

# Benchmarking Working Europe 2012

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# **Benchmarking Working Europe**

## **2012**

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# Foreword

As the great recession persists on its course and the European Union adjusts its expectations to cope with a period of – at best – subdued growth, governments are reacting by pushing for more austerity in the hope that such an approach will serve the goal of a better future for the population of Europe. Meanwhile, though inequality is rising – as joblessness becomes the everyday reality of many Europeans, job creation is tainted by sub-standard conditions, and social protection systems are being cut back – the widening gap between affluence and poverty does not appear to constitute a major concern of the European governments in the context of their efforts to reduce debt levels and public deficits.

Yet inequality was one of the root causes of the great recession. Over the past decades income inequality has slowly but steadily increased, paving the ground for a growing instability within the economy. The stagnation in income affecting some sections of the population, while other sections enjoyed a rapid increase in – especially – capital income, led to a constantly expanding demand for credit, thereby fuelling the growth of an unsustainable credit bubble. While ways could have been found of containing this phenomenon had it developed in isolation, the simultaneous deregulation of the banking system allowed financial institutions to create new instruments – their workings impenetrable to the rest of the population – in which those who continued to get richer could invest their increasing assets. This cocktail created a bubble-economy which burst in 2007.

This financialisation of the economy is, however, far from being the only dimension of rising inequality that gives cause for concern.

Growth in inequality leads to an accumulating sense of injustice and lack of social cohesion both within and across countries. The fair distribution of resources is something that matters to people, within their own countries especially, but also across borders and within the world at large; when gaps in income distribution are perceived as becoming too wide, the sense of injustice can generate mistrust and even lead to unrest between individuals and groups within society. The need to forestall such outcomes is one of the main reasons why governments have put in place redistributive

welfare states based on progressive taxation and insurance against social risks.

Yet another aspect of which it is important to be aware is that inequality, in its varying manifestations, leads to a loss of human potential in its broadest sense as societies fail to provide equality, or structures that would serve to promote greater equality, thereby undermining the foundations for equal opportunities. The disadvantaged groups in society, in other words, are so far from enjoying the same opportunities as the advantaged groups that society at large stands to miss out on the development of the human potential present within the former groups while, at the same time, the negative spillover effects of the inequality suffered entail widespread adverse consequences for society at large.

There are thus several reasons to justify a belief that inequality should be at the heart of all concerns about the future direction of the European Union. A forward-looking approach would be one that supported and reinforced policies and institutions designed to ensure that equality – and not income equality alone – is the foundation of any short, medium and long-term strategy. Building a common future on austerity and deregulation, and thereby laying the ground for a vicious downward spiral of deteriorating social and labour rights, is certainly not the right way forward for a prosperous and more egalitarian Europe.

*Benchmarking Working Europe*, which first appeared in 2001, represents a contribution to the EU Spring summit by providing a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in effective labour and social rights. It aims at establishing what progress – or lack of it – has taken place in selected areas of importance to the trade unions and of significance for a social Europe. This year's edition of *Benchmarking Working Europe*, in choosing to focus on the single issue of inequality, nonetheless takes in a wide range of areas extending far beyond the question of income inequality alone. While raising serious concerns as to the direction currently being taken by social and labour rights in the European Union, this report points also to ways in which policies, institutions, and the political will to contain market inequalities and provide ways of offsetting other forms of

inequality generated by the market, could come to form a positive strategy for the future of the European Union and ensure that 'Social Europe' was not merely one brief moment in history but that, on the contrary, it continues to represent the underlying foundation on which European integration can build its future.

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

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# Introduction

During much of the period when western Europe was prosperous and highly developed, the challenge represented by social inequality was regarded as secondary, insofar as this problem would – so the conventional wisdom went – ultimately be eradicated by the effects of continuing economic growth. The question arose to a greater extent in the English-speaking countries, which were less egalitarian (Piketti and Saez 2004), but in a manner too often confined to the monetary aspect alone.

This edition of *Benchmarking Working Europe* shows that social inequality is now worsening everywhere in Europe, and not only on account of the succession of financial, economic and debt crises. Inequality has been growing since long before 2008 because the policies implemented over more than twenty years in the European Union (EU) and its member states have contributed to deepening social and pay disparities. While the crisis is amplifying and accelerating this development, the structural changes in income distribution were actually one of the factors that triggered the crisis. It is becoming increasingly evident that policy choices in relation to growth (based on competition and competitiveness) and employment (based on increasing labour market flexibility and deregulation) lead to a weakening of social cohesion and greater inequality in terms not only of income but also of education, training, access to the labour market, social security entitlement and benefits, healthcare, etc. This evolution is increasingly perceived, in a context of austerity which affects the most vulnerable groups more severely, as a serious form of injustice.

Such is the fundamental message conveyed by this 2012 edition of *Benchmarking Working Europe*. Since 2001 the purpose of this publication has been to assess the progress – or lack of progress – in areas of importance for the trade union movement: employment, unemployment, working conditions, wages, etc. This year, a meticulous examination of these areas shows – or rather confirms – the rise in inequal-

ity to which various international organizations (OECD 2011a; European Commission 2012) have already drawn attention even in European countries with more ‘egalitarian’ traditions such as Germany, Sweden, Finland or Denmark. Above all, however, this examination conducted by the ETUI brings to light, unlike other studies and reports, the way in which the policy choices implemented in the EU weaken the mechanisms that would facilitate the struggle against these forms of inequality and enable the crisis to be vanquished via the route of cohesion and prosperity. In other words, the message delivered by *Benchmarking Working Europe 2012* is that Europe is on the wrong path.

This brief introductory chapter is structured in three parts: first of all, how and in what areas has inequality got worse? The nine chapters of this edition of *Benchmarking Working Europe* provide a multidimensional set of answers to this question: in the macroeconomic sphere (Chapter 1), in terms of labour market developments (Chapter 2), of education (Chapter 3), of wages (Chapter 4) and of poverty (Chapter 5), of transition to a low-carbon economic model (Chapter 6), of regional disparities (Chapter 7), of worker participation (Chapter 8), and of health and working conditions (Chapter 9). In its second part, this introduction considers the question of political responsibility for the growing inequality and weakening of the mechanisms of social cohesion. The third part, finally, seeks to examine how it might be possible to modify the non-egalitarian stance adopted by the EU and most of its member states, in order to find a positive way of moving beyond the crisis. Such, indeed, is the essence of the message delivered by this report: there will be no lasting way out of the crisis in the absence of a reduction in inequality (Reich 2011). We should remember, after all, that, according to the Treaties, the purpose of the European Union is ‘the promotion of employment, improved living and working conditions, so as to make possible their harmonization while the improvement is being maintained’ (Article 151 TFEU).

## Characteristics and causes of inequality

### Crisscrossing inequality

In Europe **inequality is growing not only within each of the EU member states but also between one country or group of countries and another**, as shown by the chapter of this *Benchmarking Working Europe* devoted to macroeconomic developments. The crisis naturally exacerbates these trends, generating economic outlooks that differ greatly from one country to the next. Some have been much more severely affected than others by the debt crisis (Greece, Ireland, Italy, Spain), while growth prospects are particularly poor in countries such as Slovenia, Romania, Hungary, or Denmark. Others have succeeded in returning to their pre-crisis production levels: France, The Netherlands, Belgium, Germany, and Austria. Yet others have actually achieved some economic growth during this period (Poland, Sweden, Slovakia). Even so, in 2012 the outlook is bleak for most member states; and for Greece and Portugal it is nothing less than a nightmare.

**In spite of the austerity programmes now in place right across the EU, the public-debt-to-GDP ratios, far from declining, are expected to continue to rise until 2013** in almost all countries (see: ‘Public debt crisis deepens and expands’, p. 14). Attempts to combat excessive deficits form indeed only one of the three variables for a reduction of public debts, the two others being growth rates and the level of the interest rates payable on the debt. At present growth rates are low and the situation is made even worse by the austerity programmes implemented in the member states.

In terms of income distribution, **these austerity programmes have in some cases entailed regressive effects, insofar as low incomes are more severely affected by them than high ones**. In a context of recession, the major risk in terms of social consequences is that

austerity is likely to lengthen periods of unemployment, leading to labour market exclusion or marginalization of the most vulnerable groups and growing inequality. Indeed, as shown by Chapter 3 (e.g. section on ‘Social and educational inequalities’), long-term unemployment levels and low educational levels in households have an impact on poverty reproduction and social exclusion mechanisms. **Children living in households experiencing or threatened by marginalization are less likely to achieve or gain access to higher levels of education.**

This trend is perceived as deeply unjust when we see the European Central Bank (ECB) deciding to ‘subsidize’ the financial sector (by offering loans – directly to banks – at very low interest rates) at the same time as the debt crisis is extending to include countries that seemed beyond its reach, leading to an ever increasing number of austerity plans.

Another effect of the crisis is that we are witnessing a reversal of the trend observed in recent years (before 2008) whereby the poorer EU countries were experiencing higher growth rates than the richer ones. In other words, **the trend for the poorer economies to catch up with the richer ones, leading to greater convergence** – which would have led to a convergence in per capita income – **has been halted and even reversed** (see ‘Trend towards greater equality between countries halted’, p. 19). After a few years during which inequality among the EU member states was gradually narrowing, the gulf between centre and periphery is widening once again.

What is more, this gulf is deepening even within individual member states between their rich(er) and their poor(er) regions. Chapter 7 on ‘Regional inequality in Europe’ shows, in particular, the **exacerbated divisions between demographically expanding areas and rural regions**, the latter being frequently less developed and suffering from the loss of their most important resource, namely their population. Apart from the demographic inequality (which naturally also entails inequality in terms of infrastructures, mobility, environment, and so forth), this chapter brings to light also the **growth of regional inequali-**

**ties in terms of income, health and lifestyle** (in particular the ‘digital divide’ that is widening all the time, see ‘Closing the divide in a digital age’, p. 93).

What we are witnessing is, accordingly, an aggravation of both internal and external inequality. It is essential to realize that **to resolve the crisis without reducing these forms of inequality would be to allow the seeds of the next crisis to take root in the soil of Europe.** These seeds could sprout in the not too distant future and would further undermine – could indeed cause collapse of – the legitimacy of the European integration project.

#### Quality of work and working conditions

Apart from the increasing disparities in terms of income, health, or lifestyle, the development of inequality also affects working conditions, at least for those who are in work. **An increasing number of workers, in particular young workers, find themselves trapped in sub-standard or insecure forms of employment:** fixed-term contracts, temporary work, extended internships, etc. (see ‘intensification of work’, p. 114-115; Chapter 2). Similarly, large numbers of women find themselves exercising part-time jobs, whether or not of their own volition. These situations are likely to entail worse career prospects, an experience of job insecurity and, ultimately, a deterioration of working conditions in general.

Chapter 9, focussing on working conditions, shows that **the crisis contributes also to work intensification**, additional forms of constraint and an increase in the phenomenon of ‘presenteeism’, that is, continuing to work during periods of sickness (see ‘presenteeism is a growing concern’, p. 117). It is hardly surprising therefore that many workers (almost 60%) believe that they will be unable to remain in their job until the age of 60. This observation, in the context of the deterioration of working conditions, is particularly striking at a time when the EU is calling for a raising of the retirement age in most member states.

#### Wages and collective bargaining

In the light of the above observations, it is particularly interesting to note the extent

to which such trends vary from country to country. Collective bargaining systems in Europe differ from one member state to another in terms of coverage rates, the degree of centralization, the role of the social partners in policy definition and implementation, etc.

In terms of pay, developments vary strongly. Thus wages continue to rise in the Nordic countries, in spite of the crisis, while pay restraint can be observed in the countries of western and central Europe (Austria, Germany, Belgium, Luxembourg, The Netherlands, Slovenia). In the English-speaking countries (the UK, Ireland, Malta, Cyprus) wages have come to standstill or even fallen, accompanied by a high degree of volatility and reductions in purchasing power in the countries of central and eastern Europe. Finally, wages have been falling in keeping with the drop in productivity in the Mediterranean countries (Greece, Spain, France, Italy, Portugal). **As such there exists real divergence in wage developments between different groups of countries since the crisis of 2008** (see ‘Diverging real wage developments in the EU’, p. 66).

