment seems to have increased less than expected in the US and Germany (see Chart 16). On the other hand, unemployment increased more than expected in the euro area, particularly in Portugal.

Chart 16: Residuals of Okun estimations since 2011 (US, the euro area, Germany and Portugal)



Source: Commission services' estimations and OECD.

Note: Estimates calculated over 1998Q1 – 2007Q4.

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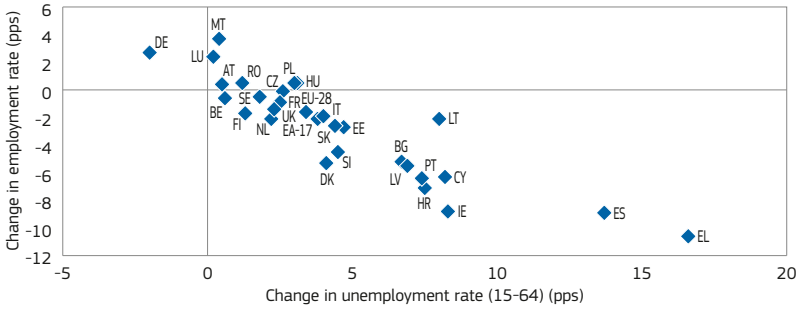
The decline in the US unemployment rate was 'helped' by a fall in the participation rate to a historically low level, possibly due to worker discouragement. In the case of Germany, structural unemployment has probably declined as a result of the reforms of the last decade. On the other hand, in Portugal, the shedding of low-productivity labour resulted in a disproportionately large increase in unemployment compared to the evolution of GDP.

(1) For US, JP, OECD data was used. As productivity and hours worked data is missing for 2012, this piece of analysis is limited to the 2008–11 period.

4.1.2. Labour markets have been weak in most Member States: long-term unemployment climbing to all-time highs

In the four years to 2012, Greece, Spain, Ireland, Portugal, Croatia and Cyprus all experienced massive reductions in employment and increases in unemployment (see Chart 17) while employment rates increased in Germany, Austria, Poland, Romania, Hungary, Luxembourg and Malta.

Chart 17: Changes in unemployment rates and employment rates from 2008 to 2012 in the Member States



Source: Eurostat, LFS [une_rt_a and lfsa_ergan], DG EMPL calculations.

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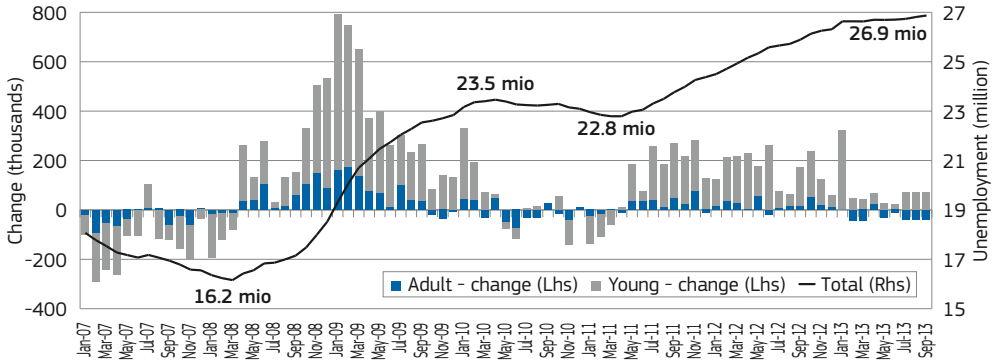
Chart 18: Monthly change in youth, adult and total unemployment in the EU, 2007-2013



Source: Eurostat, series on unemployment [une_nb_m], data seasonally adjusted.

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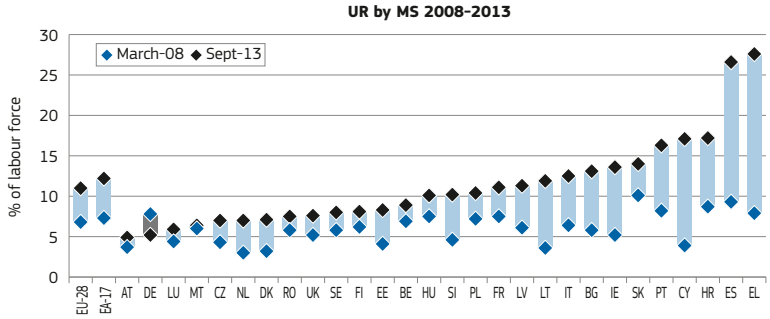
Unemployment rates have risen

The overall picture for unemployment is one of severe deterioration since 2008, with a short-lived reduction in the year to mid-2011 and a further worsening since then. The number of unemployed in the EU has again risen in recent months, hitting a new historic high of 26.9 million in September 2013 (see Chart 18).

The second dip in output saw a steady increase in unemployment in the EU over the past two years, with 4 million more people out of work. The crisis has, since the spring of 2008, created some 10.5 million additional unemployed in the EU to reach a total of 19.4 million in September 2013. Between May and September the unemployment rate remained stable at 11 % of the active population, (12.2 % in the euro area), compared to less than 7 % before the crisis. The increase over the last year has been slightly more pronounced in the euro area (+0.6 pps) than in the EU as a whole (+0.4 pps).

Chart 19: Unemployment rate development by Member State since the low of March 2008 and September 2013



Source: Eurostat, series on unemployment [une_rt_m], data seasonally adjusted.

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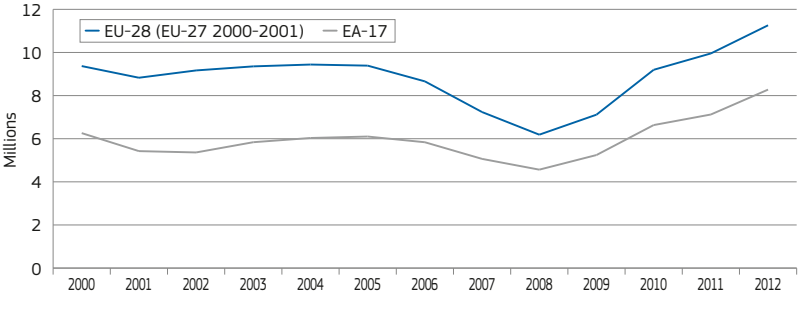
Chart 20: Long-term unemployment in the EU and euro area, 2000–2012



Source: Eurostat, LFS [lfsa_ugad].

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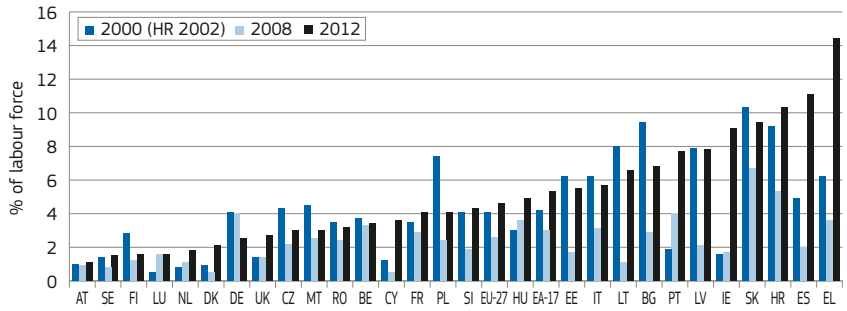
Chart 21: Long-term unemployment rates for the Member States, 2000, 2008 and 2012



Source: Eurostat, LFS [une_ltu_a].

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Since the historic low level of unemployment recorded in March 2008, the largest increases have been in Greece (+19.7 pps to 27.6%), Spain (+17.3 pps to 26.6%), Cyprus (+13.2 pps to 17.1%), Croatia (+8.5 pps to 17.2%) and Portugal (+8.1 pps to 16.3%), see Chart 19. Only one country has seen the overall unemployment rate fall over the last five years, namely Germany (–2.6 pps, to 5.2% in September 2013).

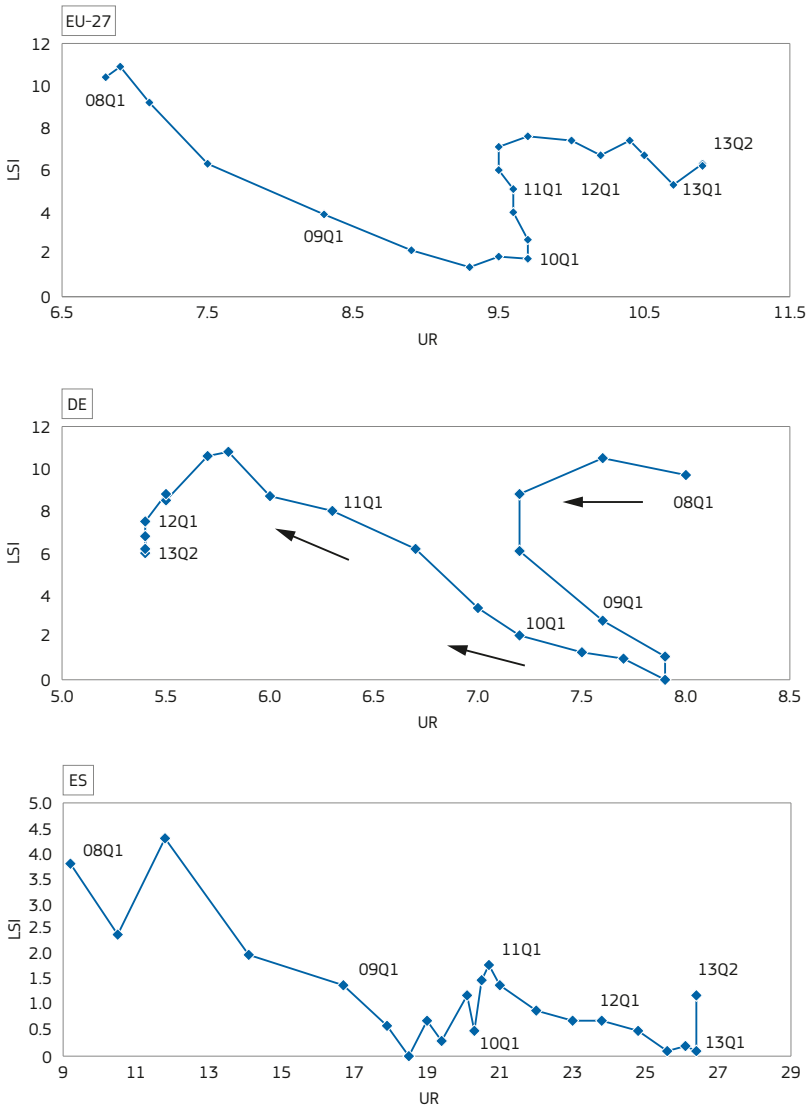
Uninterrupted rise in long-term unemployment

Long-term unemployment (unemployed for 12 months or more, not living in collective households) has risen throughout the crisis, apart from a brief period following the short-lived recovery of 2010, reaching an all-time high of 11.3 million in the EU at the end of 2012, accounting for nearly 5% of the active population. Since 2008 the number of long-term unemployed has almost doubled in the EU-27 and in the EA-17 (+ 5.1 million and +3.7 million respectively, see Chart 20), which contrasts with the steep decline between 2005 and 2007 and the minor increase following the 2001–03 recession. Developments by Member State broadly reflect movements in overall unemployment (see Chart 21).

Signs of rising labour market mismatches: rising structural unemployment after the first downturn

Some understanding of the changing structural nature of unemployment can be seen on the basis of the Beveridge curve, which reveals the extent of labour

Chart 22: Beveridge curves in the EU and the five largest Member States



Source: Eurostat, LFS [une_rt_q] and ECFIN Business and Consumer Survey [bsin_q_r2]. Seasonally adjusted.

Note: UR = unemployment rate (%); LSI = labour shortage indicator, derived from EU business survey results (% of manufacturing firms pointing to labour shortage as a factor limiting production).

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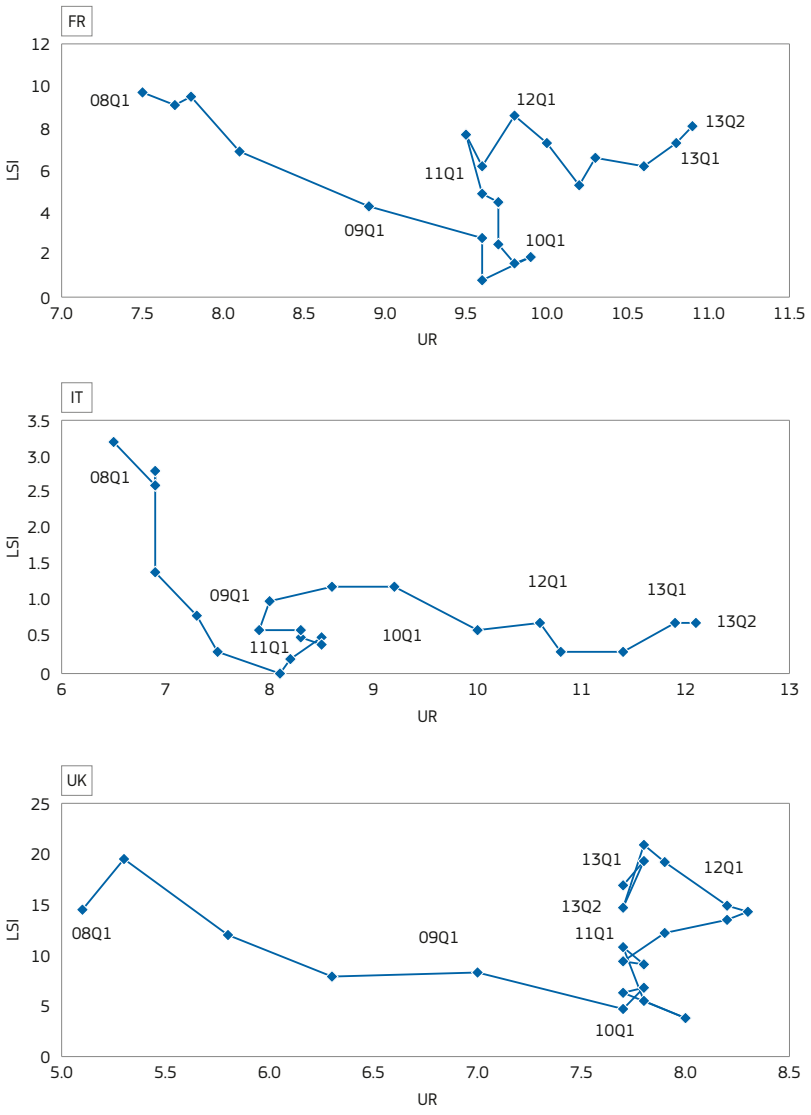
Chart 22: Beveridge curves in the EU and the five largest Member States



Source: Eurostat, LFS [une_rt_q] and ECFIN Business and Consumer Survey [bsin_q_r2]. Seasonally adjusted.

Note: UR = unemployment rate (%); LSI = labour shortage indicator, derived from EU business survey results (% of manufacturing firms pointing to labour shortage as a factor limiting production).

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market mismatches by juxtaposing unemployment rates and unfilled job vacancy rates ([34]). Shifts along the curve represent cyclical changes in the demand for labour, typically implying higher vacancies and lower unemployment in upturns and lower vacancies and higher unemployment in downturns. On the other hand, an increase or decrease in the number of vacancies for a given rate of unemployment is indicative of structural changes, with an increase typically implying a higher level of mismatch (described as a move of the curve outwards, or to the right), and vice versa.

