LABOUR MARKET AND WAGE DEVELOPMENTS IN EUROPE: GOOD PERFORMANCE, WITH MAJOR CHALLENGES

THE LABOUR MARKET HAS PROVED SO FAR RESILIENT

In 2018, improvements in the EU labour market continued at a steady pace. The economic slowdown in the second half of 2018 had only a minor impact on job creation. In August 2019, the EU unemployment rate reached 6.2%, the lowest level since January 2000.

THE EU UNEMPLOYMENT RATE IS GETTING CLOSER TO THE US RATE

The EU unemployment rate is only 2.5 percentage points above the rate of the United States (US). Contrary to the US, where the drop in the unemployment rate reflects mainly the decline in its activity rate, the EU activity rate hit a historic high (73.7%) in 2018. Activity rates increased in nearly all Member States.

UNEMPLOYMENT RATES IN THE EU, THE US AND THE GROUP OF SEVEN ADVANCED ECONOMIES

The decline in unemployment has come with a falling dispersion across countries. The fall in unemployment was stronger than expected based on economic growth. High unemployment countries, including Croatia, Greece, Spain and Portugal, experienced high employment growth, further decreasing divergences across countries. Structural reforms enacted after the 2008 crisis have started to deliver.

UNEMPLOYMENT RATES DROPPED IN ALL MEMBER STATES
WAGES HAVE CONTINUED TO RISE BUT WAGE GROWTH REMAINS MODERATE

For the first time since 2008, wages increased in all Member States in 2018. However, the response of wages to the decline in unemployment is on average subdued, reflecting the weak inflation expectations and moderate productivity growth. Real wages increased in several countries supporting workers’ purchasing power. As in previous years, wage growth was higher in Central and Eastern European countries, contributing to wage convergence.

IN 19 MEMBER STATES WAGES GREW IN 2018 AT A HIGHER RATE THAN IN 2017

Source: Eurostat, National Accounts

THE KEY OBJECTIVES OF SOCIAL PROTECTION EXPENDITURE

Social protection shields individuals against the financial implications of major risks, such as job loss and social exclusion, old age or poor health. Adequate and effective spending on social protection can contribute to reducing poverty and inequality and to stabilising incomes. The implementation of the European Pillar of Social rights will contribute to more effective social protection.

HIGH-INCOME COUNTRIES SPEND RELATIVELY MORE ON SOCIAL PROTECTION

When broken down by per capita income, spending on social protection in high-income countries is more than five times higher than in low-income countries. High-income countries tend to spend relatively more on sickness, family and unemployment benefits as compared to old age than in other countries.

Note: Countries are clustered in four quartiles based on their GDP per capita over the period 1996-2016
Source: ESSPROSS and National Accounts

EXPENDITURE ON SOCIAL PROTECTION RELATIVE TO GDP ROSE DURING THE 2008 CRISIS

Total social protection expenditure relative to GDP increased from 24% in 2008 to 27.5% in 2010 and it has remained at about this level ever since. Transfers paid to working age individuals accounted for about one-third of the increase in total spending, with the rest accounted for mainly by spending for old age and sickness.

SOCIAL PROTECTION EXPENDITURE, 2000-2016 (AS % OF GDP)

Source: ESSPROSS and National Accounts

SOCIAL EXPENDITURE AS % OF GDP BY LEVEL OF GDP PER CAPITA

Source: ESSPROSS and National Accounts
SOCIAL PROTECTION EXPENDITURE HAS A STABILISING EFFECT ON INCOMES AND CONTRIBUTES TO REDUCING POVERTY RISKS

Social protection spending contributes to stabilising disposable income. For the overall period 1995-2013, total social spending was able to absorb about 6.5% of shocks to GDP; after 2008, this share almost doubled to 12%. Social benefits reduce the incidence of poverty by about one-third in the EU, and especially family benefits, followed by sickness and disability benefits as well as unemployment benefits; housing and social inclusion benefits contribute less, but still significantly. Social transfers are more effective in reducing poverty in Nordic and Continental countries than in Southern European or Baltic countries. During the crisis, social transfers have mitigated the effect of the increased unemployment on poverty, especially in countries where enacted reforms have increased the level and coverage of benefits.