**In parallel, trends in terms of the development of unequal income distribution display similar divergence.** Whereas income distribution tends to be more even in the Nordic countries and the corporatist countries of central and western Europe, it is more uneven in the Baltic countries, Romania, Bulgaria, the United Kingdom and some southern European countries.

One particularly interesting observation is that, when examining the correlation between, on the one hand, the level of collective bargaining coverage and, on the other, income inequality, it becomes clearly apparent that, the greater the coverage, the lower the degree of inequality and, by the same token, the lower the rate of coverage, the wider the inequality (see ‘High bargaining coverage: an important factor for reducing inequality’, p. 68). This factor should undoubtedly not be regarded in isolation when gauging income inequality, for several other factors, such as taxation and social security systems, also play a significant role here.

It may, however, be concluded that **sound collective bargaining sys-**

**tems do contribute to promoting equal pay;** and it may similarly be observed that the degree of centralization of bargaining tends to reduce wage volatility, while decentralization fosters greater volatility in this respect and hence has the effect of amplifying economic cycles and divergences in the euro area and beyond (see ‘Wage share stable only where bargaining coverage is high’, p. 70).

### Role of trade unions and worker participation

Contrary to the cliché according to which trade unions defend the acquired gains of insiders (full-time workers on unlimited contract, civil servants) to the detriment of outsiders (the self-employed, temporary and part-time workers, etc.), **collective global action may be seen to contribute to a better overall distribution of income**, and hence to a reduction in inequality.

This applies in a number of different respects: broad collective bargaining coverage (Chapter 4); introduction of minimum wages in some countries; efforts to eliminate gender inequality (including in worker representation bodies, Chapter 8); steps to counter the abusive wage practices of certain employers (there being less evidence of excessive management pay levels in companies where European Works Councils have been set up) (see Worker participation: a way to gender equality and balanced boards’, p. 105). It is necessary to place also on this list the social dialogue, both national and European, insofar as it tackles aspects of inequality as it affects the most vulnerable groups (workers with disabilities, migrants, youth, etc.); worker participation; information and consultation, etc. (Chapter 8).

In all these ways, the trade unions contribute to the fight to reduce inequality and injustice. **But this contribution is made increasingly difficult** by several factors: obstacles, often ideological in nature, placed in the way of trade union activity, loopholes in European legislation (the provisions of the EWC directive, for example, are worded so as to tolerate serious deficits in its implementation), but also trade union membership losses, and the crisis itself, which is used to un-

dermine and disrupt social dialogue and collective bargaining (see ‘Crisis: a pre-text for deregulation’, p. 109).

**For all this, the EU bears its share of responsibility, for the trade unions are increasingly marginalized in the new Europe 2020 strategy**, in which their consultation and negotiation role is less recognized than previously under the Lisbon strategy.

**Similarly, the remedies prescribed by the EU – Commission and Council – for ‘exiting the crisis’ contribute in most cases to weakening the national social models:** the EU calls for deregulation of labour markets, reform of labour codes, increasing flexibility of work organization and practices, reforms of social security and social protection, reforms of collective bargaining mechanisms, the introduction of new forms of employment contract, decentralization of collective bargaining, etc. The labour market is changing: part-time work is developing, affecting predominantly women, whereas it is above all young people who are affected by fixed-term and agency contracts. In Poland, 60% of young workers employed on temporary contracts have accepted this form of contract because they were unable to find a permanent job; in Portugal the figure is 70%, and in Spain 80%. What is more, short-hours contracts and other forms of sub-standard or semi-casual work are spreading in particular among the relatively unskilled, the ‘working poor’; self-employment is encouraged but is frequently tantamount to increased insecurity, particularly among migrant workers (see ‘Developments in non-standard employment’, p. 31-36).

Apart from the fact that it seems difficult under these conditions to advocate ‘active labour market policies’ when it is obvious that the problem is less one of demand than of supply of jobs, it can be observed that **the development of these non-standard forms of employment affects the more vulnerable groups** and leads to an increase in pay inequality, to greater social insecurity and sub-standard employment, and ultimately to less cohesion and prosperity (see ‘Outcomes of labour market inequalities in terms of in-work poverty’, p. 37-38).

### The climate challenge

Finally, in addition to and beyond the crisis, Europe has to deal with the extremely urgent challenge of climate change, which appears to be not directly linked to inequality. **And yet this transition, or this ‘green convergence’, equally bears the stamp of inequality, both external and internal.**

External green inequality: we know that within the EU the poorer member states emit less CO<sub>2</sub> per capita than do the richer ones. But at the same time the poorer countries perform less well in terms of resource productivity (see ‘Divided Europe: resource productivity and per capita emissions’, p. 83). How can increased ‘green convergence’ be developed and speeded up in this context?

Internal green inequalities are linked to the questions of social exclusion tackled in Chapter 5: within the member states the poorest population groups encounter more housing, heating and energy problems (see ‘The micro-dimension of environmental inequality’, p. 85-86).

The principle of a fair transition must be based on an integrated approach that combines in a balanced fashion the climate issue and the industrial policies and social and employment policies most appropriate for accompanying this transition. **Yet the responses to the crisis currently provided in the forms of cuts and austerity programmes risk undermining such an integrated approach.**

## Weakening of the mechanisms for reducing inequality and policy responsibilities

According to the OECD, the most important general reasons for the exacerbation of inequality include technological changes that benefit primarily the most highly

skilled workers; working conditions (deregulation of labour law, development of non-standard contracts, etc.); changes in the volume of work (development of part-time work, increased gap between highly paid and low-paid workers); and an increasingly ineffective use of taxation for the purpose of redistribution (OECD 2011a). Even if there is no formal consensus on the academic level concerning the role of globalisation in widening inequality, it can indeed be observed that the changes triggered by globalization have frequently brought much greater gains to highly skilled than to low-skilled workers.

Since the 1980s, structural reforms on the labour markets have been undertaken in most EU member states, initially for the purpose of reducing unemployment. These reforms were based on relaxation of employment protection legislation (EPL), deregulation of product markets, lowering of minimum wages, revision of wage-fixing mechanisms, lowering of the replacement rates of unemployment benefits, reduction of tax burden entailed by the employment of low-skilled workers. According to the OECD, **while these measures seem to have had a positive effect on overall employment rates, they have, at the same time, contributed to the increase in wage inequality:** all in all, therefore, we have more jobs but, at the same time, more inequality. This long-term trend – the increase in the overall employment rate does not, per se, serve to reduce either inequality in household incomes or poverty rates (see also de Beer 2012) – also calls into question the European discourse according to which a rising employment rate is a means towards eliminating social exclusion and poverty: in actual fact, if it is to contribute to the aim of reducing social exclusion, this increase must necessarily be accompanied by an improvement in the quality of employment and by redistribution policies.

The economic paradigm underlying the policies implemented over the last thirty years serves, ultimately, to widen inequality. Apart from the element of labour market deregulation and less redistributive taxation, it is important to note the factors stressed in this report: austerity programmes entailing regressive ef-

fects, reversal of the past trend towards increased convergence among member states and regions, increasing employment insecurity, deterioration of working conditions, calling into question of collective bargaining systems even though such systems contribute to the fostering of income equality, weakening of national social models, and marginalization of trade unions in the definition and implementation of the strategic socio-economic guidelines of the European Union and its member states.

**It is thus paradoxical, at the very least, to seek now to assert belief in the values of equality and social justice while at the same time weakening the systems and institutions that allow these values to be fostered.** Might it be that we are here in the presence of an implicit political choice that would allow certain forms of inequality to flourish, along the lines of the Anglo-Saxon model so frequently lauded for its competitiveness?

In its report *Employment and Social Developments in Europe 2011*, the European Commission acknowledges this phenomenon of increasing inequality. While pointing out that equality is ‘an unavoidable fact of life’, it stresses that **a high level of inequality, or its rapid widening, can be both economically and socially harmful.** It argues that increasing inequality gives rise to problems of social cohesion (risks of social unrest), threat to democracy (concentration of wealth and power), and finally of economic stability (some economists believe that the increase in inequality was a contributory factor to the crisis, but the Commission is at pains to stress that there is no consensus as to this interpretation).

The path of an ‘improvement of living and working conditions and their harmonization while improvement is being maintained’ entails the need for action on the social policy front but also in redistribution policy terms. It is a question of simultaneously restoring to tax policies their redistributive role and capacity, in particular via the taxation potential offered by high and very high incomes; of conducting job creation policies and improving the quality of

employment; of improving access to employment for vulnerable groups and offering training to persons with few skills; of recognizing also the importance of the role of social transfers, wage-fixing mechanisms, and workers’ bargaining power. At the same time, this entails recognizing and encouraging the role of social partners and trade unions in contributing to a fairer society.

**It means, in a nutshell, simultaneously conducting both active employment policies and redistribution policies.**

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## When the tide is no longer rising for all

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Since the beginning of 2012 the European discourse on the crisis has increasingly placed the emphasis on the post-austerity period, in other words, the expected return of growth and employment. This return, insofar as it is expected to take place, is made responsible for solving the major outstanding problems: improvement of public finances, convergence of the economies, reduction in unemployment and increase in the employment rate, all of which will, according to the official discourse, enable salvation of the European social model. According to this approach, the broadening of inequality will have been a merely temporary phenomenon and the return to growth will trigger a dynamic whereby inequality in its various forms will once again be reduced.

Yet this discourse is mistaken in that it places the stress on growth over and above equality, insofar as it continues to believe that the former will automatically engender the latter. As things currently stand, however, the tide is no longer rising for the population at large: growth is no longer reducing inequality; the link between growth and equality has snapped (Niechoj et al. 2011). On the contrary, **the increase in inequality experienced in the EU and its member**

**states in recent years** – including during periods of economic growth – **is one of the factors that led to the crisis and not one of its consequences.** The mechanisms have been brought to light: on the one hand, excessive concentration of wealth and speculative bubbles; on the other, the struggle of the middle class suffering from insecurity and uncertain and sub-standard labour market conditions to maintain their social standing and lifestyle, leading ultimately to a crisis of indebtedness.

Is it possible that a way can be found out of the crisis without first reducing social inequality in all its forms? There are those who answer to this question is an emphatic ‘no’ (Reich 2011). Is it possible that more economic growth will improve the wellbeing of the European population at large? There are those who believe the answer to this question is also ‘no’ (Wilkinson and Pickett 2009). To put the same question once again but in positive form: **is it possible that more equality might provide an alternative route to austerity in moving beyond the crisis and finding a way back to sustainable prosperity?**

In response to this question, increasing numbers of people are answering ‘yes’.

Wilkinson and Pickett have shown that the developed societies displaying the widest inequalities perform particularly badly when it comes to dealing with social and health problems. But above all, these authors observe that, in our societies, more economic growth serves to improve neither health nor wellbeing. **For a better quality of life what we need is not so much stronger growth as more equality.** In societies that strengthen social cohesion and report the smallest income gaps between rich and poor, the population has a better quality of life, levels of trust are higher, and there is less violence. Is this not what the EU member states need today? According to Eurobarometer, 88% of Europeans believe – or tend to believe – that gaps in income are today ‘too large’ (European Commission 2012: 67). This opinion well indicates that too much inequality has now come to be regarded as prejudicial to society as a whole.

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## Conclusion

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The analysis of various forms of inequality contained in this 2012 edition of *Benchmarking Working Europe* leads to the conclusion that the political remedies must in future focus not primarily on economic growth but on a redistribution and ‘deconcentration’ of wealth.

Europe and the United States have experienced thirty years of a ‘winners-take-all culture’, which has enabled the richest members of society, via a variety of mechanisms such as tax havens (Hacker and Pierson 2010; Chang 2011), to help themselves to ever larger shares of the cake. This economic model is condemned to collapse.