In the EU as a whole, movements in the unemployment-vacancy relationship since early 2008 can be split into three different periods. In the first period — up to the first quarter of 2010 — there was a continuous increase in the unemployment rate and a steady decrease in the labour shortage indicator, reflecting a typical movement along the Beveridge curve in a recession.

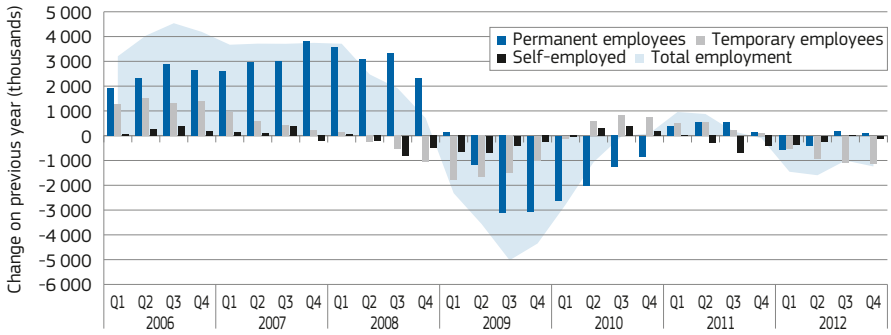
In the second period — from the first quarter of 2010 to mid-2011 — the unemployment rate remained fairly stable, while the labour shortage indicator increased significantly (see Chart 22). Such movement is indicative of labour market mismatches in a recovery, due to very diverse developments by sector (for example, construction boom and bust), insufficient labour mobility, and a possibly inadequate skill supply (see also 'The skill mismatch challenge in Europe', Chapter 6 in European Commission (2013) ([35])).

In the third period — since mid-2011 — the Beveridge curve has again followed a more normal pattern. The unemployment rate rose further while the labour shortage indicator remained stable. This suggests that the Beveridge curve has shifted outwards, pointing to a persistence of the mismatches during a period of renewed labour market weakness.

(34) An alternative indicator for the job vacancy rate is the labour shortage indicator. The indicator is derived from EU business surveys results. The indicator is seasonally adjusted and fully harmonised across Member States, but covers only manufacturing. See also http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/userguide_en.pdf. See March 2013 issue of the EU Employment and Social Situation Quarterly Review (European Commission, 2013b) for more details.

(35) European Commission (2013c), 'Employment and Social Developments in Europe 2012' (ESDE 2012).

Chart 23: Employees in permanent and temporary work, self-employment and total employment in the EU, 2006-2012



Source: Eurostat, LFS, DG EMPL calculations. Data non-seasonally adjusted.

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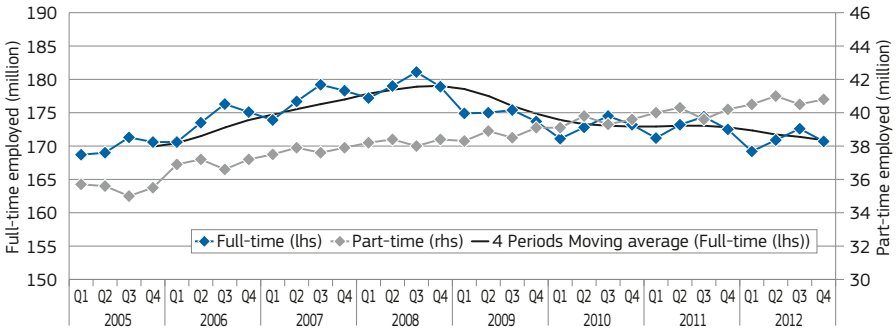
Chart 24: Part-time and full-time employment in the EU, 2005–2012



Source: Eurostat, LFS [lfsq_epgaed], data non-seasonally adjusted.

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Box 2: European Restructuring Monitor reveals continued net job destruction

In the twelve months between 1 September 2012 and 31 August 2013, the European Restructuring Monitor (ERM) recorded a total of 1436 large-scale restructuring cases (those generally involving at least 100 job losses or job gains) at national, regional or local level, and 102 cross-national cases ([1]).

These restructurings involved approximately 391000 announced job losses and 190000 announced job gains. In every quarter since 2008q1, announced job losses in ERM cases have outnumbered job gains. The Member State with the largest announced job losses was Germany (56084) but large job losses were also recorded in France (54384), the United Kingdom (43770) and Spain (34949). The country reporting the largest job gains was France (32554).

The majority of announced job losses (67%) were attributable to internal restructuring and a quarter (25%) to bankruptcy or closure. The share of bankruptcy / closure-motivated job losses has been higher in 2012/13 than at any time in the last decade, including the trough years of the crisis, 2008–09. On the other hand, levels of offshoring/outsourcing/relocation remain very subdued (4% of total job losses compared to 10% in 2006 and 2007).

The main broad sector affected by restructuring job loss was manufacturing though this reflects, in part, the large firm bias of ERM due to its size thresholds. There were over 144000 job losses reported in 471 manufacturing cases in the twelve month period, representing 37% of total ERM-announced job losses. Other sectors accounting for a large share of job losses included financial services/insurance (17%) and information/communication services (11%).

Manufacturing also accounted for 30% of announced job gains in the twelve month period with the retail sector accounting for 13%. Within manufacturing, the car/transport equipment subsector was the source of most restructuring activity (8% of all announced job loss and 13% of all job creation).

Among the small number of sectors (intermediate classification) in which overall restructuring job balance (announced job loss minus announced job gain) was positive, accommodation and food service activities (NACE I, +13381), IT and information services (NACE JC, + 7322) and professional activities including legal, accounting, consulting, architectural and engineering services (NACE MA, +6919) came out on top.

(1) Data is based on an extraction from the ERM restructuring events database on September 6th 2013 www.eurofound.europa.eu/emcc/erm/index.htm

In conclusion, the outwards movement of the Beveridge curve seems to have predominantly occurred in the period 2010–11, suggesting that mismatches and structural unemployment mainly rose during the first downturn. An analysis of national Beveridge curves ([36]) shows that this was the case in Bulgaria, France, the Netherlands and Poland, but not in Member States with the highest increases in unemployment. In contrast, a better matching associated with a leftward shift in the Beveridge curve was seen notably in Germany.

Continuing net job destruction and a growing share of precarious work...

Over the five years to the first quarter of 2013, 2.8% of jobs disappeared in the EU across all sectors, although the intensity of net job losses was less in the second downturn (after Spring 2011) than it has been during 2008–09. Furthermore, while the manufacturing and construction sectors were most hit during the first downturn, services and the public sector saw heavier job losses during the second downturn. According to the European Restructuring Monitor (see box), announced job losses still outnumber job gains in the large majority of sectors.

While the severity of the first downturn resulted in massive destruction of permanent jobs, the greatest burden of adjustment has fallen on temporary jobs. During the timid recovery in 2010 and the first part of 2011, continuing business uncertainty tempered the hiring on permanent contracts in favour of temporary ones (accompanied by an increase in self-employment), which were subsequently discontinued during the second downturn. In the year to the last quarter of 2012, temporary employment accounted for much of the drop in employment, declining by 4.7%, or 1.1 million fewer employees (see Chart 16). The number of workers in permanent employment in the EU as a whole increased at an annual growth rate of only +0.1% in 2012q4, representing a modest rise of 100 000 full-timers.

While the share of temporary employees has developed cyclically, tracking the overall ups and downs of the labour market, Chart 25 shows the extent of the divergence between Member States in terms of the percentage of employees holding a temporary contract in 2008–12. In 2012, the countries with the highest share of employees on temporary contracts were Poland, Spain, Portugal, the Netherlands and Slovenia, with rates of 17% or more. The shares were lowest in Romania, Lithuania, Estonia, Bulgaria and Latvia — all below 5%.

At EU-28 level the percentage fell by 0.4 pps to 13.7% over the four years to 2012 (but included a rise of +0.4 pps from 2011). It actually increased moderately in the majority of the Member States, although this was offset by the sharp falls recorded in the other seven, most notably in Spain, Portugal and Greece — all countries badly affected by the crisis and seeking to make appropriate labour market adjustments.

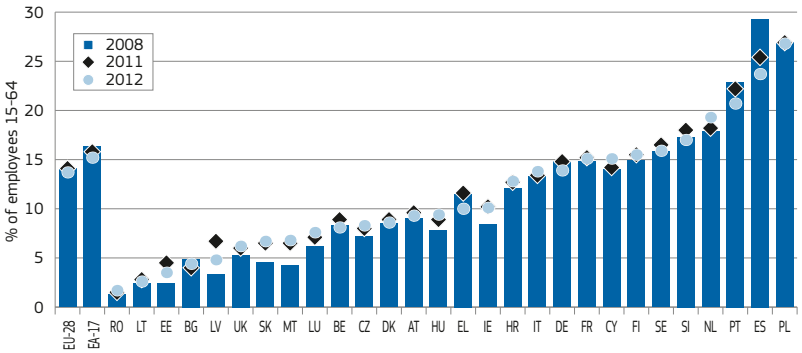
Attention should be focused on employees who hold temporary contracts involuntarily: some 60% of temporary employees in the EU want, but cannot find, a permanent job. This is a particular challenge in Spain and Portugal (the countries with the highest shares of temporary employment) where around 90% of temporary contracts are involuntary, but more than 80% of employees are in this position in Member States with medium rates of temporary employment (i.e. Cyprus, the Czech Republic and Greece) and low rates (i.e. Romania and Slovakia) as can be seen in Chart 26.

Self-employment decreased by 0.4% (or 115 000 self-employed) in the course of 2012, with the crisis and credit tightening making it more difficult to start up one's own business.

Full-time employment falling but part-time rising...

Full-time employment is in its fourth consecutive year of contraction, down by 8.3 million (–4.6%) since the last quarter of 2008, after having stabilised briefly during the first semester of 2011 (see Chart 24). Conversely, there has been steady growth in part-time jobs with 2.5 million more since the last quarter of 2008, a rise of 6.4%.

Chart 25: Temporary contracts in the Member States in 2008, 2011 and 2012



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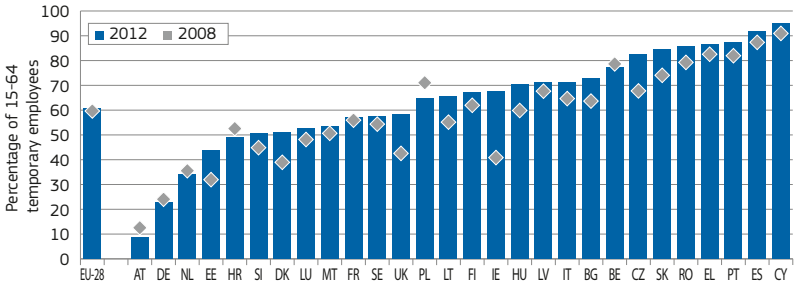
Source: Eurostat, LFS [lfsa_etpga].

Chart 26: Involuntary ('Could not find a permanent job') temporary work in the Member States



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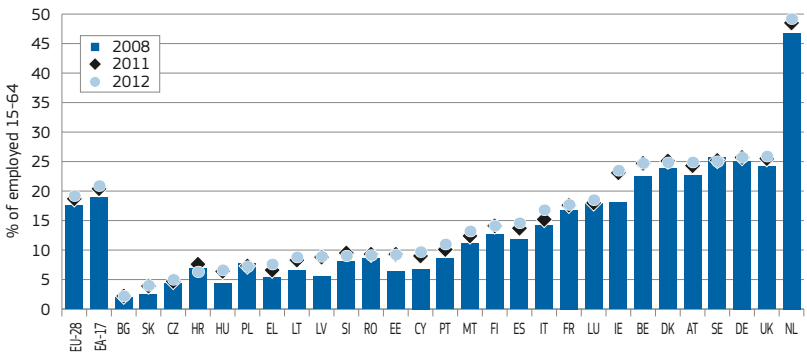
Source: Eurostat, LFS [lfsa_etgar].

Note: Some countries present unreliable data: EU-28, BE, BG, DE, EE, EL, IE, NL, SE, UK.

(36) See more details in March 2013 edition of ESSQR (European Commission, 2013b).

Chart 27: Part-time contracts in the Member States in 2008, 2011 and 2012



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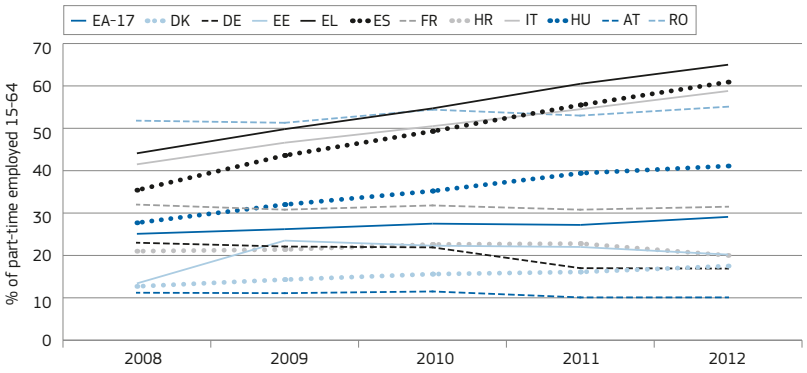
Source: Eurostat, LFS [lfsa_eppga].

Chart 28: Involuntary part-time work in selected Member States



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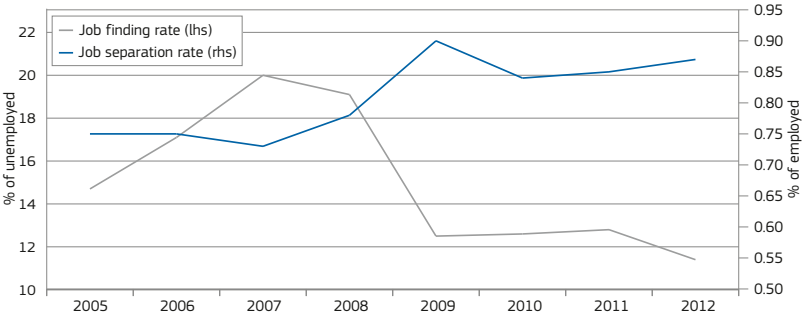
Source: Eurostat, LFS [lfsa_eppgai].

Chart 29: Job-finding rate and job separation rate in the EU-27, 2005–2012



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Source: Eurostat. LFS. DG EMPL calculations (annual average).

Chart 27 depicts the relative developments of part-time work in the Member States since 2008. In 2012, its share within total employment was the highest in the Netherlands (49.2%), followed by the UK, Germany, Sweden, Austria, Denmark and Belgium, all at 25% or above. Shares were lowest in Bulgaria, Slovakia, the Czech Republic and Croatia, at 5% or below. At EU-28 level, the percentage went up by 1.7 pps to 19.2% over the four years to 2012 (+0.5 pps since 2011). It increased in all Member States except in Croatia, Poland and Sweden, with major increases noted between 2008 and 2012 in Ireland (+5.4 pps), Latvia (+3.4 pps) and Cyprus (+2.9 pps) — all countries that have experienced serious labour market and social difficulties in recent years.

Reducing working time was considered an appropriate option by both employers and workers in the first phase of the crisis, helping to significantly reduce the risk of redundancies in many cases. However the long-term acceptance of this should not be taken for granted, with many part-time workers wishing to work more hours, as can be seen in Chart 28 for a selection of Member States for which reliable data is available.

