COMMISSION STAFF WORKING PAPER

2011 Annual Review on Employment and Social Developments in Europe
Executive summary

A new integrated approach from the European Commission to economic, employment and social policies…

In 2010 the European Union adopted the Europe 2020 strategy consisting of three mutually reinforcing objectives – smart, sustainable, and inclusive growth. Compared with the Lisbon strategy for growth and jobs, the Europe 2020 objective of inclusive growth gives a new prominence to social issues complementing a strong focus on employment. It stresses the need for social inclusion and fighting poverty, as well as increasing labour market participation with more and better jobs as essential elements of Europe's socioeconomic model.

…whose need has been borne out by the protracted crisis…

The course of events in recent years, with a financial and economic crisis which turned into a sovereign debt crisis and extensive recovery packages, followed by a wave of austerity measures by most EU governments, has clearly highlighted the need for a more integrated approach towards economic strategy, as well as towards employment and social policy making. The combined role of social protection systems as automatic stabilisers and the other labour market and social measures adopted by most Member States during the downturn have been instrumental in sustaining jobs and disposable household incomes. Moreover, while modern employment policies are a key prerequisite for a successful recovery and growth strategy, they must promote the participation of all and be integrated with equally well-designed social policies in order to ensure not only fairer sharing of the benefits of growth but also, when the need arises, the pains of recession or austerity. The social consequences of the economic crisis and the reduced fiscal space make efficient, well-targeted policies in the Member States even more crucial.

… is reflected in the new Employment and Social Developments in Europe review

Developments since the outbreak of the financial crisis in 2008 have shown a need for timelier reporting on employment and social trends to inform the policy-making process. The European Commission has therefore launched quarterly reviews of the EU Employment and Social Situation, providing a regular detailed overview and analysis of the most recently available data both at EU level and in the Member States. The annual ESDE review will mainly focus on issues of a more structural nature which EU employment and social policies have to address.

Against a bleaker economic and social context…

Employment growth has followed the timid economic recovery of the past two years with an important lag and resulted in a gain of only 1.5 million jobs by mid-2011; much less than the 6 million jobs lost during the recession. In addition, employment recovery has been very uneven across Member States. Unemployment rates range from 3.9 % in Austria to 22.6 % in Spain. In the EU as a whole the unemployment rate has been around 9.5 % for more than a year with 23.3 million people looking for work, while the share of long term unemployed is above 40 % and rising. Youth unemployment is particularly alarming. It has risen to more than 5 million (20 % of young people on the
labour market) and is above 25% in 10 Member States, with a high of 48% in Spain. The prospects for sustained and job-rich economic recovery have again become more distant with a slowdown in world trade and the protracted Euro crisis. Regardless of the outlook, the negative social consequences of the great recession are already acutely felt by large numbers of EU citizens. In particular, phenomena such as rising long-term unemployment, declining incomes, and signs of rising poverty and material deprivation in many Member States are significantly increasing the risks of long-term exclusion from the labour market and society.

...specific issues are analysed in the 2011 ESDE review

The review focuses on a number of key themes relevant to EU priorities in the field of employment and social policies as well as to broader economic policy. Despite the limited availability of timely data in some of the areas covered, it brings a number of relevant findings which we are confident about. It looks at sectoral employment changes during the crisis years and their role in wage polarisation. It examines recent trends in income inequality as well as patterns of poverty and exclusion in the EU. It analyses the phenomenon of in-work poverty from an individual and a household perspective. Finally, it revisits the issues of active ageing and incentives for longer working lives, as well as worker mobility within the EU.

Intensified wage polarisation has implications for skills policies...

A trend towards polarisation of jobs existed in the EU before the crisis, as new jobs became concentrated in relatively high and low pay levels, notably in the service sector, with an apparent predominance of better-paid jobs. The intensity of the 2008 recession and consequent job reallocation has further intensified this polarisation by massively destroying medium-paid jobs in manufacturing and construction. At the same time, educational and skills profiles in the new job structure tend to become more demanding, thus compromising the chances of reemployment and access to well-paid jobs for lower-skilled people who lost their jobs during the recession. This highlights the issues of more adaptable wage-setting mechanisms, changes in unionisation, income security implications of low wages and the need for up- and re-skilling of the workforce at all levels. From an individual perspective, choosing the right sorts of skills to develop is key for successful professional life. From the perspective of the economy, it is crucial to improve skills forecasting, labour market matching, adaptability of enterprises and workers to change, and to develop new sectors with sustainable job-creation potential. Low-skilled jobs will continue to exist but they will require better literacy, numeracy and other basic skills. Availability of more high-skilled jobs will not guarantee that all graduates can find work unless tertiary education foresees and adapts to new needs.