The priority focus must instead be today, for reasons that are social but also environmental, the need for greater equality. **A sustainable route out of and beyond the crisis presupposes the reconstruction and strengthening of the mechanisms and policies that contribute to reducing the various forms of social inequality, and a reversal of the tendency towards the excessive concentration of wealth.**

# Macroeconomic developments, policies and inequality

## Introduction

In 2011 we witnessed the spread of the public debt crisis within the euro area. The central principle of the policy response to this crisis has been the escalation of fiscal austerity programmes in those member states that received financial support from the EU and the IMF and in those that have been facing increasing difficulties in the financial markets – in other words, pretty much everywhere. These fiscal policies, in combination with the European Central Bank's tightening of monetary policy, have aborted the recovery that had been forecast for the area. The prospect of a recession in the euro area in 2012 – and, given the close economic interdependence among member states, in the EU as a whole – is now highly realistic. The irony has been that the depressed demand conditions induced by fiscal austerity in the euro zone have been making the task of consolidating public debts and government deficits ever more difficult and costly.

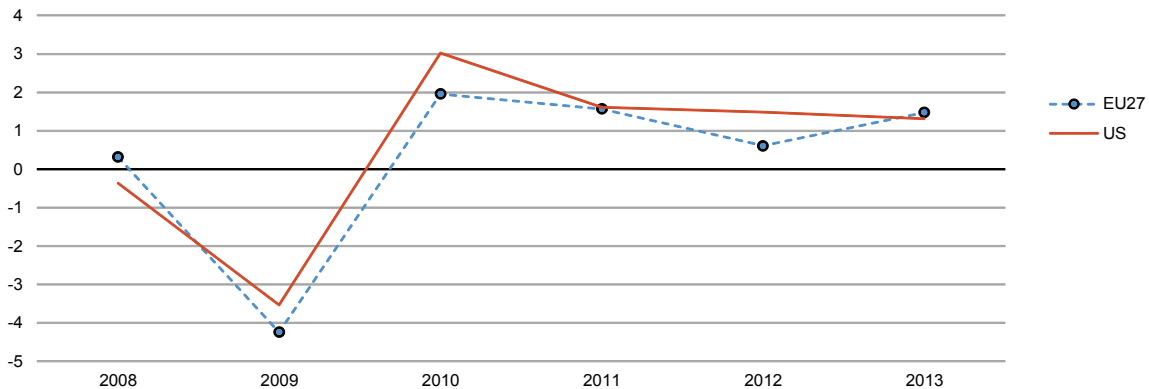
This chapter, while reviewing these macroeconomic developments and policy responses, also investigates their implications for income inequality between EU member states. Is there any likelihood that the catching-up process – in terms of per capita output between poorer and richer EU member states – will, under the current and currently foreseeable macroeconomic conditions, continue?

## Topics

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## Economic developments – the crisis is not over

Figure 1.1 Real GDP growth EU27-US, annual data



Source: AMECO (2011).

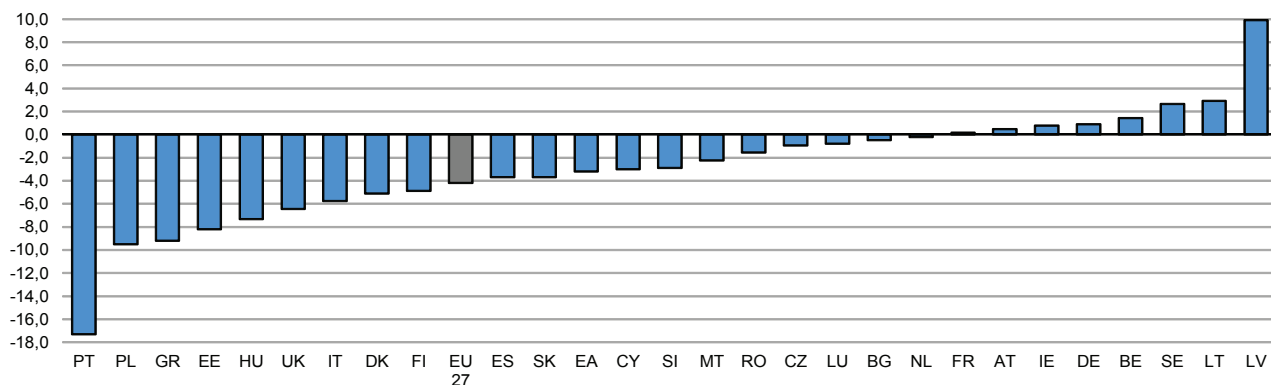
### Recovery aborted – risk of double-dip recession

During 2010 and at the start of 2011, the European economy appeared to have bounced back – although considerably less strongly than the US – from the Great Recession (see Figure 1.1). In the course of 2011, however, the recovery virtually came to a standstill. For 2012, the current official forecasts are bleak. The prospects in the US are only marginally better. Growth at such rates is actually below the historical trend of the European economy, which means that no progress can be expected in closing the output gap that has been opened up by the crisis and in reducing the sharply increased unemployment. Growth forecasts were repeatedly revised downward during 2011, as the debt crisis escalated in the euro area. With employment and unemployment figures deteriorating (see Chapter 2) and credit stagnating or even shrinking, the risk of a double-dip recession has increased markedly. The most recent forecasts are more pessimistic still – with the Institut für Makroökonomie und Konjunkturforschung (IMK 2011), for instance, forecasting

a second and substantial contraction (-0.6% for real GDP in the euro area in 2012). Moreover, all forecasts are subject to substantial downside risks; the prolonged sovereign debt crisis and a possible second banking crisis in Europe, with their potential for another credit crunch, pose a major threat to the European economy, with macroeconomic policy already so stretched (see below). This would almost inevitably have an adverse effect on the US economy and the global economy more generally, where there are already worrying signs of a slowdown in until recently resilient emerging economies.

## Economic developments – the crisis is not over

Figure 1.2 Change in real GDP, 2008Q2-2011Q2



Source: Eurostat (2011c).

### A lost half-decade – at least

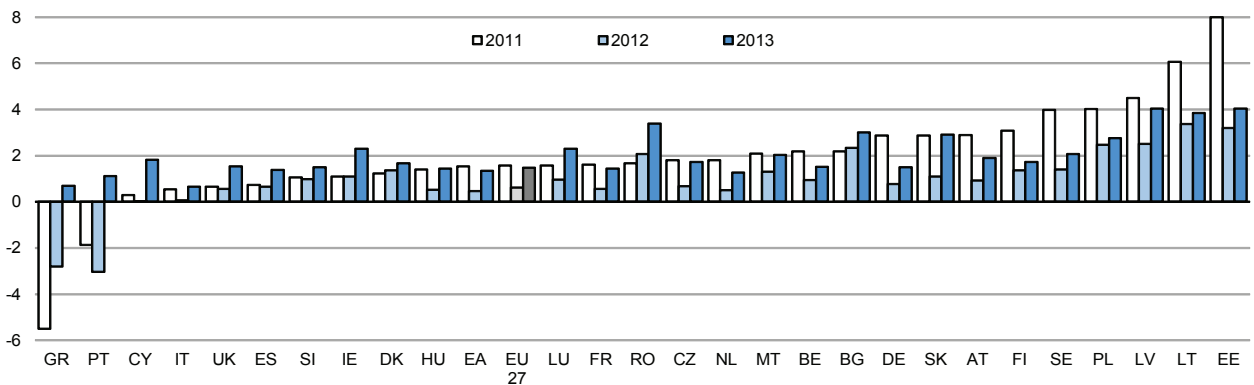
way back to the pre-crisis output level, whereas Sweden, Slovakia and, spectacularly, Poland even grew over the period as a whole.

After three years of supposed recovery from the crisis, EU27 output still remains almost 2% below its high point in the summer of 2008. Even if a renewed recession is avoided – which looks unlikely – Europe will at best experience a lost half-decade – five years with no net increase in output. In this respect, the USA appears to have turned the corner, with output growth stabilising and employment expanding.

Behind the EU average figures we see substantial variation between member states. Output losses since the onset of the crisis in the second quarter of 2008 have yet to be reversed in all but six member states, most of these small ones (see Figure 1.2). As was documented in the last edition of *Benchmarking Working Europe* (ETUC and ETUI 2011), the losses have been greatest in the Baltic states, in countries which have been facing a debt crisis in the financial markets, such as Greece and Ireland, Italy and Spain, but also in member states such as Slovenia, Romania, Hungary and Denmark. Countries such as France, the Netherlands, Germany, Austria and Belgium have more or less clawed their

## Economic developments – the crisis is not over

Figure 1.3 Forecasted real GDP change, EU member states, 2011-2013



Source: AMECO (2011).

### Recovery on the rocks?

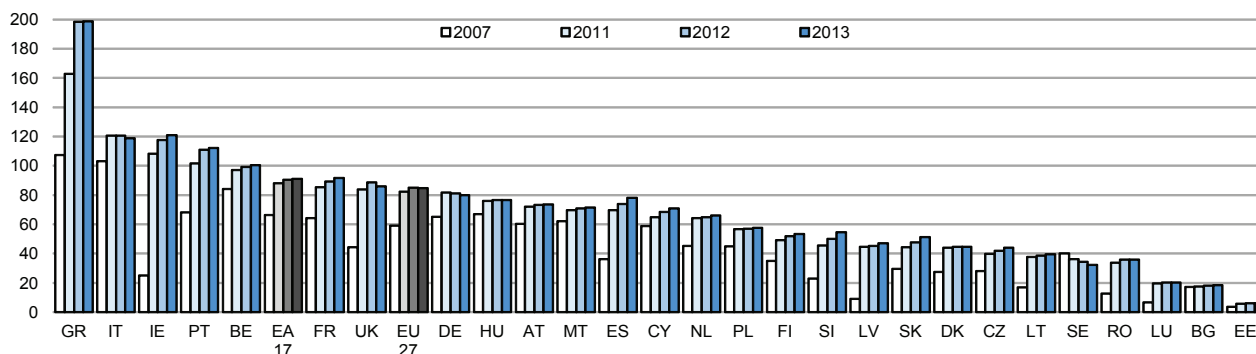
The forecasts for the next two years and especially for 2012 are not positive, in particular for large European economies – several of which, such as France and Germany, have so far fared relatively well – Poland being an exception. Some of the member states which are projected to grow most robustly are those bouncing back from the biggest losses; this is especially the case of the Baltics (see ETUC and ETUI 2010 and Figure 1.3 above). At the same time, what can only be described as the economic nightmare in Greece and Portugal is set to continue next year: the Commission is forecasting, almost certainly over-optimistically, a further loss of output in the region of 3% for these two countries.

Normally economies can be expected to accelerate as they emerge from a long and deep recession. In much of Europe, however, there seems to be a serious risk that an initial recovery has been snuffed out before it has had a chance to significantly improve the labour market situation and enable the (public) debts accumulated during the crisis to be brought down. To some extent, this reflects the special difficulties of an

economic and financial crisis in which both households and the government are trying to repair their balance sheets at the same time and the banking sector is fragile. The comparison with the US, though, suggests that policy mistakes have played an important role, an issue we examine further below.

## Deficits, debts and austerity

Figure 1.4 Gross public debt/GDP, 2007, 2011-2013



Notes: 1) The forecasts were finalised before the European Union Summit of 26 October 2011. Thus, they have not been updated to reflect the decisions taken at this summit which will have a direct impact on the debt, the interest and the deficit projections as of 2012. 2) Euro area 3) Non-consolidated for intergovernmental loans amounting to 0.9 bn EUR in 2009 and 21.2 bn EUR in 2010  
Source: AMECO (2011).