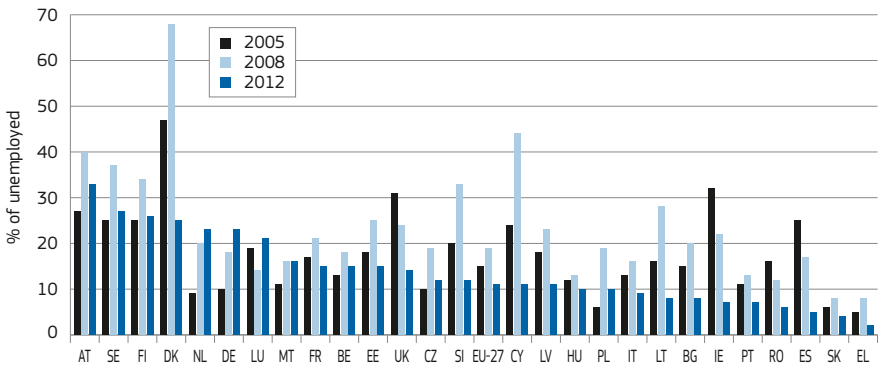
... and declining prospects of finding permanent work

The ratio between the number of people starting new jobs and those who are unemployed (the job-finding rate)([37]) in the EU-27 increased from 14.7% to 20% between 2005 and 2007 but fell back after 2008, falling to 11.4% in 2012 (see Chart 29). The ratio of the number of people who left their job to the number of people in employment, known as the job separation rate([38]), rose sharply after 2008 across EU-27 (by 0.12 pps) to reach 0.90% in 2009 and 0.87% in 2012.

(37) Annual average of the monthly ratio of the number of people starting new jobs to those who are unemployed. People starting a job include those previously in work and those changing jobs (employment to employment flows), those previously unemployed (unemployment to employment flows) and those that had previously not been in the workforce (inactivity to employment flows).

(38) Annual average of the monthly ratio of the number of people who leave their jobs to the number of people in employment.

Chart 30: Job-finding rate in the Member States, annual average in 2005, 2008 and 2012



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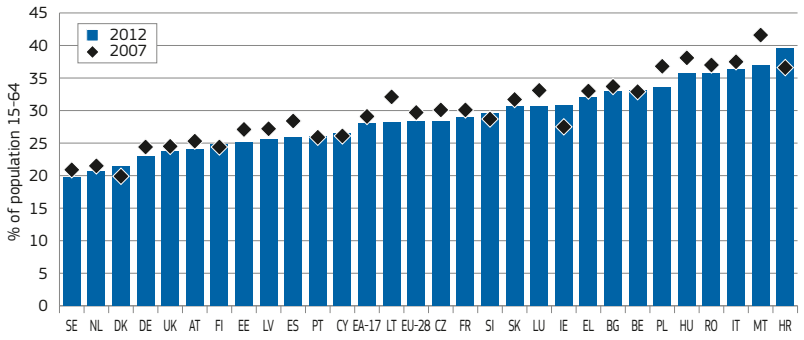
Source: Eurostat, LFS. DG EMPL calculations.

Chart 31: Inactivity rates for EU Member States, 2007 and 2012



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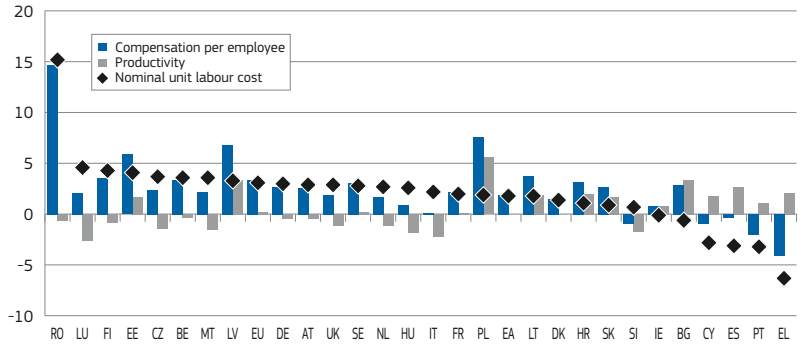
Source: Eurostat, LFS [lfsa_argan].

Chart 32: Nominal compensation per employee, productivity and ULC in 2012



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Source: Eurostat, National Accounts [nama_aux_lp and nama_aux_ulc], DG EMPL calculations.

Note: Nominal unit labour cost (ULC) is defined as compensation per employee adjusted for productivity per person employed.

Between 2005 and 2008, the job finding rate rose in 22 Member States and fell in five with the highest rises recorded in Poland, Cyprus and Denmark, and the sharpest falls in Spain, the UK and Ireland. From 2008 to 2012, this job finding rate fell in 24 Member States and increased only in three. As shown on Chart 30, the highest increases were recorded in Luxembourg, Germany and the Netherlands, while Denmark, Cyprus and Slovenia saw the steepest falls.

Labour market difficulties hardly affected labour market participation

Despite the overall negative labour market impact of the crisis, the inactivity rate in the EU actually fell from nearly 30% before the crisis to just over 28% in 2012, essentially because of increasing activity among older workers (nearly +5 pps from 2007 to 2012) and women (+2 pps). However, since the onset of the crisis, a rise in the inactivity rate has been noted in Ireland, Croatia and Denmark, as well as in Slovenia, Finland, Cyprus, Belgium and Portugal, but of less than 1 pps in each case. In the former three countries the increase was accompanied by a decline in female participation.

The latest data available for the first quarter(s) of 2013 indicate that activity rates have held up well in Greece, Spain and Italy, where they even exceeded the level before the crisis, while there has been a slight decline of around 0.5 pps in Portugal.

As unemployment rises and job prospects deteriorate, people naturally become increasingly discouraged. Among the inactive who are available to work, an increasing share – 3.7 % of the active population, compared to 3.2 % before the crisis — are not seeking work because they believe there is no job available. While this share has increased by 0.5 pps on average in the EU, representing an additional 1.5 million people, the increase has exceed more than 1% in 10 Member States since 2008, with a peak of 2.9% in Portugal. The phenomenon is widespread among women and young people, and, for the latter, visible in the NEET rate (see below).

All in all, and unlike the trend seen in the USA, there is only limited evidence of the generally unfavourable labour market conditions in the EU having any sizeable negative effects on activity rates.

4.1.3. Labour incomes coming further under pressure

Nominal labour cost decreased notably in Member States at the periphery of the euro area ...

In 2012, Greece ([39]), Portugal, Cyprus and Slovenia recorded notable decreases in nominal compensation per employee, while the euro area Member States with a strong external position recorded strong growth (including Germany, Austria and Finland). See Chart 32.

... while productivity growth in these Member States remained robust ...

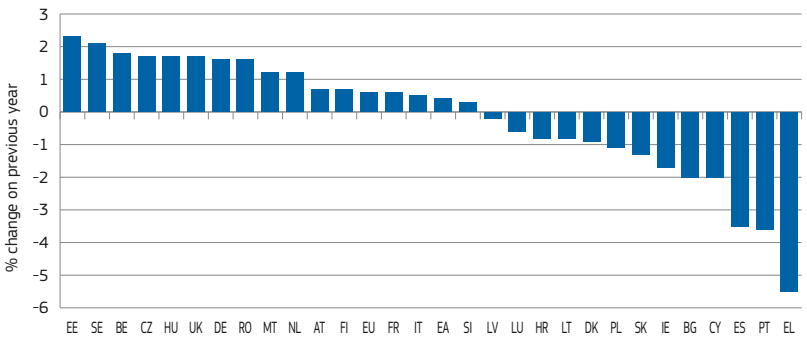
At the same time, Spain, Greece, Portugal and Ireland showed strong labour productivity growth — albeit due largely to employment falling faster than output.

Nevertheless, labour productivity contracted in most other Member States of the euro area with the strongest decreases recorded in Luxembourg, Italy, Slovenia and Malta.

Several Member States outside the euro area recorded strong labour productivity growth (i.e. Poland, Bulgaria and Latvia). However, productivity diminished in Hungary, the Czech Republic and the United Kingdom.

(39) In Greece, this was accompanied by a sizable decrease in the minimum wage (-22% between the first half-year 2012 and 2013).

Chart 33: Real unit labour cost in 2012 in the Member States



Source: Eurostat, National Accounts [nama_aux_ulc].

Note: Real unit labour cost (RULC) is nominal unit labour cost (ULC) adjusted for prices (i.e. the GDP deflator) — which is a measure of the discrepancy between real wages and productivity (on the supply side) and the labour income share (on the demand side).

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... so that nominal unit costs started to converge within the euro area ...

In 2012 nominal unit labour costs (i.e. compensation per employee adjusted for labour productivity growth) decreased in Greece, Portugal and Spain, while remaining stable in Ireland.

At the same time, the nominal unit labour cost grew significantly in the core Member States of the euro area, notably in Belgium, Finland, Luxembourg, Austria, Germany and France.

Substantial increases in nominal unit labour cost can be a source of cost-push inflationary pressures and may affect a Member State's international cost competitiveness (especially in a monetary union with irreversible fixed nominal exchange rates).

As such, the decreases in the nominal unit labour cost in the periphery of the euro area, and the increases in the core Member States, may have the potential to promote adjustment in cost competitiveness and absorb the external imbalances accumulated in the past. Box 3 puts developments in 2012 in a broader context by comparing them with cumulative growth rates in the euro area over the 2001–12 period.

... but started to strengthen in several Member States outside the euro area

Several Member States that joined the EU in 2004 or later have recorded rapid (and probably unsustainable) nominal unit labour cost growth, i.e. in Romania, Estonia and Hungary. In these Member States these increases are the result of strong growth in nominal compensation per employee coupled with very weak productivity growth — which was even negative in Romania and Hungary.

The labour income share decreased sharply in Greece, Portugal and Spain

Chart 33 shows the annual growth rates of real unit labour costs (RULC) in the EU in 2012 where real unit labour cost measures the discrepancy between real wages and labour productivity ([40]). As such, the RULC is also a measure of the labour income share ([41]) in that a rise in the real unit labour cost implies a rise in the labour income share.

Real compensation per employee ([42]) grew at a stronger pace than labour productivity in most EU Member States in 2012, inducing a rise in the real unit labour cost. Estonia and Sweden showed the strongest increase, followed by Belgium, the Czech Republic, Hungary, the United Kingdom, Germany and Romania.

In contrast to these developments are the sharp falls in the Member States at the periphery of the euro area. Greece recorded the sharpest decrease in its real unit labour cost, followed by Portugal and Spain. In Cyprus and Bulgaria the decreases were also notable, both down by –2%.

(40) I.e. the real unit labour cost is equal to the nominal unit labour cost adjusted for the GDP price deflator.

(41) The capital income share is one minus the labour income share.

(42) I.e. nominal compensation per employee adjusted for GDP price deflator, which is a measure of gross earnings of workers.

Box 3: Asymmetric correction of divergent nominal unit labour cost developments in the euro area

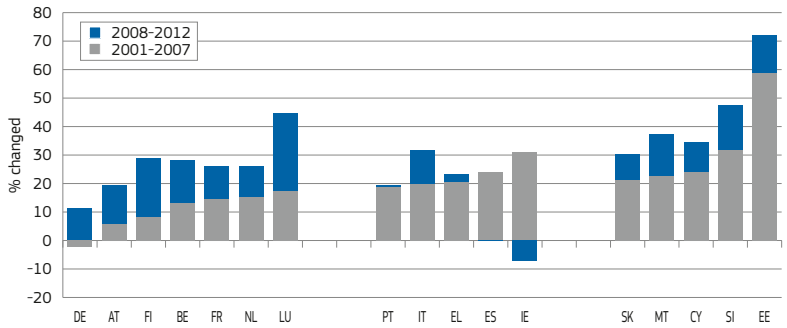
A sustained asymmetric correction of divergent developments in nominal unit labour cost during the run-up to the crisis was the driving force behind developments in the nominal unit labour cost of the Member States of the euro area in 2012. Chart 34 shows three groups of countries: the core countries; the original euro area countries in the periphery; and the countries that joined after 2007.

Among the original members of the euro area, Ireland had the largest cumulative nominal unit labour cost growth between 2001 and 2007, followed by Spain, Greece, Italy, Portugal and Luxembourg — all of whom tabled cumulative growth of just below 2 % per annum ([1]). By contrast, several other Member States tabled very low nominal unit labour cost growth; Germany (actually recording negative growth) together with Austria and Finland — all well below a cumulative growth of 2 % per annum.

Since the onset of the crisis — i.e. between 2008 and 2012 — several Member States experienced low or negative nominal unit labour cost growth. Ireland tabled a decrease of –7.2 %, and Spain a decrease of –0.25 %, while Portugal showed a small increase of 0.6 %. In Greece the increase over the entire period was higher because it experienced rather high growth in 2008 (+5.1 %) and 2009 (+6.2 %) but which has been reversed since 2012 (–6.2 %).

Some euro area Member States showed strong growth in their nominal unit labour costs over the 2008–12 period, especially Luxembourg and Finland. In others the cumulative growth was more in line with a growth rate just below 2 % per annum, except in Belgium, Malta, Estonia and Austria.

Chart 34: Nominal ULC 2001–07 and 2008–12



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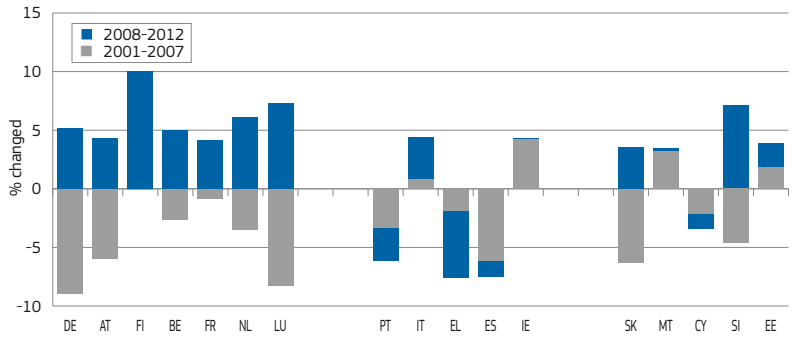
Source: Eurostat, National Accounts [nama_aux_ulc].

By contrast, after correcting for inflation (which yields the real unit labour cost ([2]) — see Chart 35), adjustments since the crisis appears to have affected the 'periphery' (with the exception of Italy), while real unit labour cost grew nowhere else, other than in Cyprus. Countries in the periphery tended to be those facing current account and external debt challenges, but the cumulative growth over the 2008–12 period was primarily driven by sharp increases at the peak of the downturn (in 2008 and 2009) when output contracted much more strongly than the total wage bill.

Chart 35: Real ULC 2001–07 and 2008–12



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Source: Eurostat, National Accounts [nama_aux_ulc].

Note: Real unit labour cost is equal to nominal unit labour cost adjusted for GDP deflator — which is also a measure of the labour income share.

(1) Noting that the nominal unit labour cost is a measure of cost push inflationary pressures and that the ECB has set an inflation target of just below 2 % per annum.

(2) The real unit labour cost is also a measure of the labour income share (or 'wage share'): a rise in the real unit labour costs indicates a rise in the labour income share.