...and calls for new approaches to income and social inequalities

The polarisation of wages is one factor impacting on a broader social problem facing the EU, namely rising inequalities and polarisation of incomes. A better understanding of the underlying causes of inequalities is vital in order to design and implement tax and benefit systems effectively. In the most recent period for which data is available, 2005-2009, some of the most unequal EU countries have shown signs of reducing inequality as their social systems have matured, while some more equal countries, the Nordic countries among them, have seen signs of increasing income inequality. However, despite the positive role which social systems played in the stabilisation of household incomes during the crisis, and especially of those in the lower part of the income
distribution scale, the long term trend in income inequalities remains a generally upward one. As the economic context remains difficult, governments' fiscal space will remain very tight with little prospect of increased levels of social spending. This raises a number of important policy questions. Firstly, there is a need to find ways of mitigating labour market inequalities by raising participation and addressing wage inequalities, including through raising low wages especially where they lag significantly behind productivity developments, and facilitating upward transitions. The review also shows that there is room for raising the quality and efficiency of social spending, better exploiting the role of in-kind benefits in mitigating inequalities or reflecting on taxation of top incomes.

114 million Europeans were at risk of poverty or social exclusion in 2009. The types of risk and thus appropriate policy responses vary across the EU…

Poverty is one extreme result of rising inequalities and as such rightfully deserves major attention by policy makers. However, due to its multidimensional nature, measuring and monitoring of poverty is far from straightforward, which may hinder effective policy interventions. In the framework of the Europe 2020 strategy, the Member States have agreed on a three-pronged approach to monitoring poverty and social exclusion. The agreed target is defined on the basis of three combined indicators which reflect the multiple facets of poverty and exclusion, as well as the diversity of situations and priorities in an enlarged EU, namely income poverty, material deprivation, and exclusion from the labour market. In 2009, 114 million Europeans were at risk of poverty or social exclusion. This represents 23 % of the EU population. To tackle the issue efficiently, it is vital to identify who exactly are the people facing the greatest risk of poverty and social exclusion. The phenomenon is not uniform across the EU. Eastern Europeans are more often facing severe material deprivation while exclusion from the labour market prevails in the Northern and Western Member States.

…but the risk factors and thus target groups are rather similar

Lack of strong labour market attachment, youth or old age, particular family circumstances, including those caused by care obligations, as well as some other individual characteristics such as disability or a migrant or minority background are among the key risk factors. Four in ten working-age Europeans at risk of poverty or social exclusion are inactive. Europeans over 65 years of age represent 16 per cent of the overall population but 22 per cent of the population at risk of poverty or social exclusion and the risk further increases in the age group over 75. Lone parents and their children face drastically higher risks of poverty or social exclusion. Being born outside the EU also represents a significant risk factor. These groups are clear targets for focused action.

Over 8 per cent of the EU population in employment is at risk of poverty…

While having a job remains the best safeguard against poverty and social exclusion, it does not prevent it. Raising employment rates is good but a significant share of adult Europeans at risk of poverty or social exclusion are working: over 8 per cent of people with a job are at risk of poverty and can therefore be qualified as "working poor". In-work poverty is a serious issue for the EU and a prime example of the need for an approach that combines and integrates both social and employment policy solutions.

…in particular those living in low and medium work intensity households …
The risk of in-work poverty is higher for people in temporary or part-time jobs or with low education. However, in-work poverty must also be understood from a household perspective, notably as regards the combined involvement of all adult household members in employment and the household composition, mainly the presence of children. Households working at only half of their potential (e.g. a one-breadwinner couple) face a risk of poverty of 20 %, against 5 % for those who realise their full potential (e.g. two adults working full time). Having children is a further aggravating factor for low-work-intensity households; they find themselves at twice as high a risk of poverty compared with similar childless households. When both parents work, the presence of children has little impact on the risk of poverty. The analysis also shows that it is crucial to facilitate full-time participation of lone parents.

…and those in low-wage jobs, so higher (minimum) wages can help…

Low wages are an important factor in in-work poverty, especially in countries where decentralised collective bargaining and low collective bargaining coverage lead to high earnings dispersion and low minimum wages. Higher minimum wages are associated with lower levels of in-work poverty, although their effectiveness can in some cases be limited as they cannot be easily targeted, and in particular they do not provide support to the large majority of the in-work poor who fall outside of their scope (e.g. those in self-employment, or casual or part-time jobs).

…and will tackling labour market segmentation

Working on a temporary contract is another important characteristic associated with in-work poverty. Temporary contracts often carry a wage penalty (on average 14 % lower than for permanent jobs). This is a particular concern in countries where the percentage of involuntary temporary work is high and transition rates toward better paid or permanent contracts are low. The current labour market trends showing that a majority of the jobs created are on temporary contracts point to a risk of an increase in in-work poverty in these countries in the coming years.