## Public debt crisis deepens and expands

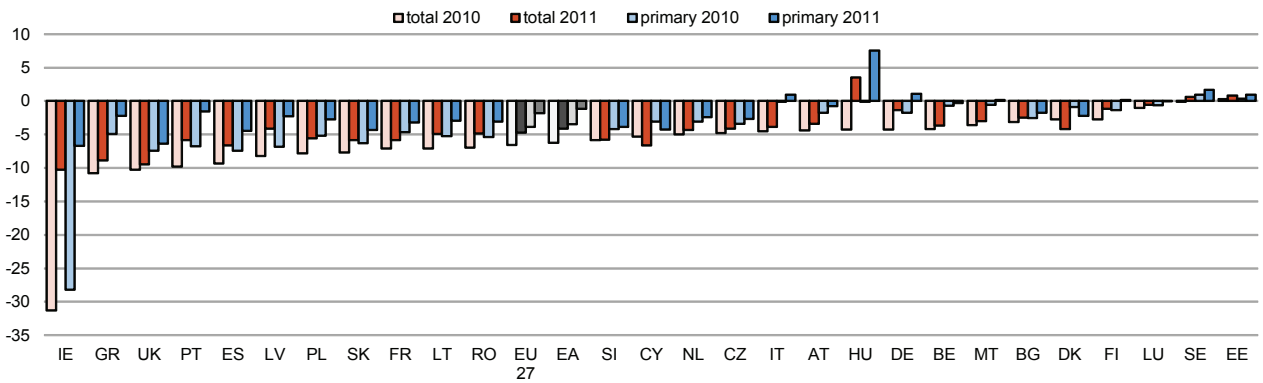
Government debt-to-GDP ratios rose sharply – on the EU average by almost 25 percentage points of GDP – in the wake of the crisis, as output plunged and governments ran deficits, partly automatic, partly discretionary, to cushion the crisis (see Figure 1.4). What is, on the face of it, more surprising is that, in spite of the austerity programmes implemented across the EU, starting at the latest in 2011, in some cases earlier (see below and Theodoropoulou and Watt 2011), gross debt-to-GDP ratios, far from declining, are projected to increase slightly in the years 2011, 2012 and 2013, from their elevated post-crisis levels, in virtually all countries.

These figures are a stark reminder that success in reducing government debt depends on three variables. In addition to the primary government balance (the government's surplus or deficit before interest payments), these are the nominal growth rate and the interest rate paid on the debt. As a result of the crisis, nominal growth has been depressed, and austerity policies, by reducing demand in

a context where the private sector is also trying to rebuild its balance sheets, have worsened the situation. Meanwhile, the failure to resolve the government debt crisis has led to investors, concerned about possible losses (defaults and 'voluntary' haircuts, as imposed in the case of Greece), demanding ever higher interest rates on the debt of countries seen as vulnerable (see Figure 1.8).

## Deficits, debts and austerity

Figure 1.5 Government total and primary budget deficit, 2010-2011



Source: AMECO (2011).

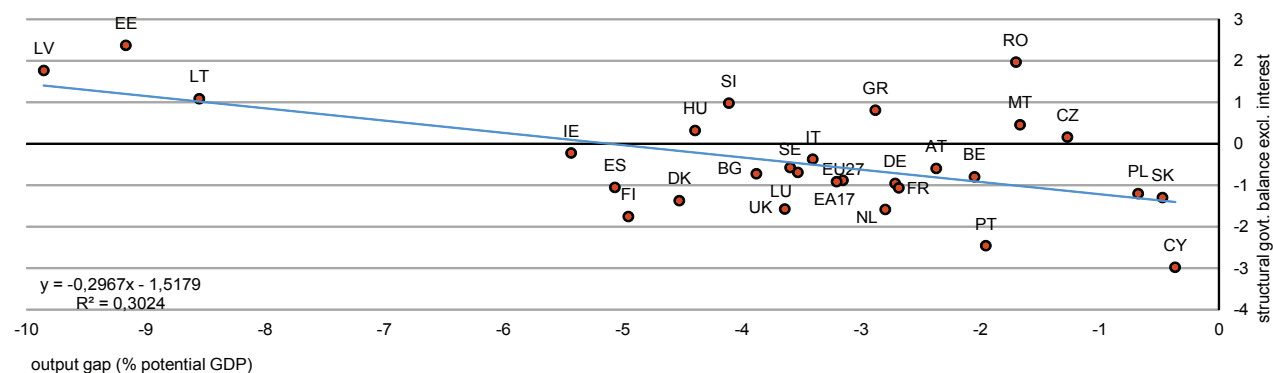
## Austerity dragging down public finances

The combination of these factors means that enforced fiscal consolidation is proving self-defeating in terms of reducing fiscal positions (as foreseen in Theodoropoulou and Watt 2011).

As can be seen in Figure 1.5, the discrepancy between total and primary (i.e. excluding interest payments) government budget deficits has been particularly pronounced in member states which received financial support from the EU and the IMF, because of the large interest payments. The primary budget deficit in countries such as Greece and Portugal has been spectacularly reduced, even in the face of deep recession in their economies, yet their total budget deficits remained high and off-target, while their public-debt-to-GDP ratio also increased.

## Macroeconomic policy responses

Figure 1.6 Counter-cyclical fiscal policy 2009-2010



Source: AMECO (2011).

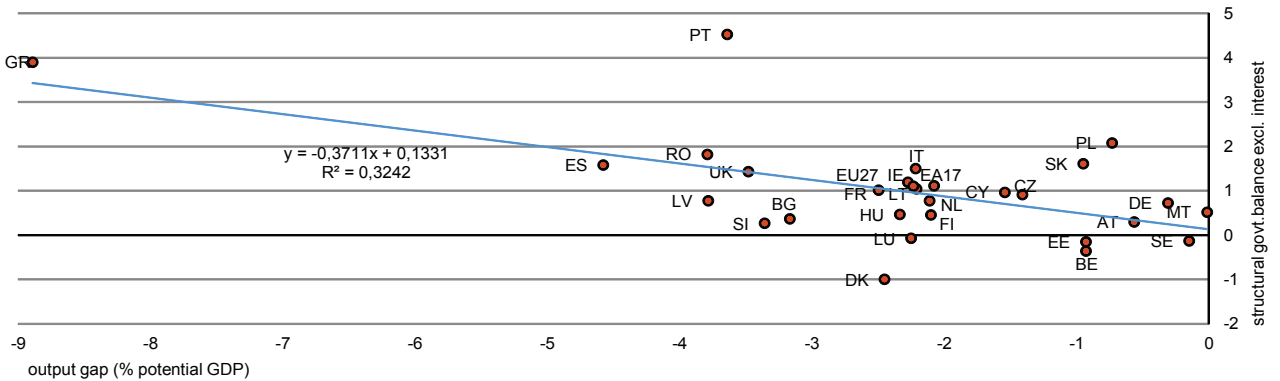
## Procyclical policy response

In spite of the deteriorating macroeconomic conditions, apart from a brief upturn in early 2011, fiscal policies have been contractionary since 2011 at the latest in almost all countries. Figures 1.6 and 1.7 show the evolution of the structural government budget balance (excluding interest payments), an indicator of the stance of discretionary fiscal policy (as changes in government revenues and expenditures due to the business cycle are netted out) on the y-axis and that of the output gap (i.e. the difference between potential and actual output) in the EU member states on the x-axis. Figure 1.6 shows the situation in the years 2009 and 2010. We might refer to this as a Keynesian period. Figure 1.7 repeats the exercise for 2011 and 2012, the austerity period, on the basis of Commission forecasts. In both cases, there is an association between the two in that countries with higher negative output gaps (i.e. more severe recessions) are more likely to have experienced a discretionary tightening of fiscal policy. Overall, this means that governments in the EU have been pursuing a tightening in the discretionary part of their fiscal

policies in spite of a deterioration in the demand for the output of their economies. Particularly crass examples are the Baltic States in 2009/10 and Greece and Portugal in 2011/2012.

## Macroeconomic policy responses

Figure 1.7 Procyclical fiscal policy 2011-2012



Source: AMECO (2011).

## Inequality expected to increase further

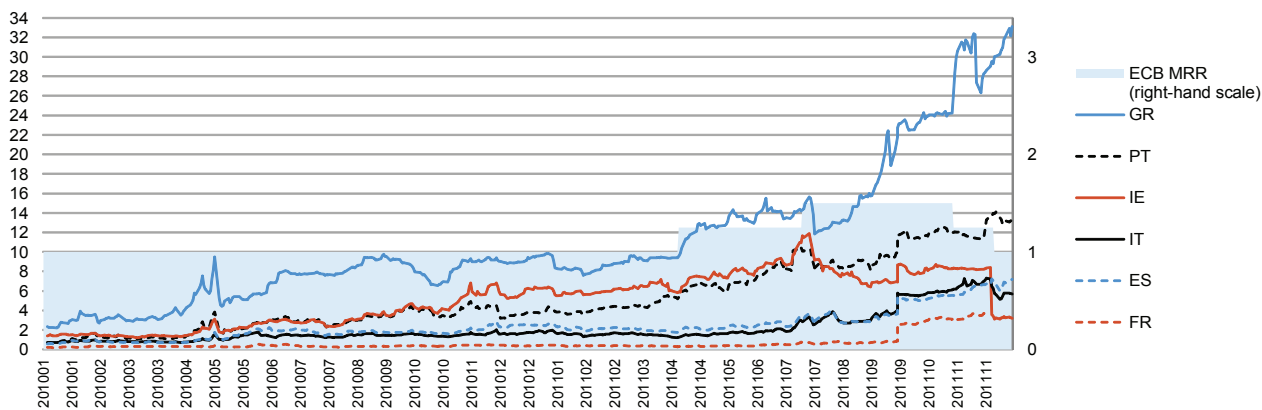
More importantly, there are major differences between the two periods (2009-10 and 2011-12). In the first 'Keynesian' period most countries actively steered against the crisis with expansionary discretionary fiscal policy (as reflected in a negative movement in the primary structural balance). In the 'austerity' period (Figure 1.7), on the other hand, all but a few countries implemented discretionary contractionary policies. This is despite the fact that the negative output gaps had closed to only a limited extent in most cases. Portugal is a striking example of the change. In the first period it sought to stimulate its economy, but was forced first by the financial markets and then by the EU/IMF conditionality in 2011 to adopt a radical austerity package, deepening and prolonging its recession.

In terms of the effects of these austerity programmes on income distribution, the first indications are that they have in several cases been regressive, affecting those at the lower ends of the income distribution more adversely than those at the top (see Theodoropoulou and

Watt 2011). Even when this has not been the case though, the recession is likely to reduce the intended progressivity in the structure of austerity packages (see for example Matsaganis and Leventi 2011 for the case of Greece). To the extent that austerity is likely to lead to prolonged unemployment spells and labour market marginalisation, increases in inequality would appear inevitable.

## Monetary policy

Figure 1.8 Spreads of selected countries' 10-year government bonds over German bonds in p.p. and ECB main refinancing rate



Source: IMK (2011: 8) and ECB.

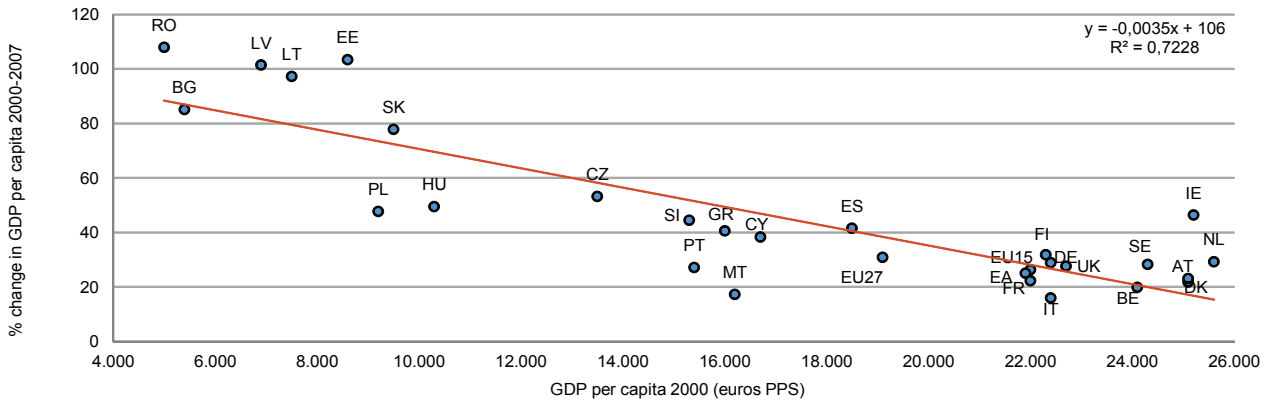
## ECB helps quell the recovery

During 2011, the European Central Bank raised its main refinancing rate by 25 basis points (0.25 p.p.) twice, in April and July. It claimed that this policy tightening was justified by increases in headline inflation, despite the fact that core inflation (prices excluding volatile items such as energy and food) remained contained, and by its expectation that the economic recovery in early 2011 was set to continue and strengthen. On both occasions, the increase in the spreads in the 10-year bond yields of Greece, Portugal, Ireland, Spain and Italy increased sharply (see Figure 1.8). This reflected the market sentiment that the prospects for successful debt restructuring in these countries had declined because of the higher financing costs imposed by the ECB and/or that the interest-rate hikes were more generally premature and would hit the peripheral countries particularly hard. This monetary tightening was reversed in November and December, after Mario Draghi had replaced Trichet as ECB President, and as alarming figures over the growth prospects of the European economies emerged.