4.2. The threat to the future of young people

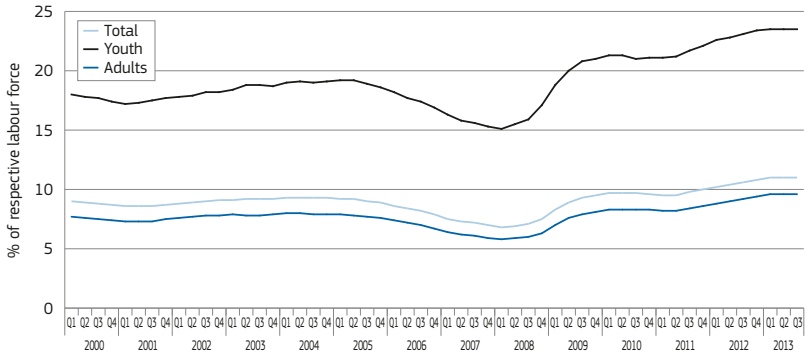
Rising unemployment and falling employment

Chart 36 clearly demonstrates just how rapidly the youth unemployment rate has developed compared to that for adults since mid-2008, rising by 9.3 pps within five years to reach 24.2 % in 2013q2, while that of adults rose by 3.8 pps, to 9.6 % ([43]). This means that, with 5.5 million young unemployed (in July 2013), close to one in four economically active young people cannot find a job in the EU.

Nevertheless the bulk of the unemployed are aged 25 and more and the absolute number of jobless young people increased markedly less than the number of jobless adults. Young people represent only a small part of the active population. Moreover, in some ways the situation of young people is not well captured by unemployment rates, in view of the limited reference population (which only includes the economically active young), and the high risk of transitions from school into inactivity. Box 4 contains a more qualified analysis of both variables on the basis of ratios.

Likewise the long-term unemployment rate for youth has increased fast recently, as Chart 37 illustrates, with long-term unemployment accounting for 7.9 % of active youth in 2012q4 (against 4.6 % for adults and 4.9 % in total). In other words it has more than doubled over the last five years, while it went up by roughly 2 pps for adults. There is thus a clear risk of labour market detachment for the younger generation, as the proportion of long-term jobless has increased faster than the overall unemployment rate of the age group.

Chart 36: Developments of unemployment rates since 2000 in the EU-28, total, adults (25–74) and young people (15–24)



Source: Eurostat, LFS [une_rt_q], data seasonally adjusted.

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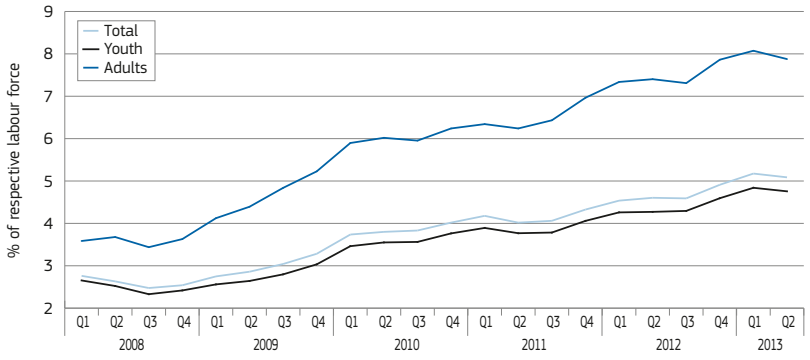
Chart 37: Developments of long-term unemployment rates since 2008 in the EU-28, total, adults (25–74) and young people (15–24)



Source: Eurostat, LFS [lfsq_upgal], data non-seasonally adjusted.

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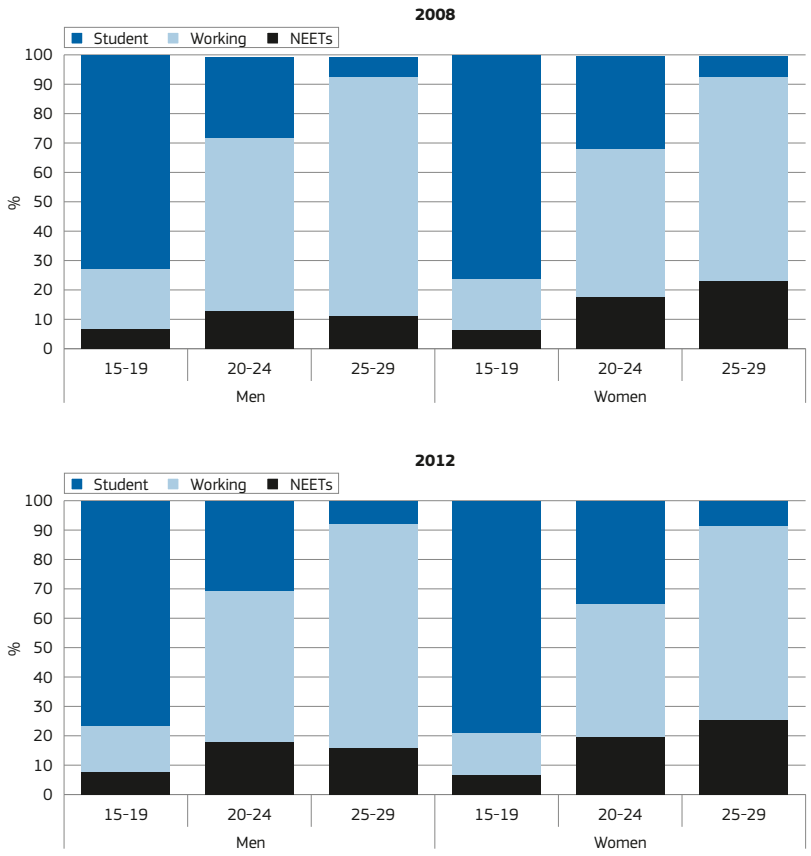
Risk of falling attachment to the labour market: the case of NEET

Given the high proportion of students among the younger generations (close to 80 % of the age group, 15–19, and one third of those aged 20–24), the low activity rate of young people should not be the major concern as such. Of much greater concern is the proportion of young people who are neither in employment, education and training (NEET). Chart 38 provides an overview of the respective shares of students, workers and NEETs by gender and sub-age group. Comparing the situation in 2008 and 2012, the proportion of students has indeed risen with the crisis across all sub-age groups, for both young women and men, as has the percentage of NEETs (see analysis below). On the other hand, the percentage of young workers fell substantially.

The share of young NEETs in the EU had been shrinking up until 2008, but has grown again. In the four years to 2012, the NEET rate for people aged 15 to 24 increased by 2.3 pps to 13.2 % at EU-27 level (see Chart 39). The highest increases were recorded in Greece, Croatia, Cyprus and Romania. Decreases were recorded in Germany, Austria and Luxembourg, and they were marginal.

(43) See Eurostat's Statistics Explained with definitions of various concepts (unemployment rate, unemployment ratio, etc.): http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Youth_unemployment.

Chart 38: Share of students, workers (in education or not) and NEETs at EU-28 level, by gender and in various sub-age groups (15–19, 20–24 and 25–29)



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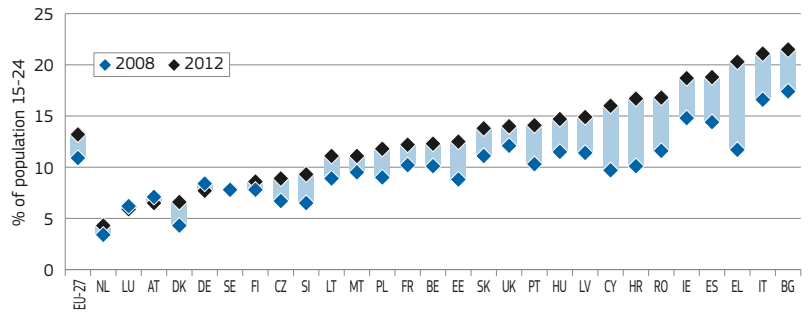
Source: Eurostat, LFS [edat_lfse].

Chart 39: Total NEET rate in the Member States for 15–24, in 2012 as compared to 2008



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Source: Eurostat, LFS [edat_lfse_20].

Note: EU-28 aggregate not available.

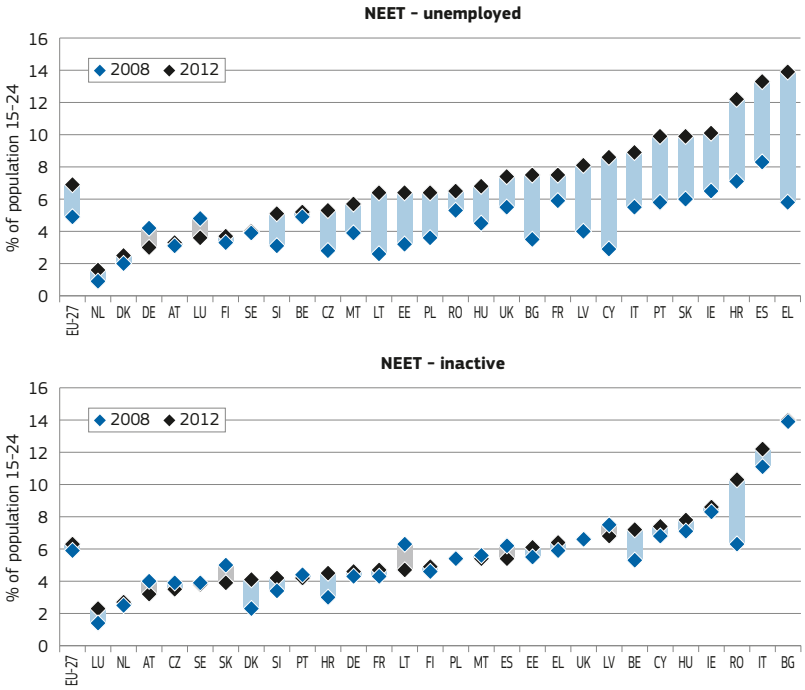
Chart 40 shows that the NEET phenomenon is mainly the result of an increase in unemployment, rather than in non-education linked inactivity, with the latter also referred to as 'bad inactivity' i.e. not in education and training and not even looking for a job. Between 2008 and 2012, the unemployment component saw a rise of 2 pps to 6.9% ([44]), while the rise for the inactivity component was up by 0.4 pps to 6.3%, meaning that the same proportion of young people are continuing to look for jobs or to invest in education ([45]).

This rather reassuring observation hides major differences across Member States, however, with significant hikes in youth inactivity seen in Romania, Belgium, Croatia, Denmark and Italy. Falls were recorded in Lithuania, Slovakia, Latvia, Austria and Spain. Major rises were seen in youth unemployment, as already mentioned, with reductions in unemployment ratios being noted only in Germany and Luxembourg.

(44) This percentage is lower than the 9.8% of the youth unemployment ratio referred to above, since these 6.9% represent those young unemployed people who are not registered in formal education, while the 9.8% may include students.

(45) See also http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Participation_of_young_people_in_education_and_the_labour_market.

Chart 40: NEET rate for 15–24 in the Member States: unemployed vs. inactive



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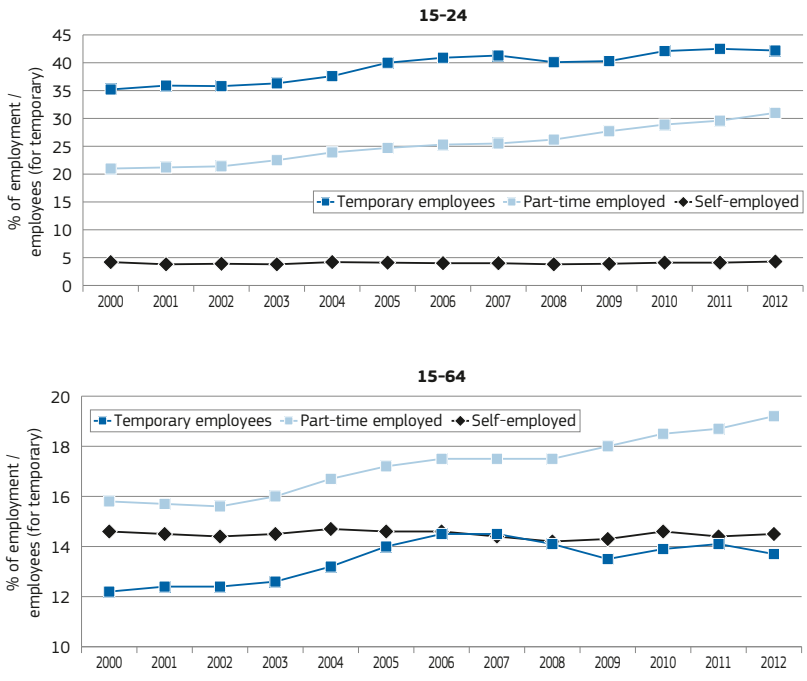
Source: Eurostat, LFS [edat_lfse_20].

Note: EU-28 aggregate not available.

Chart 41: Part-time, temporary contracts and self-employment in the EU-28 since 2000, for young people (15–24) vs. the whole working-age group (15–64)



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Source: Eurostat, LFS [lfsa_etpga, lfsa_eppga and lfsa_esgan2]. DG EMPL calculations.

A generation increasingly confronted with labour market segmentation...

The younger generation is particularly exposed to atypical, and often precarious, working conditions as seen in the percentage of young employees holding temporary contracts and the proportion of young workers (both paid employees and self-employed) who are working part-time. In 2012, 29 % of young part-timers did not regard part-time work as their preferred option, against 23.2 % five years earlier and Chart 41 compares the situation of the 15–24 age group with that of the entire working-age population (15–64) in terms of types of contracts since 2000 in the EU-28.

In both age groups, the percentage of part-timers has been on the increase virtually since the year 2000 and it has continued since the onset of the crisis. For young people, it rose by 4.8 pps to 31 % in the four years to 2012, against an increase of 1.7 pps to 19.2 % for working-age workers in general. Back in 2000 these percentages had stood, respectively, at 21.0 % and 15.8 %.

The proportion of temporary employees has also tended to grow but with fluctuations in line with changes in economic activity. The percentage of young employees holding a temporary contract is close to three times that of those of working-age in total. In 2012 it amounted to 42.2 % against 13.7 % against 35.2 % and 12.2 % respectively in 2000. However, comparisons across and between Member States need to be made with caution. While temporary contracts have a connotation of job insecurity and precariousness in some Member States, in others they include a significant portion of apprenticeship/training contracts, which are generally seen as providing effective stepping stones into regular and secure employment ([46]).

(46) See http://ec.europa.eu/social/main.jsp?langId=en&catId=113&newsId=1923&furtherNews=yes for more details.

The crisis has not helped young entrepreneurs fulfil their entrepreneurial dreams ([47]) and the starting up of one's own business remains the exception with the percentage of self-employed among young workers being about one third that of the working-age group in total, at less than 5 %.

... especially among the less educated

Over the year to the fourth quarter of 2012, employment fell by 3.4 % among young people with the less-educated being hit the hardest (–7.2 %) while those with higher education have been spared (+6.7 %) ([48]). The overall 3.4 % fall was driven essentially by a decline in the number of temporary contracts (–5.3 %, against –2.2 % for permanent jobs) with the biggest impact again being greatest for those with a lower level of education.

More than 40 % of young employees in the EU are on temporary contracts, a figure that has increased during the downturn. In the fourth quarter of 2012, the percentage was 41.8 %, up 2.1 pps on 2008q4, against 13.6 % for the overall working-age population (–0.3 pps). In the fourth quarter of 2012, 7.2 million young people were on temporary contracts, 0.9 million (roughly 11.5 %) fewer than four years earlier. The vast majority of these contracts (86 % in 2012q4) are held by those with low to medium level education (up to ISCED level 4).