The ageing challenge requires active encouragement of firms and workers to ensure longer working lives…

Active ageing is another subject of this review. Despite clear successes in raising the employment rate of older workers over the last decade to close to 50 %, achieving the overall employment rate target of 75 % by 2020 depends on sustained progress in this age category. The working population in the EU is projected to age significantly in the coming decades while the age-dependency ratio will increase sharply. In combination with falling fertility rates, living longer will pose a major risk to the sustainability of the European Social Model. In order to address this challenge, older people should be encouraged and assisted to remain active longer, but this requires appropriate policy responses aimed both at both workers and firms in so far as market forces alone are unlikely to generate a desirable outcome in an efficient and equitable way.

…which must go beyond financial aspects

The decision whether to retire or remain on the labour market is not only a result of financial considerations. Much deeper pull and push factors are at play. As a result, active ageing policies should not be limited to removing financial disincentives but should include supportive measures specifically targeted at older workers: discouraging
early retirement, stimulating learning and training to avoid skills obsolescence, adapting working conditions to the specific characteristics of older people, making work pay, maintaining good health of older workers, and providing care for the elderly. Health and safety at work and accessibility and quality of healthcare in youth and throughout working life is also important for effectively extending working life.

**Despite concerns about the impact of post-enlargement labour mobility within the EU during the economic crisis…**

Post-enlargement mobility of workers is the final focus of this review. Since 2004, intra-EU labour mobility, which is traditionally limited, has increased by around 3.6 million movers coming from the new Member States. This has raised the issue of the impact of enlargement and increased inflows of workers on the economic and social situation in both the receiving and the sending countries. As the transition period for the 2004 accession countries ended on 1 May 2011, stock is taken of the experience of labour mobility from these countries. Moreover, some restrictions are still in place for Bulgarian and Romanian workers and the start of the third phase of the transitional arrangements justifies devoting special analysis to the extent and impact of the flows from these countries and the role of transitional arrangements. The analysis in this review underpins the Commission's report on the functioning of the transitional arrangements on free movement of workers from Bulgaria and Romania, recently submitted to the Council in accordance with the Accession Treaties.

**…no significant impact on local unemployment or wages has been found for most countries, and the risks of brain drain for sending countries seem limited overall**

Generally speaking, the post-accession labour mobility flows have been limited, compared to the total resident population and the arrivals of third-country-nationals (In 2010, EU-12 nationals living in other Member States represented slightly more than 1% of the total population in EU-27, compared to almost 4% for the third country nationals). Moreover, the inflows have considerably diminished during the recession, especially in the countries that have been the most affected (such as Ireland or Spain). While recent movers from the newest Member States have contributed to the economies of receiving countries, their labour market integration has been more difficult since the recession, especially in Spain. Nevertheless, for most countries, no significant impact on local unemployment or wages has been found while the risks of brain drain for countries of origin seem limited overall. This does not preclude that post-enlargement mobility may have had some economic costs for the receiving and sending countries especially in times of deficient aggregate demand, and more specific consequences for the most exposed sectors in the countries of origin, such as healthcare. However, restricting free movement of workers cannot be the answer to high unemployment in Europe and may have negative side-effects beyond being a curb on workers' freedom to move.

**A research agenda for the near future in the social…**

This new ESDE review represents the first consolidated analytical reflection on the social and employment policy agenda put forward by the Europe 2020 strategy. In this respect, it poses a number of interesting questions which deserve more detailed attention in the near future. For instance, the importance of economic inequalities in society goes beyond income and in order to gain a fuller understanding of the issue, a closer look is also needed at the patterns of consumption and wealth distribution in our societies. Similarly, poverty is not a static phenomenon - people may fall into poverty, but also...
manage to escape it and providing a more dynamic picture is key to effective policy design.

…and employment fields…

In the area of employment, understanding the skills requirements of new jobs is critical for improving the employability of the European labour force and identifying mismatches in the labour markets, as well as for lifting the low skilled out of poverty. Low wages are central to in-work poverty and wages, alongside other factors, are at the heart of many of today's discussions about competitiveness and external and internal imbalances. Wage polarisation is examined in this review but many other aspects of wages and employment can and should be analysed, including from the point of view of aggregate demand at EU level. Labour mobility inside the EU is extensively analysed in this review but migration, i.e. mobility from (or to) third countries, may also have significant effects on EU labour markets and could be further investigated.

…should continue to reflect the Europe 2020 strategy

These and other emerging topics should be analysed in this new review in the coming years against the background of the Europe 2020 strategy and the main employment and social policy challenges in Europe. The focus of the ESDE will continue to be shaped in discussion with key stakeholders.