At the same time the ECB has continued half-heartedly to pursue its Securities Markets Programme, buying out Italian and Spanish government bonds in order to stabilise their markets, while the debate among its governing council members over whether it should intervene more dynamically in the markets continued publicly and as the calls for the ECB to step in and act as the governments' lender of last resort in the euro area intensified. At the very end of 2011, it offered low-interest loans not to governments but to the banking sector. At the time of writing, it was not clear whether some of these funds would find their way into the sovereign debt market; in any case, this indirect approach raises serious normative issues (subsidising banks at the expense of taxpayers). The failure to undertake a full government banker role so far, along with other failures of economic governance, has led to a spreading of the debt crisis even to member states with fundamentally sound public finances whose governments then promptly planned and started implementing further fiscal austerity measures, further stifling economic growth (see previous section).

## Output growth and cross-country inequality

Figure 1.9 GDP per capita growth rates 2000-2007 by level of GDP per capita 2000



Source: Eurostat (2011c).

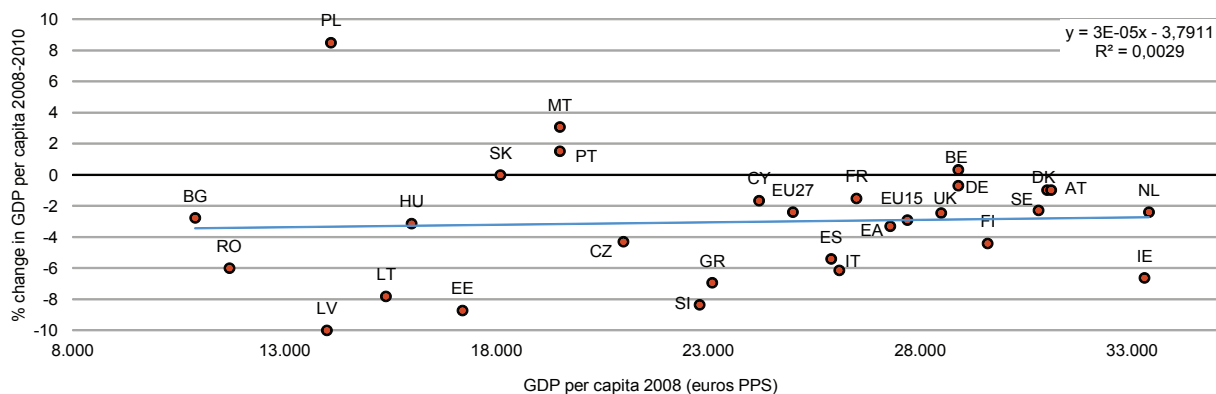
### Trend towards greater equality between EU countries halted

The dismal output growth conditions that have prevailed in the European economy since the onset of the crisis in 2008 have not only dampened prospects for the European economy as a whole but also halted or reversed the previous relative output growth developments, under which poorer EU member states grew faster than richer ones. As can be seen in Figure 1.9, during the period 1999-2007, there was a relatively clear distinction between the new member states with relatively low GDP per capita and the old member states with relatively high GDP per capita. (We use purchasing power standards here to allow for price level differences and illustrate 'real' living standards.) The former grew faster, reducing East-West inequality in Europe in a process that would eventually, had it continued, have led to the convergence of real per capita incomes. Overall, there was a very strong negative correlation between income levels and rates of change, implying a strong convergence

trend. Partial exceptions were Ireland, which grew rapidly in spite of its high initial level and Poland where, along with Hungary, per capita incomes grew rather slowly despite their relatively low starting point.

## Output growth and cross-country inequality

Figure 1.10 GDP per capita growth rates 2008-2010 by level of GDP per capita 2008



Source: Eurostat (2011c).

## Austerity and unemployment threatening poverty headline target

be conducive to the Europe2020 goals of reducing relative poverty within countries (see Leschke et al. 2012).

As Figure 1.10 illustrates, however, after 2008, the GDP per capita growth rates converged between rich and poorer member states, turning very negative for some of the poorest central and eastern European countries, such as Latvia and Estonia, while some wealthy countries (Belgium, Germany) performed comparatively well. Overall, for this period there is no relation whatsoever between income levels and their rate of growth. These figures clearly suggest that the convergence process in real per capita income – that is, a clear trend towards falling inequality between national populations across Europe – has come to a halt. What is unclear is whether the convergence process will continue once more if and when the European economy as a whole emerges from crisis. While this does not necessarily affect the issue of within-country inequality (see also Chapter 7), the combination of sluggish growth, mass unemployment and cut-backs in welfare spending is unlikely to

## Conclusions

### Crisis and inequality – inextricably linked

The analysis of the trends presented in this chapter leaves little doubt that the EU is currently at a very critical juncture in its history. Essential objectives, such as promoting economic progress, strengthening economic and social cohesion, and establishing and maintaining an economic and monetary union, are in jeopardy. The persistent misdiagnosis of the current crisis in the euro area as rooted in earlier ‘fiscal imprudence’, and the political unwillingness to put into place all the mechanisms necessary to secure its smooth functioning, have increased the risk that the euro area may break up with unpredictable, but almost certainly hugely damaging consequences for European integration. Meanwhile, the recession that these policy responses have generated has halted the process of convergence in per capita income between poorer and richer member states. For as long as the current account imbalances within the euro area are not resolved in a symmetric fashion, the divide between the core and the periphery will persist or even widen further.

However, growing inequality among member states is not just the outcome of this crisis and the way it has been handled. Just as in the run-up to the Great Depression of the 1930s, the rise in income inequality, especially at the top of the income distribution, had reached unprecedented levels immediately before the economic crisis broke out. While the underlying causalities are controversial and have yet to be fully understood, resolving the current crisis without taking care to reduce income inequality is likely to leave in place the seeds for another crisis in the not-so-distant future, and also to damage the legitimacy of the European integration project. Yet in many countries the austerity policies have served to exacerbate existing forms of inequality.

What is needed instead are policies that are consistent with the perception of the euro area and the EU as the large, integrated and relatively closed economy that it has become. Generalized fiscal austerity alone, and the insistence by Germany and other core economies that current account imbalances are corrected unilaterally by those member states in deficit, are bound to make recession deeper and more widespread. Policy changes are needed to, among other things, ensure that capital flows do not grind to a sudden halt in the presence of current account imbalances while the deficit countries commit to bringing their public finances on to a sustainable path; and, at the same time, there is a need for measures to protect member states from the sometimes irrational attacks of financial markets.

# Inequality on the labour market

## Introduction

Labour market opportunities are unequally distributed not only among European countries, but also over different sub-groups. This is true of access to the labour market i.e. employment, but applies also to the types of jobs people get, including aspects such as the accompanying form of contract, working hours, and benefits entailed, in terms of earnings in particular, but also of social security and fringe benefits. Inequalities also persist when looking at unemployment rather than employment, with specific groups being more likely to enter and remain in unemployment.

The new Europe 2020 strategy drawn up by the EU as a follow-up to the Lisbon strategy – which ended in 2010 – formulates some new ambitious headline targets (see ETUC and ETUI 2011). Both the employment rate target (75% for 20-64 year olds) and the new poverty headline target (‘lifting 20 million people out of poverty’) relate directly to inequality. Whether these targets are realistic in terms of the current economic and labour market situation remains questionable.

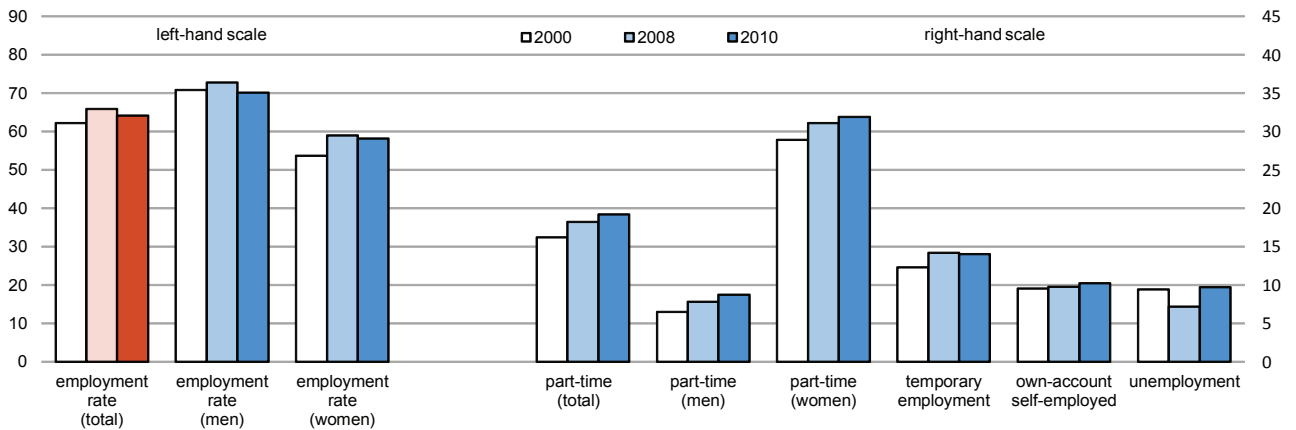
This chapter will, in the first section, illustrate how employment (including non-standard forms of employment) developed over the Lisbon period for the EU27 as a whole. In order to give an encompassing picture of forms of inequality on the labour market, the main section describes developments in terms of employment, unemployment, part-time and temporary employment and analyses these for single countries. Subgroups affected to differing degrees by the various forms of inequality are taken into account. This applies, in particular, to young people who face difficulties in entering and staying in work with potential longer-term impacts on their wellbeing and welfare; and also to women who still have much lower employment rates and work fewer hours than men in most countries, a situation that is problematic with regard not only to earnings but also to social security benefits and, in particular, pensions. Some analysis is also carried out on the basis of educational and occupational groups. Finally, in-work poverty is shown for different sub-groups in order to highlight the material outcomes of inequality on the labour market.

### **Topics**

> <i>Overview of labour market developments over the Lisbon period</i>	23
> <i>Recent developments in employment</i>	25
> <i>Developments in non-standard employment</i>	31
> <i>Outcomes of labour market inequalities in terms of in-work poverty</i>	37
> <i>Conclusions</i>	39

## Overview of labour market developments over the Lisbon period

Figure 2.1 Developments in important labour market indicators over the Lisbon period, EU27, 2000, 2008, 2010, annual averages



Source: Eurostat (2011j).