4.3. Longer-term impact on labour markets

4.3.1. The crisis is challenging the Europe 2020 employment rate targets

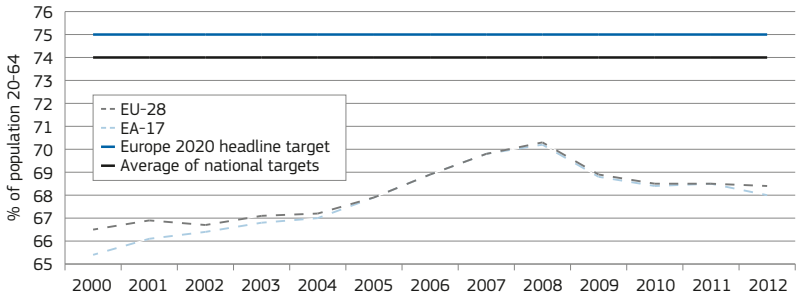
The Europe 2020 employment rate target of 75 % (for those aged 20–64) is becoming increasingly difficult to achieve in view of the recent standstill and even loss of employment, in the majority of Member States. As Chart 42 shows, while major progress was achieved in the period up to 2008 at both EU and euro area levels, a significant part of that progress has been wiped out by the crisis. In effect the gap relative to the Europe 2020 target fell from 8.5 pps in 2000 to 4.7 pps in 2008 before rising to 6.5 pps in 2000–11 and 6.6 pps in 2012.

Just as in 2009 and 2010, 2012 saw a decline in the EU's overall employment rate, edging down at both at EU-27 and EU-28 level by 0.1 % to 68.5 % and 68.4 % respectively — significantly below the pre-crisis levels of 70.3 % in 2008. In 2012, the gap with the national employment rate targets for 2020 increased in 10 Member States, decreased in 15 and remained unchanged in two. The most significant falls (more than 2 pps) were seen in Greece, Cyprus, Portugal and Spain, while increases of more than 1.5 pps were seen in the Baltic States and Malta.

The overall EU-28 employment rate for the 20–64 age group declined by 1.8 pps in 2012 compared with 2008, and plummeted in Greece, Spain, Ireland, Bulgaria, Latvia, Croatia, Portugal and Cyprus. The employment rates declined in most Member States but grew in five: Malta, Germany, Luxembourg and, to a lesser extent, Austria and Hungary.

Table 1 contains an updated projection of the employment growth needed in order to meet the national employment rate targets (see last column) and the EU headline target rate, taking account of demographic trends. According to these forecasts, an average annual growth in the number of jobs of about 0.75 % would be required to achieve the national targets (with nearly 3 % a year needed in Greece and Spain) and roughly 0.9 % to achieve the EU level headline target ([49]). The number of people of working age (20–64) currently employed in EU-27 — namely 209 million in 2012 — represents a shortfall of between 13 and 16 million jobs compared to the 2020 targets set at national and EU level respectively.

Chart 42: Developments of EU-28 and euro area employment rates with regard to Europe 2020 targets (20–64 age group)



Source: Eurostat, LFS [lfsa_ergan] and Europe 2020 objectives.

Note: ER for 2000 and 2001 are for EU-27 instead of EU-28.

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(47) See OECD report on inclusive entrepreneurship.

(48) ISCED classification: Pre-primary, primary and lower secondary education (levels 0–2); upper secondary and post-secondary non-tertiary education (levels 3 and 4) and first and second stage of tertiary education (levels 5 and 6).

(49) To that end, some 16 million jobs should be created by 2020 in the EU-27 (i.e. 2 million per year) to reach the 75 % headline target. No population forecast available for Croatia.

Table 1: Employment rates in the EU Member States in 2012 and progress needed in order to meet the Europe 2020 employment target

(age group: 20 - 64)	Employment rate in 2012 (%)	Progress compared to 2011 (pps)	Employment rate in 2008 (%)	National target for 2020 (%)	Current gap to national target for 2020*	Expected annual population growth 2012 - 2020 (%)	Empl avg annual growth needed 2012 - 2020 (%)
BE	67.2	-0.1	68.0	73.2	6.0	0.2	1.2
BG	63.0	0.1	70.7	76.0	13.0	-1.0	1.3
CZ	71.5	0.6	72.4	75.0	3.5	-0.4	0.2
DK	75.4	-0.3	79.7	80.0	4.6	0.0	0.8
DE	76.7	0.4	74.0	77.0	0.3	-0.6	0.0
EE	72.1	1.7	77.0	76.0	3.9	-0.8	0.0
IE	63.7	-0.1	72.3	69.0 - 71.0	6.3	-0.2	1.0
EL	55.3	-4.6	66.5	70.0	14.7	-0.1	2.9
ES	59.3	-2.3	68.3	74.0	14.7	0.1	2.9
FR	69.3	0.1	70.4	75.0	5.7	-0.1	0.9
HR	55.4	-1.6	62.9	59.0	3.6	-	-
IT	61.0	-0.2	63.0	67.0 - 69.0	7.0	0.2	1.5
CY	70.2	-3.2	76.5	75.0 - 77.0	5.8	-0.1	0.9
LV	68.2	1.9	75.8	73.0	4.8	0.5	1.4
LT	68.7	1.7	72.0	72.8	4.1	1.0	1.7
LU	71.4	1.3	68.8	73.0	1.6	1.0	1.2
HU	62.1	1.4	61.9	75.0	12.9	-0.5	1.9
MT	63.1	1.6	59.1	62.9	-0.2	-0.7	0.0
NL	77.2	0.2	78.9	80.0	2.8	-0.1	0.3
AT	75.6	0.4	75.1	77.0 - 78.0	1.9	0.1	0.4
PL	64.7	-0.1	65.0	71.0	6.3	-0.7	0.5
PT	66.5	-2.6	73.1	75.0	8.5	0.2	1.7
RO	63.8	1.0	64.4	70.0	6.2	-0.6	0.6
SI	68.3	-0.1	73.0	75.0	6.7	-0.2	1.0
SK	65.1	0.0	68.8	72.0	6.9	0.0	1.3
FI	74.0	0.2	75.8	78.0	4.0	-0.4	0.3
SE	79.4	0.0	80.4	80.0	0.6	0.3	0.4
UK	74.2	0.6	75.2	-	0.8	0.3	0.4
EU-27 nat. target-based	68.5	-0.1	70.3	74.0	5.5	-0.1	0.75
EU-27 head-line target	68.5	-0.1	70.3	75.0	6.5	-0.1	0.90

Source: Eurostat, LFS [lfsa_ergan][demo_pjan], Europe 2020 objectives (see http://ec.europa.eu/europe2020/index_en.htm) and Europop 2010 demographic projections for 2020 [proj_10c2150p], DG EMPL calculations.

Note: IE; IT; CY; AT: taking the mean of the range into account. (**) SE has defined a national employment rate target of 'well over 80%'; for calculation purposes, 80.0% was taken into account. (***) The UK has not set a national employment rate target. However, the UK is included in the EU-27 calculation on the assumption that its ER target for 2020 would be in line with the EU-27 headline target, at 75.0%. The demographic projections data is missing for Croatia (HR).

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Table 2: **Employment rate trends between 2000 and 2012 in the EU-28, by sub-group**

		2000* (% of pop.)	2008 (% of pop.)	2011 (% of pop.)	2012 (% of pop.)	Total change 2000-2012 (pps)	Total change 2008-2012 (pps)	Total change 2011-2012 (pps)
Total	20-64	66.5	70.3	68.5	68.4	1.9	-1.9	-0.1
	15-64	62.1	65.7	64.2	64.1	2.0	-1.6	-0.1
Gender	Men (20-64)	75.8	77.9	74.9	74.5	-1.3	-3.4	-0.4
	Women (20-64)	57.3	62.7	62.2	62.3	5.0	-0.4	0.1
	Men (15-64)	70.7	72.7	70.0	69.6	-1.1	-3.1	-0.4
	Women (15-64)	53.6	58.8	58.4	58.5	4.9	-0.3	0.1
	Men (55-64)	46.9	54.9	55.1	56.3	9.4	1.4	1.2
	Women (55-64)	27.4	36.7	40.0	41.7	14.3	5.0	1.7
Other age groups	15-24	37.0	37.3	33.5	32.8	-4.2	-4.5	-0.7
	20-24	53.6	54.8	49.5	48.4	-5.2	-6.4	-1.1
	25-54	76.0	79.4	77.6	77.2	1.2	-2.2	-0.4
	55-64	36.8	45.5	47.3	48.8	12.0	3.3	1.5
Nationality (20-64)	Nationals	69.7	70.6	69.0	68.9	-0.8	-1.7	-0.1
	Other EU nat.	n.	72.3	70.5	70.5	n.	-1.8	0.0
	Non-EU nat.	n.	62.8	58.0	56.9	n.	-5.9	-1.1
Education level (20-64)	Low	54.9	56.5	52.9	52.1	-2.8	-4.4	-0.8
	Medium	69.7	71.8	69.8	69.5	-0.2	-2.3	-0.3
	High	82.5	83.8	82.1	81.8	-0.7	-2.0	-0.3

Source: Eurostat, LFS [lfsa_ergan and lfsa_ergaed].
Note: * 2000: data for EU-27 instead of EU-28.

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To achieve this, it will be necessary, in particular, to encourage labour market participation of young people (already discussed under 1.2.2), women, older workers and migrant workers, paying particular attention to skill enhancement measures (see Table 2).

The following paragraphs address the gender, age and nationality aspects of employment rate developments in more detail.

4.3.2. Continuing improvements in female employment

In 2012, the employment rate for women aged 20 to 64 stood at 62.3%, i.e. 5 pps above the level recorded in 2000, and only 0.4 pps below that of 2008. In contrast that of men was 1.3 pps below the rate seen twelve years earlier, and down by 3.4 pps compared to 2008.

This difference has to be seen against the background of the continuous long-term increase in female labour market participation, and the impact of the first downturn on male dominated sectors of the economy which, together, led to a narrowing of the unemployment gender gap (see Chart 44).

In terms of future perspectives it should be noted, however, that parenthood can have a major impact on female labour market participation and that high female employment rates are closely related to the availability of high levels of childcare provision at national level.

Narrowing gender employment gaps often due to composition effects

The employment rate of females has been traditionally lagging behind that of males but, as Chart 43 shows, the gender gap between male and female employment rates in the EU-28 narrowed markedly during the first stage of the crisis (from 13.9 to 11.9 pps between 2008 and 2010) and contracted somewhat further during the second stage between 2011 and 2012 to 11.1%. This reflects a relative larger drop in the male employment rate between 2008 and 2012 (from 72.7% to 69.6%), while female employment rate almost rebound to its 2008 level of 58.8% in 2012 (reaching 58.5%) following a distinct rise compared to 2010 (58.1%) ([50]).

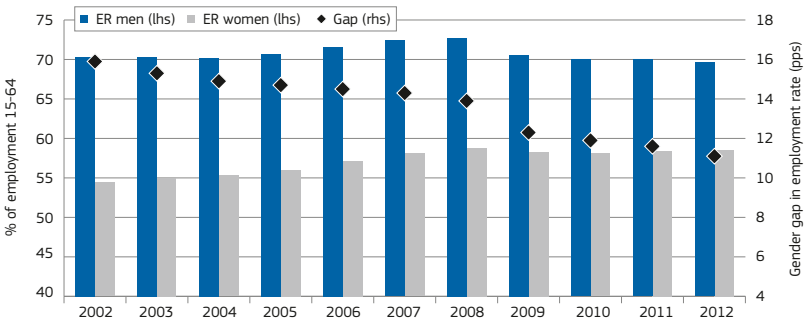
Sectoral factors have had a strong impact on the respective trends in male and female employment during both phases of the recession ([51]). While men bore the brunt of the employment fallout in both stages, largely due to their much greater presence in manufacturing and construction, the two hardest hit sectors, the more subdued female employment adjustment has been largely concentrated in manufacturing and trade.

Both genders saw a rather pronounced decrease in the public administration sector between 2011 and 2012. Nevertheless, female employment continued to increase in both the health and

(50) Nevertheless, the increase in female employment rate between 2010 and 2012 partly stems from the decrease in the working age population (age 15–64), that contracted by almost 0.5 percentage points between 2010 and 2012.

(51) Similarly, there were impacts on the gender pay gap (refer to ESSQR of December 2012, European Commission, 2013e).

Chart 43: Employment rate of men and women aged 15–64 and employment rate gap in the EU-28



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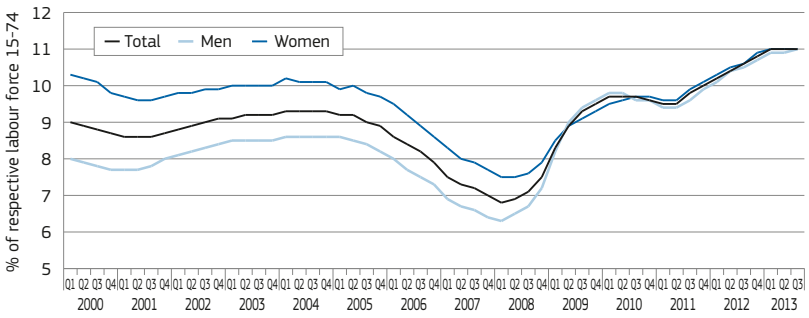
Source: Eurostat; LFS [lfsa_ergan].
Note: M stands for males, F stands for females.

Chart 44: Developments of unemployment rates in the EU-28 by gender



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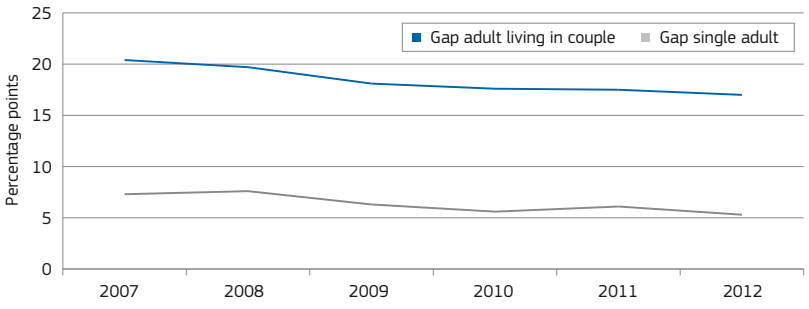
Source: Eurostat LFS [une_rt_q], data seasonally adjusted.

Chart 45: Employment rate gap between male and female adults living in a couple and male and female single adults in the EU-28



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Source: Eurostat, LFS [lfst_hheredty].

education sectors ([52]) during both stages of the recession, although in both sectors the employment growth has been more restrained in the second part of the crisis indicating inter-alia some effects of fiscal consolidation measures on labour turnover in the public sector.

However, the crisis has not only impacted on the gender composition of employment through sectoral effects. Several studies suggest the possibility of an 'added worker effect' as a result of the crisis, in which females in couples increased their employment and/or their working hours so as to counteract the job loss of their partners ([53]). Some indication of this can be seen in the employment rates of adult males and females living as a couple, with the employment rate gap between two such adults decreasing noticeably between 2007 and 2010 from 20.4 pps to 17.6 pps and then down to 17 pps in 2012.

This evidence would seem to give some credence to the notion of an 'added worker effect' although it should be noted that the employment rate gap for single individuals also decreased (from 7.3 pps in 2007 to 5.6 pps in 2010 and then to 5.3 pps in 2012). In both cases the decrease of the gap was the result of a decrease in the male employment rate and an increase in the female employment rate between 2007 and 2012 suggesting that women have simply fared somewhat better during the crisis (see Chart 45).