COMPAARED TO 2008 THE IMPACT OF SOCIAL TRANSFERS ON THE AT-RISK-OF-POVERTY-RATE HAS INCREASED IN 10 MEMBER STATES

Note: The at-risk-of poverty rate is the share of individuals with an equivalised disposable income below the poverty line.

REFORMS OF THE TAX AND BENEFITS SYSTEMS HAVE LOWERED INEQUALITY IN ALMOST ALL COUNTRIES

Following reforms enacted after 2008, the effectiveness of tax and benefits systems in reducing income inequality improved. In the majority of Member States, reforms increased disposable incomes with larger gains for the low-income earners. In others, they reduced incomes, while protecting the poorest. Only in a few, the reforms of tax and benefit systems have worsened the relative position of the households at the bottom of the income distribution.

MEGA TRENDS CONTRIBUTE TO JOB POLARISATION AND SKILLS MISMATCHES

Job polarisation – i.e. the increase of employment at the upper and lower ends of the wage distribution and the decline in the middle – is a long-term tendency influenced by technological changes and globalisation. This trend affects the supply and demand of skills, leading to a deterioration of the skills-to-job match, unless labour market and skills policies help to address these imbalances.

MORE MEMBER STATES EXPERIENCE HIGH LEVELS OF SKILLS MISMATCHES

Macroeconomic skill mismatches (the gap between employment and working-age population shares by education groups) increased during the crisis and declined in the ensuing recovery. This decline has been particularly sizable in catching-up economies, while it has been smaller in the other Member States.

ALL MEMBER STATES ARE EXPERIENCING A DECLINE IN MIDDLE-PAYING OCCUPATIONS, THOUGH UNEVENLY

The demand of high- and low-paying jobs is rising relative to middle-paying ones. Between 2002 and 2018, the share of middle-paying jobs dropped on average by 13 percentage points, while that of low- and high-paying increased by 5 and 7 percentage points respectively. This pattern differs across countries.
The proportion of middle-paying jobs is shrinking, 2002-2018 (PPS change)

Source: Labour Market and Wage developments in Europe 2019

In the EU high-skill tasks are on the rise while routine tasks are falling

The introduction of technologies that replace human labour in routine tasks is one explanation of job polarisation. Most countries experienced a substantial shift from routine to non-routine tasks. In terms of task content of jobs, non-routine cognitive tasks are on the rise in all countries, but only few Member States experienced a simultaneous increase in both non-routine manual and non-routine cognitive tasks. This suggests that a process of upskilling is occurring rather than one of true polarisation.

Task content of jobs in the EU, 2000-2018

Source: Labour Market and Wage developments in Europe 2019

Changes in the structure of labour demand are contributing to skill mismatches

Technological progress is reducing the demand for workers performing routine tasks and increasing the demand for non-routine cognitive tasks. This process may lead to skill mismatches. Middle-income countries are more exposed to this change than high-income ones that have largely completed the transition from more routine sectors (e.g. manufacturing) to less routine ones (e.g. services). Moreover, middle-income countries might find it more difficult to meet the fast changing labour demand towards more complex skills as it takes time to upskill their workforces.

Contribution of changes in the skill content of jobs to changes in skill mismatches, 2002-2018 (PPS change)

Source: Labour Market and Wage developments in Europe 2019

Labour market and skills policies may help addressing skill mismatches

In view of the changes in the structure of labour demand, there is a clear need for policies that smooth the transition between jobs and boost workers’ employability. Workers need to be reskilled to effectively deal with the increase in the demand for non-routine skills. Investments should be directed to both initial vocational education and training and lifelong learning, including on the job. In the absence of an adequate policy response, the labour market trends would lead to higher skill mismatches.