### Labour market outlook remains bleak

The first half of the Lisbon period saw employment rates rising and unemployment decreasing (Figure 2.1). However, much of the employment growth was accounted for by non-standard forms of employment involving one or more elements of precariousness. What is more, the EU remained far from the ambitious 70% employment rate target set by the Lisbon strategy for 2010. The average employment rate, having risen to only about 66% by 2008, with the crisis fell back down to 64.1% in 2010 (Figure 2.1). Differences between male and female employment rates remain pronounced with, on average, 70% of men but only about 58% of women in employment. It is important to note, what is more, that the basis commonly used by the Eurostat labour force survey for definition of the employment rate is one hour of work in the reference week ([http://epp.eurostat.ec.europa.eu/portal/page/portal/employment\\_unemployment\\_lfs/methodology/definitions](http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_unemployment_lfs/methodology/definitions)). In other words, employment rates fail to take account of the *volume* of employment and thus,

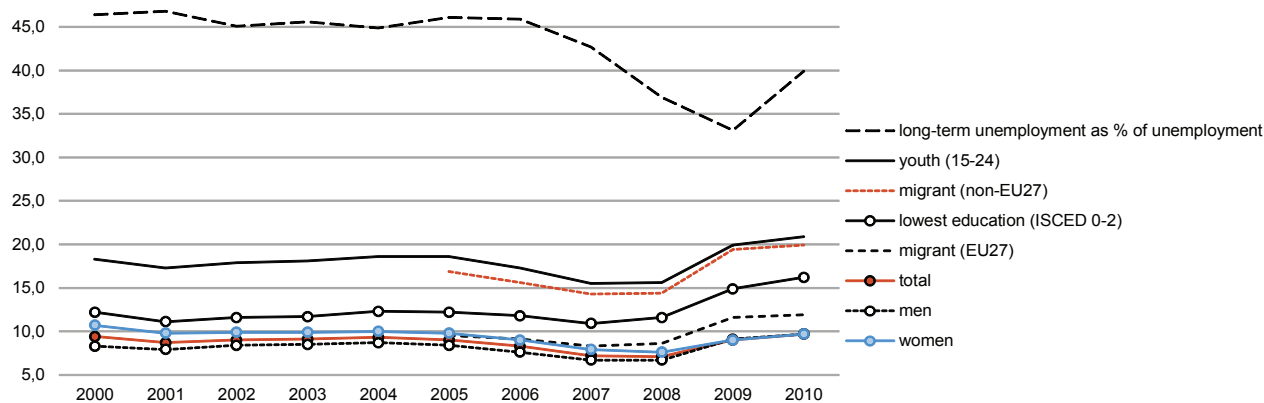
among other things, of the fact that women are very likely – and everywhere more likely than men – to work part-time (see below). Employment rates based on full-time equivalents – according to which, for example, the Netherlands, with one of the highest employment rates for women as measured by the LFS, comes close to the bottom (compare ETUC and ETUI 2011: Figure 2.3) – are not commonly used. The simple employment rate target as formulated in the Lisbon strategy, and now again in the Europe 2020 strategy, might thus be, to some extent at least, misleading.

The incidence of non-standard forms of employment increased over the Lisbon period and up to the beginning of the crisis. Part-time employment as a percentage of total employment is now around 19%, and thus 3 percentage points up from 2000 (see also Chapter 8). It continued to grow during the economic crisis, a fact attributable at least in part to short-time working insofar as part-time work in the labour force survey is self-assessed. Indeed, part-time work grew, proportionally, more among men (who were also more likely to be short-time workers) than among women, and yet the gap remains huge with, on average, 32% of women working part-time in the EU27 and only about 9% of men. Temporary employment, i.e. all employment of fixed duration, also grew over the Lisbon period and up till 2008, with the result

that workers on fixed-term contract or in temporary agency work were the first to become unemployed as their contracts were due to expire or easier to end than those of permanent workers. During the recent crisis period temporary employment is again on the increase and, at 14%, has returned to close to its pre-crisis level. Own-account self-employment is another form of non-standard employment often connected with precariousness. It has, however, been increasing only slightly over the last decade, albeit more rapidly during the crisis. Some countries, notably Germany, have, in the context of active labour market policies, actually devised incentives designed to promote own-account self-employment.

## Overview of labour market developments over the Lisbon period

Figure 2.2 Development of unemployment over Lisbon period for sub-groups, annual averages 2000-2010, EU27



Note: if not stated otherwise age: 15-64 year.  
Source: Eurostat (2011j).

## Labour market outlook remains bleak

While employment was growing over most of the Lisbon period, unemployment was, on average, declining. In 2008 it had reached its lowest point of 7.1 per cent on average but, with the economic crisis kicking in and some sectors being strongly affected, it increased dramatically over the last two years of the Lisbon period by 2.6 percentage points to an annual average of 9.7% in 2010. Figure 2.2 illustrates the development of unemployment over the last decade. The steep increase between 2008 and 2009 is evident for all groups. Between 2009 and 2010 unemployment is still increasing for all groups, but at a slower pace. It is obvious that unemployment is not equally spread over sub-populations. Youth – here defined as those aged between 15 and 24, in spite of the fact that the 25-29 age group also often still struggles on the labour market (compare Chapter 3) – have had the highest unemployment rates, close to 21% in 2010. They are followed closely by non-EU27 migrant workers who have an average unemployment rate of close to 20%. Differences in

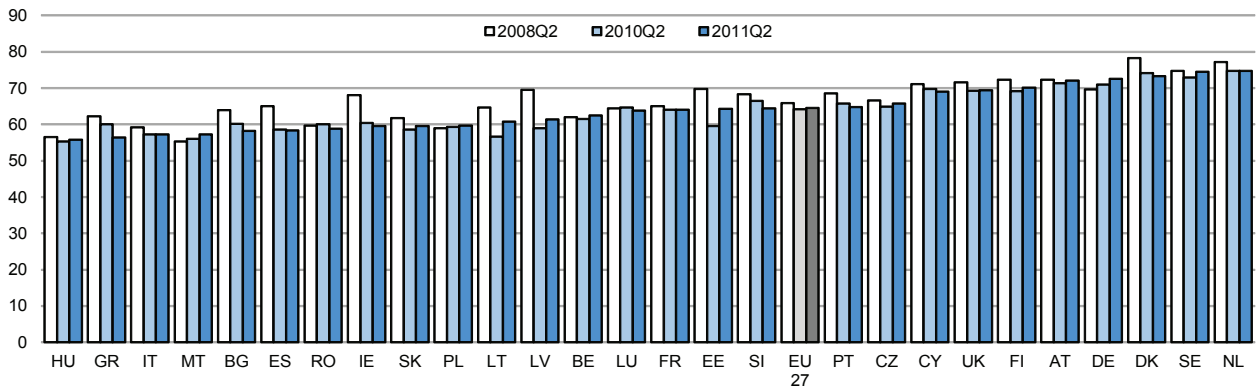
this area become apparent when compared with an unemployment rate of around 12% among EU27 migrant workers who, in principle, have free access to EU labour markets, with the exception of the transition measures that are still in place in several countries for Romania and Bulgaria and have only recently been fully lifted for the central and eastern European countries that gained EU accession in 2004. Migrant workers work, to a considerable extent, in sectors such as construction or manufacturing that were seriously affected by the economic crisis and were, as such, disproportionately affected by unemployment (Galgoczi et al. forthcoming). It should be borne in mind that the labour market situation of migrant workers is difficult to capture insofar as they are prone to returning home, or to moving further afield, in times of crisis. They are, what is more, commonly underrepresented in survey (and administrative) data, particularly if they are working in the informal economy. Another group with higher than average unemployment rates are those with the lowest educational level (ISCED 0-2: pre-primary, primary and lower secondary education). Unemployment among this group has increased disproportionately and is currently about 16%. This said, the group also has very low employment rates (see next section). In 2010 women and men had, on average, the same unemployment rates, while over

the Lisbon period women were invariably more likely to be unemployed on average and in the majority of countries. Indeed, the initial crisis period saw employment losses particularly – but not exclusively – in male-dominated sectors such as construction and manufacturing. However, women have been more affected in the more recent period as the crisis has spilled over to other sectors and austerity measures have focussed on female-dominated public-sector employment.

Long-term unemployment (>12 months) currently stands at close to 40% as a percentage of total unemployment. It was at a relatively stable high level during the first period of Lisbon and decreased significantly as the crisis set in, a fact that can be easily explained by the large numbers of newly unemployed entering the pool of unemployed. In the last year it has increased strongly by about 7 percentage points as the unemployment generated by the crisis has become more permanent. Those countries that were hit particularly hard and early by unemployment (Spain, Ireland, Baltic countries) saw their long-term unemployment rates increase markedly – by as much as 20 percentage points – between 2008 and 2010 (not shown).

## Recent developments in employment

Figure 2.3 Developments in total employment, 2008Q2, 2010Q2, 2011Q2



Note: 15-64 years.

Source: Eurostat (2011j).

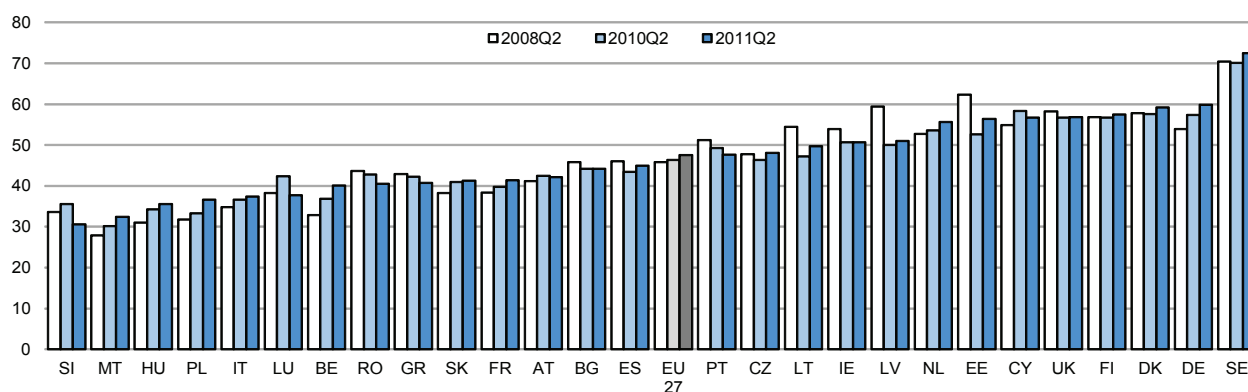
### Employment rates slowly stabilising, but at low levels

The following section will look at recent labour market developments not on the basis of the EU27 aggregate but separately by country. Figure 2.3 illustrates that most countries replicated the EU27 trends in terms of decreasing employment rates between the second quarter of 2008 (2008Q2) and the second quarter of 2011 (2011Q2). Drops in employment were steepest in the first two years of the crisis. Employment decreased markedly in some countries, namely, Spain, Ireland, the Baltics, Greece and Bulgaria, and also – albeit from an initially very high level – Denmark, in some cases by as much as 10 percentage points. Only Germany, Poland and Malta saw a steady increase in employment rates over this period. In the Polish case this can be explained, at least in part, by the fact that Poland was the only country not to experience output decline. Germany, on the other hand, managed, in spite of a large output shock, to keep people in employment through the use of working time accounts and short-time working measures (compare e.g. Leschke and Watt

2010). Several countries have seen their employment rates rising again during the most recent period (2010Q2-2011Q2), most markedly in the cases of Lithuania and Estonia. Overall, national employment rates within Europe – using the suboptimal labour force survey measure – differ by as much as 20 percentage points: the Netherlands and Sweden have employment rates of close to 75% (i.e. have already achieved the Europe 2020 targets), while Hungary and Greece barely exceed 55%. In terms of country rankings, southern – with the exception of Portugal – and a number of central and eastern European member states, but also Ireland, are doing poorly with regard to employment rates, whereas the Nordic countries, but also Germany, Austria and the Netherlands, are doing well with regard to employment. These countries, however, make substantial use of part-time work, particularly among women. In fact, the decisive reason for the large overall differences in employment rates is the large country differences in the labour market participation of women – and particularly older women (see below).

## Recent developments in employment

Figure 2.4 Developments in employment of older workers (55-64 years), 2008Q2, 2010Q2, 2011Q2



Source: Eurostat (2011j).