While gender employment gaps are tending to narrow, the female employment rate still lags well behind the male employment rate, and this difference is even larger if one considers full-time equivalents (the gap in employment rates has been 11.1 pps in 2012, but it rises to 21.2 pps when calculated in full-time equivalents, see Chart 47). This results mainly from the fact that females are still concentrated in jobs associated with lower total hours worked and part-time positions (in 2012, 8.4 % of male employees worked part-time as against 31.9 % of females, see Chart 46 presenting the situation in each Member State).

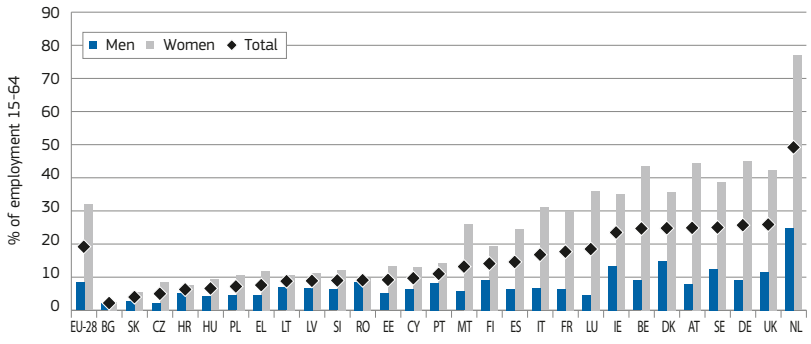
Though part-time work or lower hours can help resolve the trade-off between inactivity and participation at certain stages of a person's life, such as while studying, before retirement, or when having care duties, it can lead to difficulties in moving to full-time work over the longer term, implying negative consequences from both a personal and societal perspective, as well as reproducing pre-determined gender roles ([54]).

(52) See ESDE 2011 (European Commission, 2012l) Chapter 1 p. 47 arguing that almost all the employment growth in the top quintile in the EU-27 during the crisis has gone to women. This has resulted largely from the continued expansion of professional grade jobs in the health and education sectors.

(53) See for instance OECD: Closing the gender gap, p. 217, (OECD 2012b).

(54) For the drivers and implications of gender gaps in total hours worked, see Employment and Social Developments in Europe — 2013 (forthcoming).

Chart 46: Proportion of part-time workers by gender in 2012



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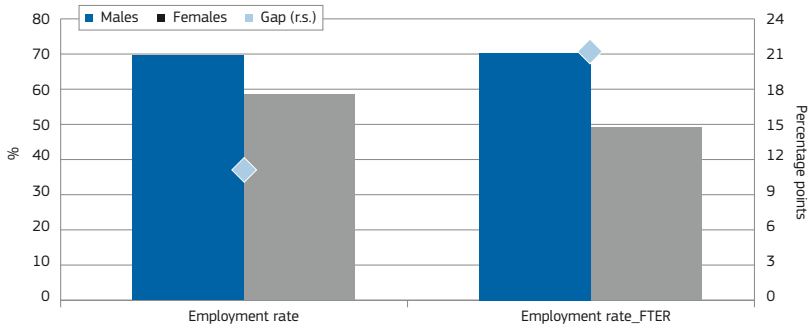
Source: Eurostat, LFS [lfsa_eppga].

Chart 47: Employment rate gap and full-time equivalent employment rate gap in 2012 in the EU-28



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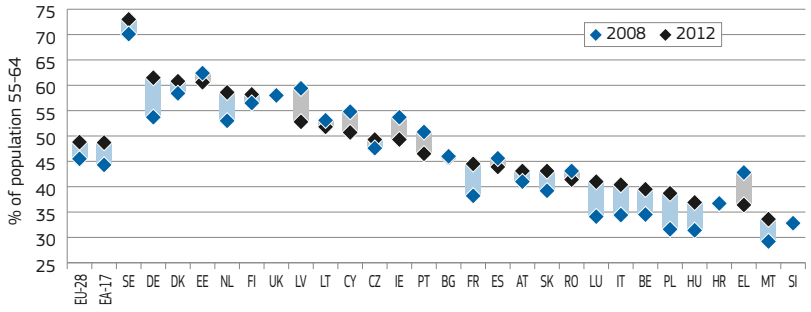
Source: Eurostat, LFS [lfsa_ergan and lfsa_ewhun2], DG EMPL calculations.

Note: FTER is calculated as the employment/population ratio, multiplied by the average usual hours worked per week per person in employment, then divided by 40. OECD (Closing the gender gap) OECD (2012).

Chart 48: Employment rate development in the 55–64 age group by Member State between 2008 and 2012



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Source: Eurostat, LFS [lfsa_ergan].

4.3.3. Older workers' employment has weathered the crisis well

The EU employment rate of older workers has increased by 12 pps since 2000, and by 3.3 pps since the beginning of the crisis, reaching 48.8% in 2012. The increase since 2008 was highest in Germany, but also substantial (5 pps or more, and gathering momentum) in Poland, Luxembourg, France, Italy, the Netherlands and Hungary (see Chart 48). However, some other Member States saw a decrease, notably those hit most by the crisis (such as Greece, Ireland, Portugal and Spain).

There are many reasons for this upward trend, which was already underway before the crisis. These include a continuing rise in levels of educational attainment, an increase in the female share of workers aged 55–64, the higher level of legislation-induced employment protection enjoyed by older workers, the impact of tax/benefit reforms restricting access to early retirement, and changes in age management in workplaces and labour markets. All of these factors have served to raise the effective retirement age. Among the countries mentioned above, the financial incentives to continue work at older ages improved most in Italy, the Netherlands, Germany and France ([55]).

4.3.4. New labour migration trends may soften labour market pressures in the short term...

The economic crisis and its labour market repercussions appears to have impacted on migration flows in the EU at three different ways: lower migration from third countries to the EU; increased migration from the EU to third countries; and changing patterns of migration within the EU ('intra-EU mobility').

(55) See OECD 2013 Employment Outlook (OECD, 2013b), Figure 1.10 on implicit tax rates.

Migration from third countries to the EU on a declining trend

Migration to the EU appears to be on a downward trend since the onset of the crisis (2008–09), in contrast with the previous period (2003–07) when large flows were recorded ([56]). The latest Eurostat data indicates that, for the EU as a whole, there was a slight decrease (–2.6%) in migration flows from third countries in 2011, from 1.75 million in 2010 down to 1.70 million. During 2010, flows had somewhat recovered (+6.1%) from the lowest figure recorded in 2009 (1.65 million). In 2011, the UK reported the largest number of immigrants from outside the EU (362 900), followed by Italy (257 600), Spain (230 500), Germany (211 400) and France (188 500). These five Member States together accounted for around three quarters of all immigrants from outside the EU.

Focusing only on flows of third-country nationals ([57]), the trend over 2009–11 ([58]) is one of a strong increase in immigration of third-country nationals in Luxembourg (+1 400 or +54%), Ireland (+3 800 or +43%), Austria (+7 000 or +29%), Germany (+32 200 or +23%), Cyprus (+1 400 or +22%), Poland (+7 000 or +20%) and Belgium (+9 100 or +16%). Moderate increases are noted in the inflows towards France (+5 100 or +4%), Finland (+400 or +3%), the UK (+10 400 or +3%), the Netherlands (+1 100 or +3%) and Denmark (+200 or +1%) with declines in Sweden (–6 200 or –11%), Italy (–30 100 or –11%), Hungary (-1 500 or -13%), Greece (–5 000 or –14%), Spain (–34 300 or –14%), Portugal (–5 100 or –50%), Slovenia (–16 700 or –66%) and the Czech Republic (–30 100 or –78%).

Even if those migration flows also include flows for study, family or asylum purposes, they point to a declining number of economic migrants, in line with the economic and labour market developments observed in the destination countries since the onset of the crisis ([59]). The declining number of economic migrants in many EU Member States is confirmed by the analysis of Eurostat statistics on (first) residence permits. The number of permits issued for remunerated activities shrank by 50% between 2008 (768 000) and 2012 (385 000) ([60]). In 2012, the number of residence permits issued for family reasons in the 27 EU Member States (670 000) was much higher than those issued for remunerated activities (489 000) ([61]), followed by the migrants coming as students (457 000). Overall, net migration has remained positive in most Member States and the overall population of immigrants continued to grow, though at a slower pace ([62]). Moreover, employers have not stopped recruiting migrant workers altogether, and skills shortages continue to exist in both high and low-skilled sectors ([63]).

Emerging patterns of outward migration from EU to non-EU countries

Given that the crisis has affected the EU more than other economic areas, a rise in the number of workers leaving the EU for non-EU countries has often been reported by the media ([64]). The evidence shows an increase in the number of emigrants (from EU-27) to non-EU countries of around 105 000 (or +9%) between 2010 and 2011 to reach 1.24 million.

Two factors need to be taken into account, however, in interpreting this data. First, it was concentrated in a limited number of Member States: almost 90% of the net increase in migration to non-EU countries (between 2010 and 2011) was from seven Member States (the UK, Spain, Portugal, the Czech Republic, Poland, Ireland and France) ([65]). Secondly, much of the rise in migration to non-EU countries was by non-EU citizens (i.e. returning migrants) rather than nationals, with the exception of Ireland. This is not a new phenomenon — many migrants do not stay in their destination countries and eventually go back to their countries of origin. However it has increased markedly since the onset of the crisis, especially in countries with high unemployment and where migrants have been disproportionately affected, as in Spain.

As for EU nationals leaving their country in order to settle in countries such as Canada, Australia and the USA, they mainly originate from Ireland, the UK, France and Germany. From Southern EU countries, there have been strong increase in percentage terms compared to the pre-crisis period, but the overall numbers are limited ([66]). Some media coverage has reported a rise in emigration from Southern EU countries rather to Latin America countries because of language proximity and cultural and historical links but,so far, no sizeable trend can be detected in official statistics ([67]).

(56) This is consistent with reports by the OECD (International Migration Outlook 2012 and 2013) and reports by the IOM (International Organisation for Migration), in particular the IOM-LINET network, see www.labourmigration.eu/.

(57) The figures mentioned in the previous paragraph are based on immigration data by previous country of residence (Eurostat table *migr_imm5prv*, extracted on 20 December 2013). It means that they include not only third-country nationals but also nationals or EU nationals previously established in a non-EU country.

(58) Eurostat table *migr_imm1ctz* (extracted on 20 December 2013). For Belgium, Greece and Cyprus, the comparison is made over the period 2010–11 as 2009 data is not available or not comparable over time.

(59) Moreover, if the comparison over time is made with the reference year 2008 (for which data for the pre-crisis period are available and comparable over time, though only for some countries) rather than 2009, the decline in immigration flows by third-country nationals to 2011 is even more pronounced for countries affected by the crisis such as Ireland (-2 900 or -19%), Italy (-43 200 or -15%), Spain (-192 000 or -48%) and Portugal (-10 900 or -68%).

(60) All Member States except Luxembourg (no data in 2008) and Poland (break in series); Eurostat table *migr_resfirst*, extracted on 13 November 2013.

(61) The figure of 489 000 economic migrants in 2012 includes 103 720 residence permits in Poland, among which 93.5% were issued for less than 12 months.

(62) European Commission, 2013f, Commission Staff Working Document Accompanying the document Communication from the Commission to the European Parliament and the Council 4th Annual Report on Immigration and Asylum (2012).

(63) IOM 2013, Policy Highlights, Summary of the research findings of the IOM Independent Network of Labour Migration and Integration Experts (LINET), available at: www.labourmigration.eu.

(64) In terms of intentions, the Gallup World Poll confirmed this trend with a (slight) increase, among those interested in moving permanently to another country, of the non-EU countries in terms of prefered destination (*versus* EU countries), see European Commission, 2013a (pp. 38-39).

(65) Eurostat, emigration by next country of residence (table *migr_emi3nxt*), extracted on 20 December 2013.

(66) European Commission, 2013a (pp. 47-50).

(67) For instance, the figures published by the Brazilian Ministry for employment available at: www.portal.mte.gov.br concerning the number of European citizens working in Brazil are rather low in absolute terms (a few thousand people). See also OECD, IDB and OAS, *International Migration in the Americas*, SICREMI 2012.

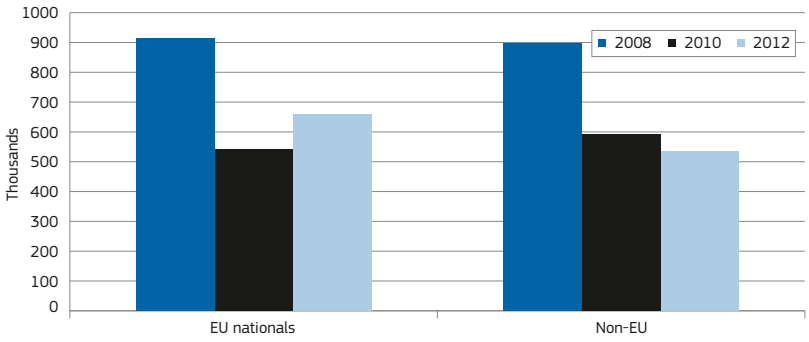
Increased intra-EU mobility reflecting labour market divergences within the EU(68) ...

Intra-EU mobility of workers seems to be increasingly driven by push factors, whereas pull factors had previously dominated. This is particularly the case in countries/regions affected by a high unemployment rate.

Chart 49 measures the number of economically active foreigners recently established, showing the further decline in the flows of third-country nationals (–9% over 2010–12) after the drop already recorded in 2008–10 (–34%). On the other hand, a rebound can be seen in intra-EU mobility (+22% over 2010–12) following the sharp decline at the onset of the crisis (–41% between 2008 and 2010) ([69]).

There are, however, some variations according to the countries of origin, see Chart 50. At the onset of the crisis (2009–10), mobility declined for all groups of EU nationals (compared to 2007–08), with the exception of the Baltic countries (+8%), possibly due to the deep recession they faced. Then in 2011–12, mobility recovered somewhat for all groups (compared to 2009–10) but rose particularly strongly among southern Member States (+73%) from where it clearly exceeded pre-crisis levels.

Chart 49: Economically active EU and non-EU foreigners, residing since < 2 years in an EU country (in thousands)



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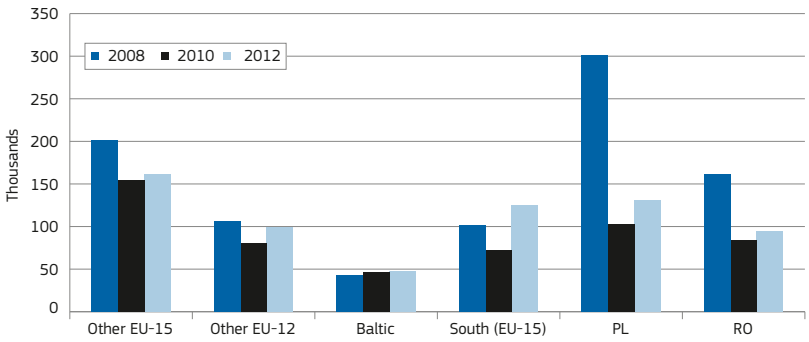
Source: Eurostat, LFS, DG EMPL calculations.

Note: BE not included as a destination country due to problems with the variable 'Years of residence'.

Chart 50: Economically active EU foreigners, residing since < 2 years in an EU country, by group of origin countries (in thousands)



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Source: Eurostat, LFS, DG EMPL calculations.

Note: BE not included as a destination country due to problems with the variable 'Years of residence'.

At individual country level, mobility flows during 2011–12 were higher than in the pre-crisis period (2007–08) in only a small number of countries, all severely affected by the crisis: Greece (+170%), Spain (+107%), Ireland (+64%), Hungary (+58%), Latvia (+39%) with a relatively strong (positive) correlation between the changes in the outflows of economically active persons to other Member States and changes in unemployment levels in the countries of origin ([70]).

There have also been some changes in the destination countries, with a clear drop in the number of EU workers moving to Spain and Ireland, no doubt due to the large fall in labour demand and, in parallel, a rise in the numbers going to Germany and Austria, driven by the relative availability of jobs compared to other destinations but also the end of transitional arrangements for EU-8 workers in 2011.

... with possible consequences for labour market dynamism in the medium term

Overall, despite the strong increase in mobility from southern Member States to other EU countries (e.g.: the UK and Germany) in relative terms, the absolute figures remain low relative to the size of the labour force (and unemployed segment) in the southern EU countries ([71]) and also to the much larger mobility flows from the Eastern and Central EU Member States, which remain the main countries of origin of those moving within the EU ([72]).

(68) Most of the information presented in this sub-section is derived from the Special Focus on 'Geographical mobility of workers' published in the June 2013 ESSQR (European Commission, 2013a). Note that most of the figures are based (unless otherwise notified) on EU-Labour force survey and DG EMPL calculations, see details in European Commission, 2013a.

(69) This was not only due to the fall in labour demand but also to the decline of the impact of the 2004 and 2007 enlargements on mobility: most of the intra-EU movers were originating in EU-12 countries and there has been a strong decline of mobility flows from the two largest origin countries, Poland and Romania.

(70) The coefficient of correlation (for the 18 Member States for which data is available) between the changes (between 2007–08 and 2011–12) in the outflows of economically active persons to other Member States and the changes (2008–11) in the unemployment rate in the origin countries is 0.68% (R^2=0.46).

(71) See also Holland *et al.* (2013).

(72) Overall, 56% of intra-EU movers in 2011–12 came from the EU-12 countries (the countries that joined the EU in 2004 and 2007) compared to 68% in 2007–08, while almost a fifth (19%) came from Southern European countries (compared to a low 11% in 2007–08).

However, apart from the quantitative aspects, there are qualitative aspects with respect to skills in particular. On the one hand, movers are typically young and well educated, which means that large outflows tend to reduce the average education level and depress the employment opportunities for the remaining labour force (as shown in Table 2). For instance, in terms of education level, while around 30% of recent movers from EU-12 countries were (in 2012) highly educated (ISCED 5 or 6), this was the case for 59% of movers from southern Member States (and up to 78% for those from Spain, the highest rate in the EU), compared to around 41% in 2008.

Moreover, the qualifications of intra-EU movers are not always being used to their full potential: the over-qualification rate (i.e. the percentage of highly educated workers in occupations corresponding to medium (ISCO 4–8) or low (ISCO9) levels of education) is very high (around 50%) for recent movers from EU-12 countries, and, for recent movers from the South, this has risen from 26% in 2007–08 to 33% in 2011–12 (42% in the case of those from Spain).

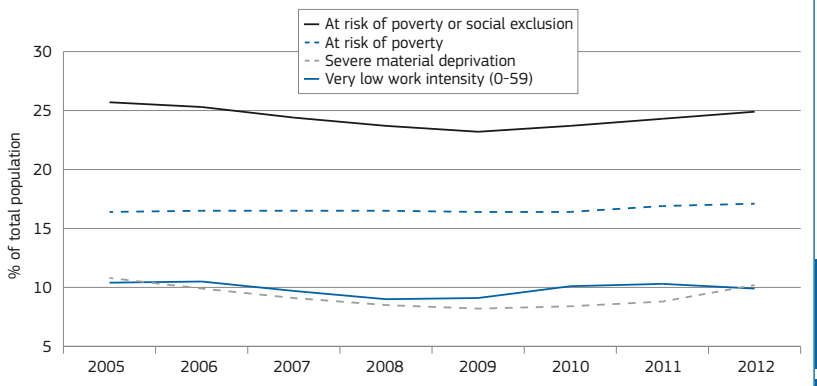
4.4. Further deterioration of poverty and inequality

The most recent data points to a severe deterioration in social trends in a number of EU countries ([73]). This is largely driven by a deterioration among the working-age population, which has been affected the most.

4.4.1. Poverty and social exclusion on the rise, affecting primarily the working-age population and children

Between the onset of the crisis in 2008 and 2012, the number of Europeans at risk of poverty or social exclusion (AROPE) increased by 7.4 million (excluding HR), and now affects nearly a quarter of the population (or 125 million in the EU-28). The continuous increase in the numbers of people at risk of poverty (AROP) has been accompanied by the more recent striking rise in severe material deprivation (SMD, see Chart 51).

Chart 51: Developments in the risk of poverty or exclusion in the EU-27, 2005–2012



Source: Eurostat, EU-SILC [t2020_50, t2020_51, t2020_52 and t2020_53].

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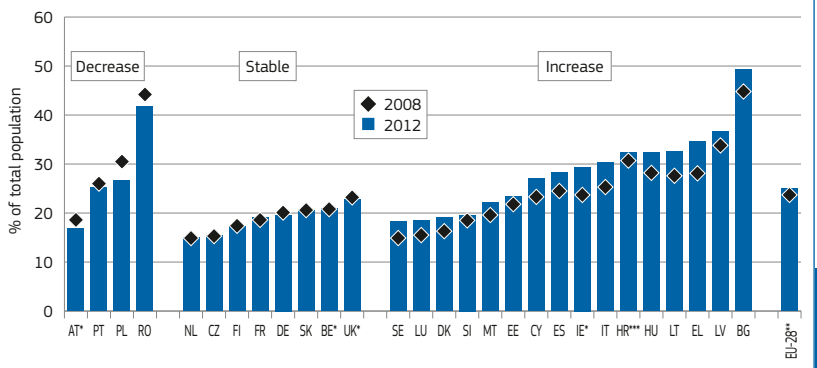
Chart 52: Population at risk of poverty and social exclusion in the EU and in the Member States, 2008 and 2012



Source: Eurostat, EU SILC [ilc_peps01].

Notes: *2011 instead of 2012; ** EU-27 in 2008.

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There is a notable divergence across the EU. Most of the Member States registered AROPE rises compared to 2008 (particularly strong — up by more than five percentage points — in Greece, Ireland and Italy). As a result, AROPE rates range from around 15% in the Czech Republic and the Netherlands to nearly 50% in Bulgaria (see Chart 52).

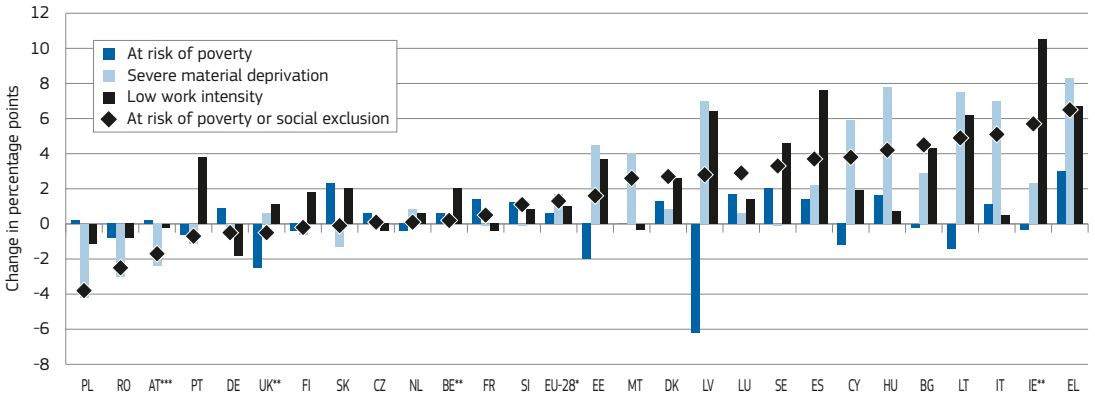
There is no common pattern in the trends in the underlying components of the AROPE indicator. Among the countries that have experienced a sharp rise in the at-risk-of-poverty-or-social-exclusion rate, the increases in Cyprus, Hungary and Italy resulted mainly from the growing severe material deprivation rate, the increases in Bulgaria, Ireland and Spain mainly reflected the growing share of the population in jobless households, while in Greece, Latvia and Lithuania they reflected a deterioration in severe material deprivation combined with a marked rise in the number of people in jobless households. Among the four countries that recorded reductions in the AROPE rate, this mainly reflected falls in SMD, most evident in Poland and Romania.

Women have always faced a higher risk of poverty or exclusion than men. The crisis has not aggravated this gap since prime age men have been most directly hit by the deterioration of labour market conditions. Still, women remain more often represented in groups facing higher risks of persistent poverty, notably linked to inactivity and care responsibilities, which have long-term impacts on future pension entitlements. While inactivity rates have not increased so far during the crisis, retrenchments or freezes on social spending, such as on family and child benefits or childcare services, may hamper female participation and aggravate the situation of the most vulnerable women.

The older age group (65+) has been relatively less affected by the rising levels of AROPE. For the elderly, AROPE rates

(73) See Minty and Maquet-Engsted (2013).

Chart 53: Developments in the at-risk-of-poverty-or-social-exclusion rate and its components in the EU and Member States, 2008–2012



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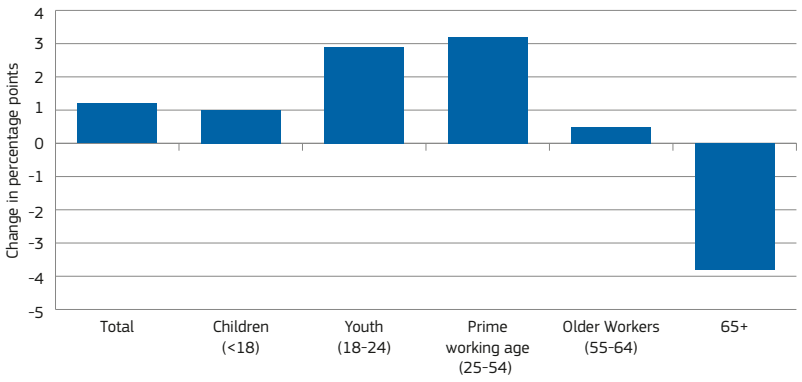
Source: Eurostat, EU SILC [t2020_50, t2020_51, t2020_52 and t2020_53].

Notes: * EU-27 in 2008, ** 2011 instead of 2012, *** 2011 instead of 2012 in AROPE and AROP.

Chart 54: Developments in the at-risk-of-poverty-or-social-exclusion rate in the EU-27 by age groups, 2008–2012



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Source: Eurostat, EU SILC [ilc_peps01].

The crisis has not impacted uniformly across population groups.

actually declined in most Member States between 2008 and 2012 (down 3.8 pps for the EU-27). Given the changes in the total income distribution, this relative improvement does not necessarily reflect a positive change in real terms but rather the fact that while the incomes of others have declined, pensions have largely remained unchanged during the crisis ([74]). Women, however, continue to be more affected by old-age poverty than men.

Conversely, the risk of poverty or social exclusion for children has increased (up 1 pp in the EU-27 between 2008–11), but not uniformly across EU countries. Child poverty has risen in 21 Member States since 2008, sometimes to a significant extent: in Hungary and Latvia it now affects 40% of children, while Bulgaria joined Romania where half of children live at risk of poverty and social exclusion.

This situation of children is mostly driven by the situation of their parents, as working-age adults were the ones most directly hit by the crisis. Between 2008 and 2012, working-age adults (25–54) in the EU experienced an increase in the at-risk-of-poverty-or-social-exclusion rate of 3.2 pps (see Chart 54).

4.4.2. Poverty in working age: joblessness and in-work poverty

Poverty and social exclusion among the working-age population (18–64) increased significantly (up by 6 pps or more) in recent years in two thirds of EU Member States. More than 50 million people aged 18–64 live below the poverty line in the EU, more than 30 million cannot afford the necessities for a decent life, and more than 30 million adults aged 18–59 live in a jobless household. All together, and taking account of overlaps, this represents a quarter of the working-age population. The two main drivers of poverty in working age are exclusion from the labour market and insufficient earnings for those who work (in-work poverty). They both increased in the crisis, in most countries, as a result of rising unemployment, deterioration in the quality of jobs in terms of pay, and reductions in the quantity of work (a rise in the share of part-time and temporary jobs).

The problem of poverty in working age has certainly been exacerbated by the crisis, but it was already present in the period of growth before the crisis, when employment rates were rising across Europe. At the time, the increased labour market participation of women as second earners and of older workers (notably through the availability of part-time work) had helped raise the income of many households. However, overall poverty rates were not significantly reduced.

The main reasons were that the jobs created did not always reach the most excluded and did not always provide for decent living standards for those employed, as illustrated by persistently high levels of labour market exclusion and rising in-work poverty. In other words, the increases in employment rates observed in all EU countries before the crisis already co-existed with significant numbers of working poor and jobless households.

These trends resulted primarily from labour market developments that had increased the gap between job rich and job poor individuals and households, as well as earnings and working condition disparities among workers. Therefore, before the crisis, under-employment and precarious

(74) And the consequent change in the poverty threshold has in some cases moved below the pensioners' income.

forms of contracts only mitigated the positive impact of having about one third of the working-age population in the EU out of work (unemployed or inactive).

After 2008 the share of jobless households increased in many countries, and increased sharply in countries that had been hit hardest by the crisis (Greece, Ireland, Latvia, Lithuania and Spain). This indicator reflects one the most severe forms of labour market exclusion in which joblessness affects all household members (see Chart 55).

In-work poverty also increased in most countries, including in Germany with its otherwise resilient labour market. Structurally high in-work-poverty rates have persisted in Greece and Romania throughout the crisis. The strong increase in Italy and Spain brought the in-work-poverty rates above 12% in both countries.

4.5. Increased pressure on social spending

4.5.1. The stabilising effect of social spending on household incomes lessened after 2010

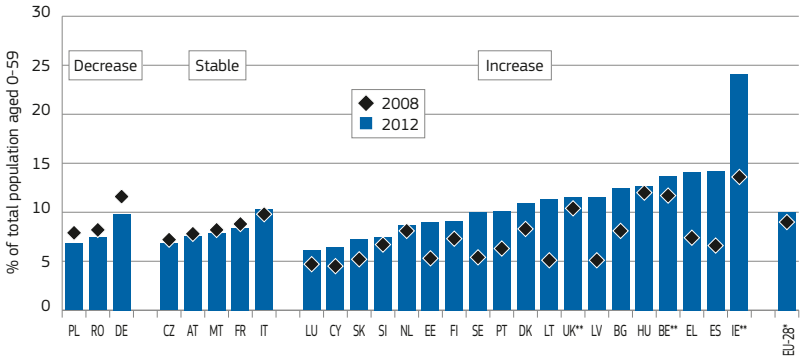
Social spending played a significant role in sustaining gross household disposable income during the 2008–09 phase of the crisis in most EU countries ([75]). In the euro area, net social benefits and reduced taxes contributed positively to the change in gross household disposable income (GHDI) during 2009 and in the first two quarters of 2010 (Chart 55).

However, at the end of 2010, the contribution of social benefits to the change in gross household income lessened and started to turn negative, up until the first quarter of 2013, despite the further deterioration of market incomes. This may have occurred because of the phasing-out of social entitlements, along with some improvement in the economic outlook in some Member States, but it may also have been due to fiscal consolidation measures that reduced the level or duration of benefits, or changes in eligibility rules that excluded some beneficiaries from some schemes ([76]).

(75) See European Commission (2012) Employment and social developments in Europe 2012.

(76) See European Commission (2012) Employment and social developments in Europe 2012 key features.