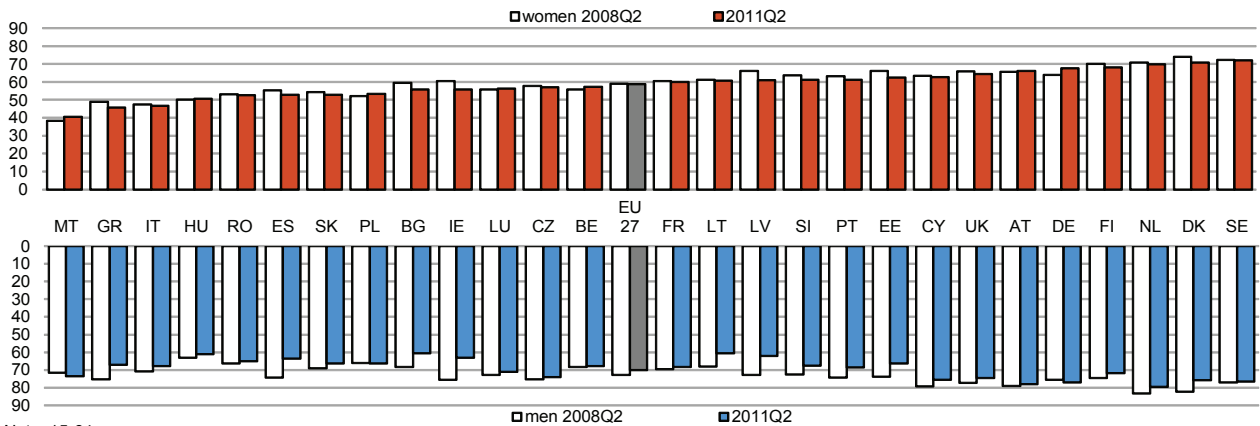
### Older workers have fared relatively well during the crisis

In contrast to previous crises, older workers (55-64 years) were not used as buffers in times of increasing unemployment through, for example, the stepping up of early retirement schemes. Indeed, recent trends of increasing labour market participation among older workers – that were strengthened by the gradual withdrawal of early retirement schemes, increases in the pensionable age and, at least in some countries, improvements in the work environment for older workers – continued during the crisis. Employment rates increased on average by more than 1.5 percentage points, between 2008Q2 and 2011Q2, to the current 47.5% at a time when employment for other age groups, and particularly youth (from 37.3% in 2008Q2 to 33.6% in 2011Q2) (not shown), was falling (see also Chapter 3). Employment among older workers is still relatively low, however, compared to prime-age workers (25-54) who, in 2011Q2, had an average employment rate of close to 78%. It is important

to note the huge degree of country variation, with countries such as Slovenia and Malta having less than one third of older workers in employment and others, including Germany and Denmark, having close to 60%, and Sweden more than 70%, of older workers in employment (Figure 2.4). Here the shortcomings of the LFS employment measures have to be emphasised, however, since, particularly in Germany with its so-called ‘mini-jobs’ arrangement, many older workers (a majority of them women) are in sub-standard employment, including part-time work with very low hours and reduced access to social security benefits (see, for example, Minijobzentrale 2011). An important point particularly with regard to older workers is the large difference in employment rates between men and women: on EU27 average only 40.2% of older female workers were employed, comparing with 55.2% of male workers. The best performer, Sweden, has high employment rates for both women and men with a difference between the two of only about 7 percentage points. Having said this, older workers, and particularly women, have largely contributed to employment growth over the Lisbon period – their relative situation has thus improved.

## Recent developments in employment

Figure 2.5 Developments in employment rates by gender, 2008Q2 and 2011Q2



Note: 15-64 years.

Source: Eurostat (2011j).

### Some reduction in gender employment rate gaps during the crisis – but large gender inequality remains

The economic crisis has, on average, contributed to reducing the gap in employment rates between men and women, insofar as men were more likely to lose their employment, particularly in the first two years of the crisis (Figure 2.5). While the difference in employment rates was 14 percentage points in 2008Q2 (72.9% for men and 58.9% for women), it had fallen to 11.5% in 2011Q2 (70.2% for men and 58.7% for women). Employment gaps between men and women have narrowed in all countries and very substantially so in a number of countries, such as Spain, Lithuania and Latvia, as a result of the disproportional losses in employment for men due to the uneven affectedness of sectors and the remaining large gender segregation in terms of sectors and occupations. In Lithuania female employment rates are now slightly higher

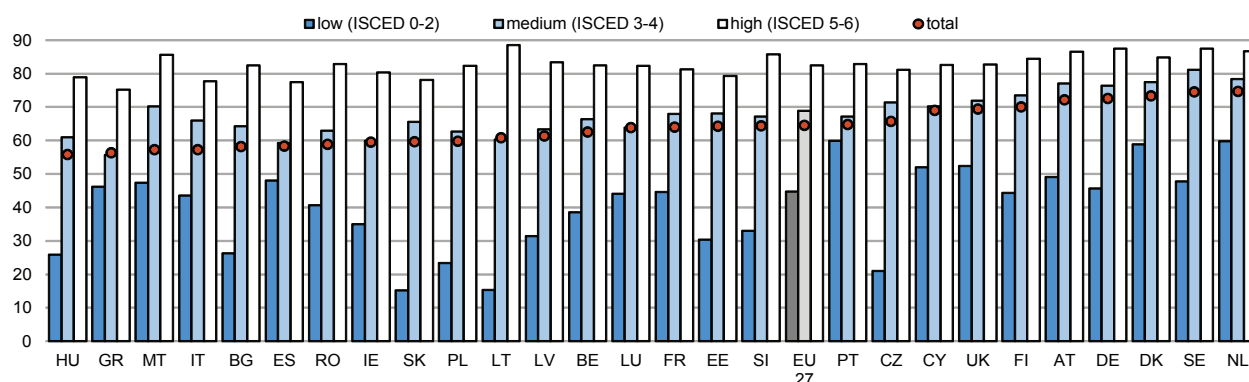
than male ones. Relatively small employment rate gaps are also evident in Latvia, Estonia, Finland, Denmark and Sweden. Huge employment rate gaps exist in Malta, Greece, Italy, Luxembourg and the Czech Republic. Greater gender equality in terms of employment is attributable, however, merely to disproportionate deterioration in the situation of men.

Overall, countries vary hugely in terms of female employment rates with a gap of more than 30 percentage points between the worst performer, Malta, and the best performer, Sweden; even when using the full-time-equivalent methodology, these differences remain great (see ETUC and ETUI 2011: 23). Three countries have female employment rates of less than 50% (more than 10 percentage points below the Lisbon female employment rate target of 60%), namely, Malta, Greece and Italy, while the countries at the top with employment rates of close to 70% or more are the Netherlands, Sweden and Denmark. Looking at country groupings, with regard to female employment rates, the Nordic countries, but also the Netherlands and some corporatist countries – Germany and Austria – are doing well, whereas particularly Southern European countries (Malta, Greece, Italy, Spain), but also the majority of Central and Eastern European countries, are doing badly. Publicly supported work-life balance measures, particularly encompassing and all-day childcare, firm-level

measures such as flexible working hours and more equal participation of men in care and household work, do play an important role here as the example of the Nordic countries shows (OECD 2007; for country differences in institutional setting such as childcare see [www.oecd.org/els/social/family/database](http://www.oecd.org/els/social/family/database); see also Chapter 5). Corporatist countries, such as Belgium and France, with encompassing child care but comparatively low female employment rates show that it is an interaction of different institutions at the state and firm level, but also values and norms with regard to the participation of men in care work (Leschke and Jepsen 2011), that contribute to closing the gap between male and female employment rates. Public policy decisions such as reserved partner months in parental leave schemes, but also awareness campaigns, can contribute to a change – albeit slow – in values and norms.

## Recent developments in employment

Figure 2.6 Employment rates by education level, 2011Q2



Note: 15-64 years.

Source: Eurostat (2011j).

### Employment situation of low educated has further deteriorated during the crisis

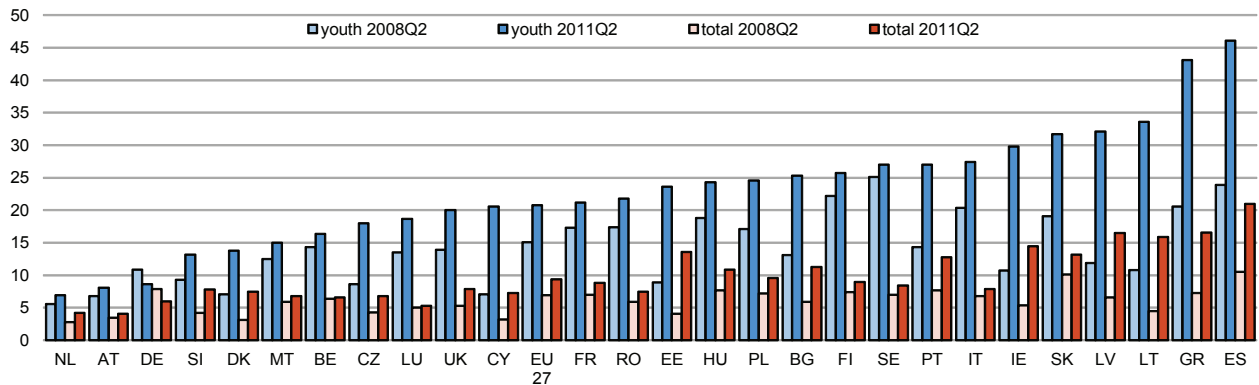
Another important subgroup within which large inequalities in employment rates persist, and have indeed widened during the crisis, are persons with differing levels of education. Between 2008Q2 and 2011Q2 employment rates of persons with at most pre-primary, primary and lower secondary education (ISCED 0-2) decreased by 3.4 percentage points to the current level of 44.7% at the EU27 average. For persons with at most upper secondary and post-secondary non-tertiary education (ISCED 3 and 4) employment rates have decreased by 2 percentage points and now stand at 68.8%. For the most highly educated, with a first or second stage of tertiary education (ISCED 5 and 6), employment rates now stand at 82.4%, down by 1.5 percentage points (not shown). Figure 2.6 illustrates the huge differences in employment rates by

educational level. Portugal, Denmark and the Netherlands stand out with relatively high employment rates of close to 60% even among those with the lowest levels of educational achievement. At the other end of the spectrum we have Hungary, Bulgaria, Slovakia, Poland, Lithuania and the Czech Republic with one quarter or fewer of this group in employment. It has to be noted, however, that all of these countries have substantially lower than the EU-average shares of the population with the lowest educational attainment (not shown). And they are, indeed, experiencing a situation that has been termed 'brain overflow' which refers to large shares of young people with high qualifications and unable to find a suitable job, one response to which has been, in some cases, emigration (e.g. Fihel et al. 2009). Particularly Malta and Portugal but also Italy and Spain still have very large shares of the population with only the lowest educational attainment. Among these countries only Portugal has substantially higher than EU-average employment rates among this group. Integration into employment of workers with low levels of educational attainment remains one of the biggest challenges in Europe. Decreasing the rate of school drop-outs, as specified in the Europe2020 targets, is but one way forward. What is urgently needed is improved employment prospects for those already in the labour market including measures such

as job-related training and incentives to employers to hire low-skilled workers as a means of enabling them to gain workplace experience. Whether the ambitious EU2020 target of increasing the share of 30-34 year olds with tertiary education to 40% is the right way forward remains questionable (see also Chapter 3; compare ETUC and ETUI 2011).

## Recent developments in employment

Figure 2.7 Developments in unemployment for youth and adults, 2008Q2 and 2011Q2



Note: youth: 15-24 years, adults: 25-64 years.  
Source: Eurostat (2011j).