Chart 55: Developments in the share of people living in jobless/very low work intensity households across EU Member States, 2008–2012



Source: Eurostat, EU SILC [t2020_52].

Notes: * EU-27 in 2008, ** 2011 instead of 2012.

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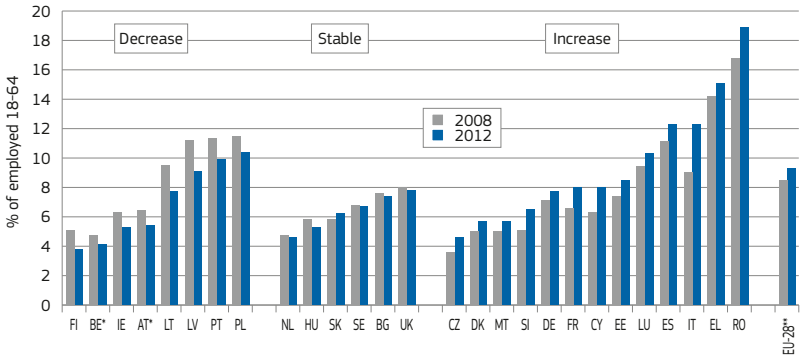
Chart 56: In-work poverty: at-risk-of-poverty rate of persons employed, change since 2008 ([1])



Source: Eurostat, EU-SILC [ilc_iw01].

Notes: * EU-27 in 2008, ** 2011 instead of 2012.

(1) The income reference period is a fixed 12-month period (such as the previous calendar or tax year) for all countries except the United Kingdom for which the income reference period is the current year of the survey and Ireland for which the survey is continuous and income is collected for the 12 months prior to the survey. 2010 values instead of 2011 for IE; EU-27 is based on Eurostat estimate for 2011.

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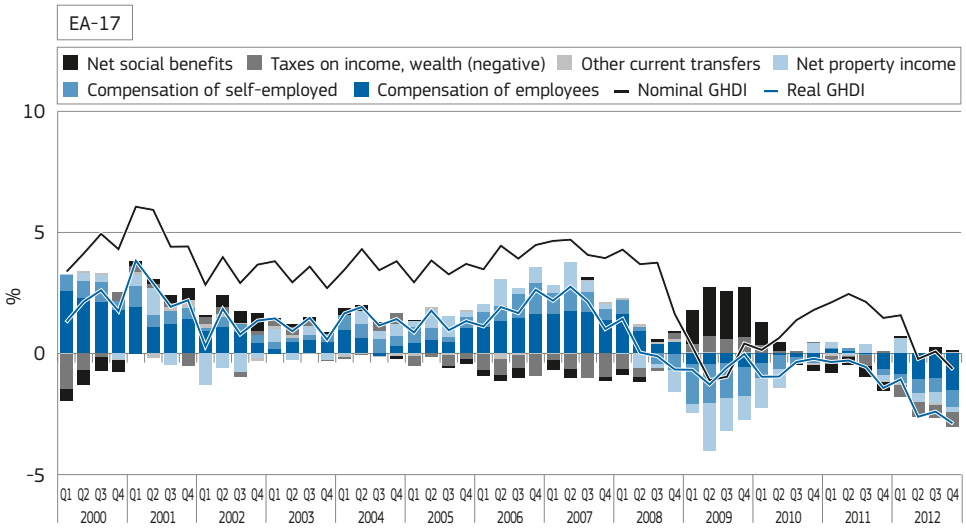
4.5.2. The structure and evolution of social spending in the crisis, and their impact on effectiveness

As a comparative analysis presented in this and last year's ESDE shows, the size, structure, and design of social expenditure is key for its effectiveness. In particular, the evidence shows that Member States with similar levels of spending achieve not only markedly different economic outcomes in terms of automatic stabilisation, but also very different social outcomes in terms of income smoothing (typically for pensions or unemployment), poverty and inequality reduction, or health outcomes. These findings suggest a substantial scope for improving the effectiveness of social spending through greater efficiency.

In selecting a policy mix to improve the effectiveness and efficiency of social spending, various social outcomes should be taken into account, in parallel with a careful review of expenditure levels and benefit design. The efficiency of social spending is often gauged in terms of poverty reduction for any given level of spending. However this omits other important objectives of social protection, such as income smoothing, labour market friendliness, health outcomes or housing outcomes. For instance, a country might appear efficient in terms of social spending when only poverty reduction is taken into account, but it may perform well or badly in terms

Chart 57: Contributions of components to the growth of gross disposable income of households (GHDI) (euro area)



Source: Eurostat, National Accounts.

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of, say, encouraging and assisting the labour market integration of women or older workers.

In 2010, only a few countries actually showed an overall pattern of social expenditure spread across different functions that was very close to the EU average:

In some Member States the orientation of social expenditure appears skewed towards pensions (with a high emphasis in Poland, but a low emphasis in Germany, Denmark, Finland, Ireland and Sweden).

In only a few Member States is there a strong emphasis on health and disability (as in Ireland and Croatia) against a low emphasis in Cyprus and Italy.

In a number of Member States the orientation of social expenditures appears skewed towards family expenditure (with a high emphasis in Austria, Bulgaria, Denmark, Estonia, Hungary, Latvia and Lithuania and a low emphasis in the Netherlands and Italy).

There are differences between Member States in terms of unemployment expenditure (with a high emphasis in Austria, Belgium and Luxembourg and a conversely low one in Italy, Sweden and the United Kingdom).

In terms of social exclusion and housing expenditure there is a relatively high emphasis in Cyprus, Lithuania, the Netherlands and the United Kingdom against a low one in Italy and Austria.

Furthermore, in some cases, the evolution of social expenditure in the first phase of the crisis (between 2007 and 2010) was unbalanced across social protection functions ([77]). In some countries, expenditure grew faster in areas where levels of expenditure were already high and associated with medium or low performance. Conversely, in other countries expenditure stagnated or increased very little in areas of low expenditure levels associated with low performance.

4.5.3. Old age poverty and the sustainability and adequacy of pensions

In half of the Member States, the oldest generations (those aged over 65) face a lower risk of poverty than the population as a whole. But the risk of poverty is relatively high for the elderly in Cyprus, Bulgaria, Greece, the United Kingdom, Slovenia, Spain, Belgium and Portugal. However, this at-risk-of-poverty rate does not take into account housing costs ([78]), and might, in some cases, overestimate the extent of poverty among the elderly in so far as they own their own housing.

The gap between men and women facing poverty varies with age, and it is clearly worse for women over 65. Differences in life expectancy has meant a rise in the number of widows and hence single women who, because they have worked fewer years than men, often receive lower pensions though, in many Member States, survivor pensions do give widows some protection from poverty.

Pensions represent a large share of the total public expenditure in Europe. They currently exceed 10% of GDP and are projected to rise to around 12.5% in 2060 ([79]). While substantial differences in the share of public spending are found across the Union, most EU pension systems have experienced similar challenges due to ageing populations. Furthermore, the financial and economic crisis has put renewed pressure on public budgets.

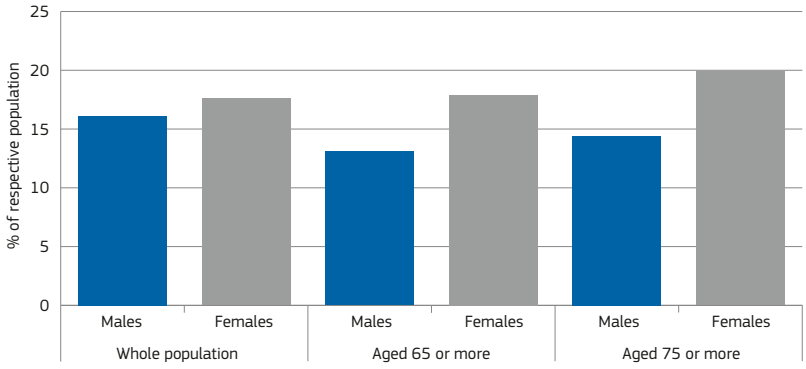
Hence, while considerable progress has been made in the past decade in reforming pension arrangements, further adjustments in pension expenditures might be necessary in a number of Member States. At the same time it has to be recognised that pensions are a main source of income for about a quarter of the EU population (about

(77) See forthcoming European Commission 'Employment and Social Developments in Europe' 2013.

(78) Whether or not to include housing costs in the definition of income underpinning the at-risk-of-poverty rate has sparked much debate in past years and will probably continue to do so in the future. The conclusion of the SPC indicator subgroup was that such costs should not be included. Indeed, imputing rents is a difficult exercise, especially at the European level. Real estate prices are so heterogeneous across geographical zones that they could induce more bias than correcting it.

(79) European Commission (2012n) '2012 Ageing Report'.

Chart 58: At-risk-of-poverty rate for elderly people by gender, EU-27, 2011



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Source: Eurostat, EU-SILC.

124 million people) ([80]) and they also play an important role as an automatic stabiliser of demand in periods of economic downturn. Hence, reforms not only have to ensure the long-term sustainability of the pensions systems, they also have to ensure that they remain adequacy in terms of maintaining household incomes.

Recent reforms have usually strengthened access to minimum and guaranteed pensions, but fully-earnings-related pensions have been, to a large extent, shifted onto a defined contribution basis. This places the groups with more limited labour market links at a disadvantage because replacement rate are more tightly linked to earnings during professional life and their adequacy is usually calculated on the basis of the typical retiree.

In addition, to assuring adequacy, there may need to be a greater emphasis on complementary retirement savings in pension provision to match longer working lives. Tax and other financial incentives, as well as coordinated bargaining, would play important roles in such measures. In addition, funded pension schemes are sensitive to economic downturns, as the recent crisis demonstrated. Many mandatory funded schemes were suspended, opened for a limited period, or reduced considerably in size.

Overall, the regulatory framework and the design of private retirement schemes may need to be improved. The EU has already put two legislative instruments in place for this purpose: the Directive on the protection of employees in the event of insolvency of their employer, and the Directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORP).

4.5.4. Access to healthcare and long-term care

On average, healthcare coverage in Europe is good with only 3.2% of Europeans reporting unmet medical needs in 2010 ([81]). However, there is a substantial variation in the effective access to healthcare across Member States, as well as gaps in access across different socio-economic groups. For example, the percentage of the population reporting unmet needs for care ([82]) reaches 16.1% in Latvia, while in Denmark, Spain, Slovenia, etc. this proportion is below 1%. Moreover, since 2008, some countries have reported increases in the proportion of unmet health needs, possibly because fiscal consolidation measures and budgetary cuts have affected healthcare budgets in those countries ([83]).

Due to increasing life-expectancy, the number of Europeans aged 80+, and at risk of needing long-term care (LTC), is expected to triple over the next five decades ([84]). While the exact effects of such changes are not yet clear, public spending on LTC in the EU-27 is expected to double between 2010 and 2060 (from 1.8% to 3.6%). At the same time, changes in labour market and family structures mean that the pool of potential carers (formal and informal) is expected to shrink significantly. Furthermore, a general shortage of facilities, outdated infrastructure, a lack of financial resources, and low standards of service delivery have been found to be reducing the current effectiveness of LTC in some countries ([85]).

5. Conclusions

There are signs that economic recovery in the European Union is beginning to take hold, underpinned by ECB action, adjusted fiscal consolidation prioritising growth-friendly measures, and increasing exports. Furthermore, the rise in unemployment has recently flattened out, including for young people, and even in some of the worst-hit countries.

However, economic growth is unlikely to be sustainable unless it is socially-inclusive at a time when labour market and social conditions remain extremely challenging. Divergences between countries have been growing, especially within the euro area. The south and periphery of the EU have been particularly hard hit but the EU as a whole is struggling with high unemployment, low employment, rising poverty and social exclusion, and declining household incomes.

These problems affect the Member States directly concerned by reducing aggregate demand, eroding human capital and competitiveness and undermining confidence, and they also impact on other countries through trade. Persistent divergences within the euro area may weaken the economic fundamentals of the EU as a whole, and they are a sign that the core objectives of the EU, to benefit all its members and to improve the life of citizens, are not being reached.

After initial resilience to the crisis, labour market performance in the EU has been worsening since 2011 on account of lower economic growth and delayed adjustment. Unemployment has risen rather than fallen, and employment rates have declined. The crisis has also

(80) European Commission (2012q), White Paper on Pensions, Estimates based on Eurostat EU-SILC data for 2009, and ESDE 2012 Key Features (European Commission, 2013c).

(81) European Commission (2013d): 'Social Europe: Current Challenges and the Way Forward', p. 69. Estimates based on Eurostat EU-SILC 2010.

(82) Self reported unmet need for healthcare is defined by Eurostat as the share of people declaring that they did not have access to a GP over the last twelve months either because it was too expensive, the waiting list was too long or it was too far to travel.

(83) ibid.

(84) Social Investment Package, p. 3.

(85) European Commission (2013d), p. 123.

seen poverty increasing when it has been reduced somewhat in several non-EU OECD countries, although inequality (the GINI coefficient) fell a little in the EU while it increased slightly in the US.

Social protection expenditure rose, on average, by 12% in the OECD between 2007 and 2011 and by as much as 20% in the USA and Korea. The increase was much more modest in the EU-27, at 6%, with a significant decline after 2010. While far from uniform across Member States, public expenditure levels have developed differently not only from other advanced countries but also from previous recessions.

Competiveness remains an issue, even though 11 Member States are in the top 30 of the World Economic Forum's Global Competitiveness Index 2013–14, with Finland, Germany, Sweden and the Netherlands occupying places three, four, six and eight respectively. In this context, it is worth noting that they are among the countries with the highest share of social expenditure as a percentage of GDP.

Weakening labour markets have led to increases in long-term unemployment in most Member States, reaching an all-time high in the EU as a whole. Structural unemployment has been growing with mismatches between supply and demand of both the quality and quantity of labour. Net job destruction has coincided with an increase in precarious jobs; though the share of temporary contracts has fallen in the EU, part-time, especially involuntary part-time, jobs have been increasing.

Activity rates have held up quite well as more women and older citizens seek employment. Recovery is an opportunity to reverse the growing number of long-term unemployed and prevent them from becoming discouraged and stopping to seek work. Young people have seen a decline in activity although this is largely linked to their staying in education, with the increase in those not in employment, education or training (NEET) being essentially due to rising unemployment. The threat to the future of many young people, with an EU average youth unemployment rate of 23% (reaching 59.5% in Greece in the first quarter of 2013), remains acute. The upturn will not remove the need to significantly improve the prospects for young people in many Member States.

Since 2010, household incomes have been declining in real terms in the EU and the euro area, reflecting the prolonged deterioration of economic and labour market conditions. In addition, the stabilising effect of social transfers lessened significantly after 2010. Increasing hardships have led to a quarter (25.1%) of the EU population being at risk of poverty or exclusion, with the biggest increase being among those of working age as levels of unemployment and the number of jobless households have increased. There has also been a rise in in-work poverty, partly reflecting the fact that those in work are working fewer hours and/or for lower wages. Children in such households are also affected by increased poverty. A growing divergence is also evident across the EU with two thirds of Member States seeing increased poverty, but one third not.

The uneven impact of the crisis within, as well as between, countries has recently seen rising inequality, with the effects being most felt by the lower income groups who were the hardest hit by job losses. Social expenditure, which had served to offset the effects of the recession in the first phase, was then reduced in the second phase becoming pro-cyclical with likely adverse effects continuing into the future. Sustainable and inclusive growth will henceforth be all the more challenging to re-establish.

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