### Bleak labour market situation for youth and only slow improvements

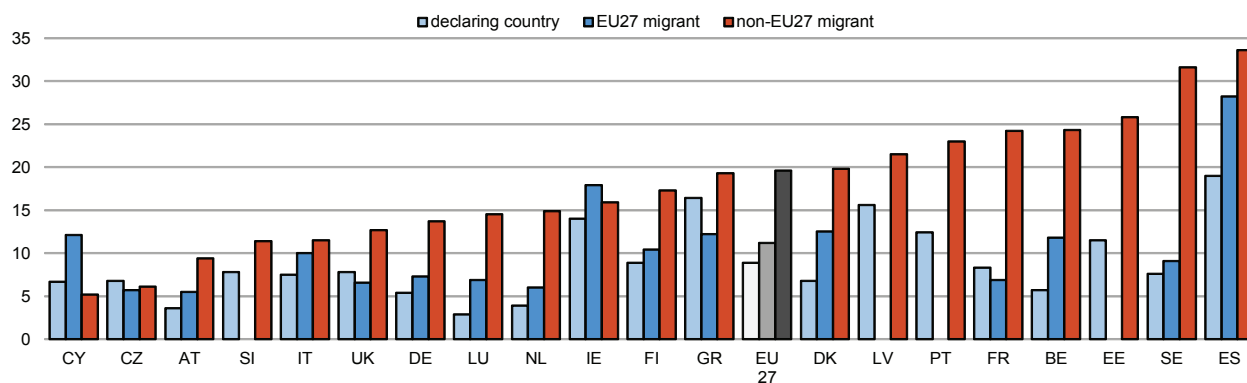
With an unemployment rate of 20.8% in 2011Q2, young people (15 to 24 years) in the EU27 have an extremely high level of unemployment compared to prime-age (25-54 years) and older workers (55-64) – total unemployment stood at 9.4% in 2011Q2 (Figure 2.7). The unemployment figures used here are based on the LFS data and thus refer to self-assessed unemployment. This differs from the national figures that are often based on administrative data and thus take account of people registered as unemployed at the Public Employment Service. Over the last three years, youth unemployment increased by more than 5 percentage points, whereas total unemployment increased by 2.5 percentage points between 2008Q2 and 2011Q2. Though the relative change was similar, in absolute levels youth are clearly one of the most disadvantaged groups in terms of labour market outcomes, particularly when we also take account of the large decreases in employment rates (see also

Chapter 3). The large incidence of unemployment among youth is particularly visible when the issue is viewed country by country. Indeed, in roughly half of all countries one quarter or more of young people are unemployed. In Greece and Spain, two of the countries most affected by the economic crisis, youth unemployment rates are as high as 43.1% and 46.1%, respectively. They have approximately doubled in a three-year period which has led to, among other things, protest movements fuelled predominantly by youth. Other countries that have seen a strong increase in their youth unemployment rates during this period are the Baltic countries, Ireland, Bulgaria and – from initially rather low levels – the Czech Republic, Denmark and Cyprus. Only three countries have youth unemployment rates below 10% in 2011Q2, namely, the Netherlands, Austria and Germany, the latter two benefitting from the existence of strong dual-education systems that are known to improve transitions from school to work by providing youth with specific skills that they acquire directly in the work place. Those firms that offer apprenticeship training can at the same time use this phase as screening for recruiting their future workers (Germany is indeed the only country that has seen youth unemployment decline over the 3-year period, and declines in total unemployment were even slightly more marked in this country). Looking

only at the recent changes 2010Q2-2011Q2 (not shown), quite a number of countries see some stabilisation of youth unemployment – albeit at a higher than pre-crisis level – or even a decline, most notably the Netherlands, Slovenia, Belgium and Estonia. Portugal and Greece, on the other hand, have seen very large increases in the course of the last year. All these developments show, quite unequivocally, that young workers have been one of the groups most vulnerable to inequality, a situation that has been further aggravated by the crisis.

## Recent developments in employment

Figure 2.8 Unemployment rates by nationality, 2011Q2



Note: 15-64 years.  
Source: Eurostat (2011j).

### Migrant workers – and particularly those from outside Europe – hard hit by unemployment

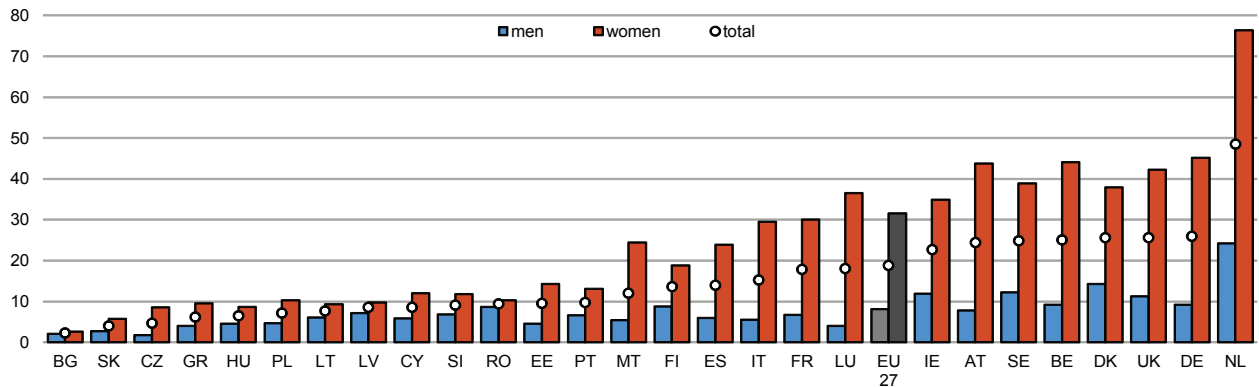
Inequality in labour market outcomes is also evident with regard to migrant workers. Compared to nationals (declaring country) with an EU27 average unemployment rate of 8.9%, EU27 migrants had unemployment rates of 11.2% and migrants from outside the EU27 unemployment rates as high as 19.6% (Figure 2.8). A first point to note is that the data situation with regard to migrants is deficient. Important groups of migrant workers, such as seasonal workers and undeclared workers, are hard to capture in survey and administrative data. Even migrant workers who form part of the regular work force are likely to be under-represented in survey data insofar as survey questionnaires are usually circulated only in the language of the host country. The labour force survey provides data on this subject for 20 EU countries only and in four of these cases information on EU27 migrants is lacking. Bearing in

mind, therefore, that the available data does not fully capture the phenomenon, it emerges from the LFS data that close to one quarter or more of non-EU27 migrants are unemployed in France, Belgium and Estonia, while in Sweden and Spain the proportions are around one third. The case of Sweden is particularly striking in that the gap between nationals and non-EU27 migrant workers is extremely large. Cyprus, the Czech Republic and Austria, meanwhile, have comparatively low shares of unemployment among this group. As various publications (see particularly Fihel et al. 2009) and also newspaper articles indicate, cross-border labour mobility between EU27 countries has been a subject of hot debate in Europe over the last half decade. One issue that was pertinent in the pre-accession period related to fears on the part of Western European countries that mobility from East to West – as one side-effect of the accession of the Central and Eastern European countries – would exert pressure on labour markets, welfare systems and wages. However, this has overwhelmingly not been the case (compare Galgoczi et al. 2011; Fihel et al. 2009; Kahanec et al. 2009). Another hotly debated issue is skills mismatch, with migrant workers often working in occupations that do not match their skill levels (Galgoczi et al. 2009). This will have negative individual impacts in the long run but can also have a negative

impact on sending countries' labour markets when shortages arise due to a lack of skilled labour, obvious examples being the medical or care sector. From the LFS data it is evident that in the majority of countries with available data EU27 migrants are more affected by unemployment than nationals but, in most cases, less than non-EU27 migrants. EU27 migrants fare particularly badly in Spain where the construction sector, in which large shares of migrant labour were concentrated before the crisis, has been badly affected by the economic crisis.

## Developments in non-standard employment

Figure 2.9 Part-time employment by gender, 2011Q2



Note: 15-64 years.

Source: Eurostat (2011j).

### Part-time – a common feature of female employment

Non-standard employment, as one of the contributing factors to employment growth over the 2000s and up to 2008, has been widely debated, and not only at the level of trade unions (precarious employment) for it has been acknowledged as problematic also by the European Commission (European Commission 2006). Non-standard forms of contract are often associated with precarious employment which is usually defined as employment with low wages and/or limited job security, limited access to social benefits, training and career opportunities, health and safety and/or collective interest representation. For this reason, this section takes a closer look at part-time and temporary workers. Part-time employment has been on the increase over the last decade, not least due to increasing female labour force participation, and has continued to grow during the economic crisis (Figure 2.1). In 2011Q2 part-time employment as a share of total employment stands at

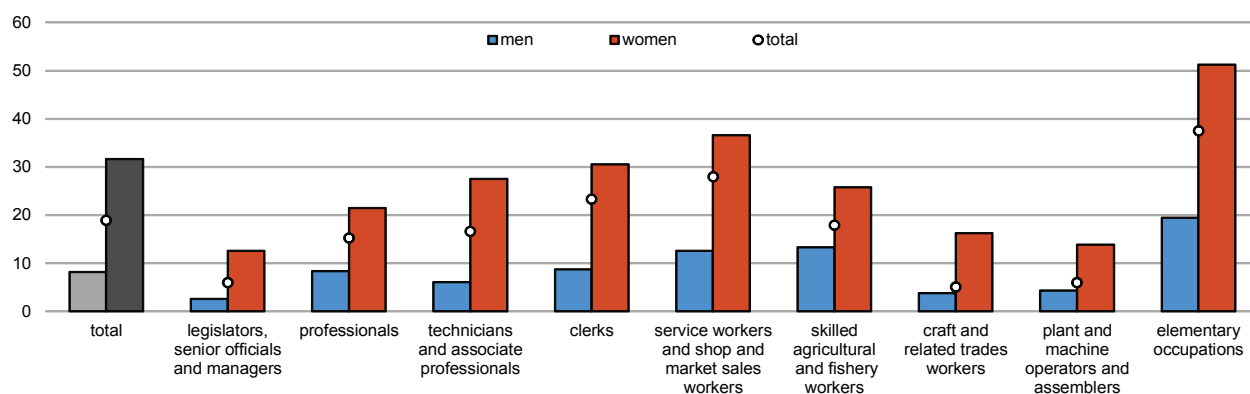
18.8% on the EU27 average with a large gap between the percentages of male (8.1%) and female (31.6%) part-timers in the total employed population (Figure 2.9). There are huge inter-country differences in terms of the volume of part-time work, with shares below 5% in Bulgaria, Slovakia and the Czech Republic and as high as 48.5% in the Netherlands. (It has to be noted, however, that, while the distinction between full-time and part-time work in the LFS is for most countries based on a spontaneous response, this is not the case for the Netherlands – nor for Iceland or Norway – where part-time is determined by whether or not usual weekly working time is less than 35 hours (compare Eurostat online survey, definitions), and this is a detail that may, to some extent, affect the results). Another six countries, namely, Germany, the UK, Denmark, Belgium, Sweden and Austria, have about a quarter of the population in part-time work. With regard to country groups, central and eastern European countries do not commonly make use of part-time employment and all have part-time shares of less than 10%. One explanatory factor here may be the economic need to work full-time to make ends meet, and another the fact that full-time work for women, supported by encompassing childcare policies, was previously the norm in these countries. Southern European countries have below average part-time shares, while

Nordic and corporatist countries are more evenly spread around those countries with very high and average shares. Average part-time hours are around 20 hours a week. Among the countries with high part-time shares Sweden and Belgium stand out with on average very high part-time hours (24.6 and 23.6, respectively), whereas Germany, Denmark and Ireland have low average part-time hours with 18.1, 18.8 and 18.9, respectively (not shown).

As regards the gender distribution, nine countries have at least every third women in part-time employment: in ascending order Ireland, Luxembourg, Denmark, Sweden – and with shares of more than 40% – the UK, Austria, Belgium, Germany, and the Netherlands (76.4%). The Netherlands is the only country that has a substantial share of men in part-time work – close to one quarter of employed males. In Sweden, Denmark, the UK and Ireland part-time shares of men exceed 10% but remain very low compared to female part-time shares.

## Developments in non-standard employment

Figure 2.10 Part-time by occupation and gender, EU27 2011Q2



Note: 15-64 years.  
Source: Eurostat (2011j).

### Part-time employment particularly prevalent in elementary occupations

Most of the countries that perform particularly well in terms of female employment rates also have, and particularly among women, high shares of part-time. This of course has repercussions not only on earnings but also on social security benefits. Indeed, the seven countries with the highest female employment rates (see Figure 2.5 above) are, with the single exception of Finland, also at the top in terms of female part-time shares. Finland is interesting in that it combines a substantially below average female part-time share with high female employment rates. Belgium, by contrast, has the third highest female part-time share, but below average female employment rates, one explanation being that in this country a part-time formula is more frequently than in other countries used by older workers as a component of

leave schemes designed to pave the way to retirement.

Besides gender differences, another aspect displaying inequality in terms of part-time work is occupation, there being some occupations in which far more individuals, and particularly women, work part-time. Figure 2.10 shows that, on the EU27 average, particularly elementary occupations are very frequently exercised as part-time jobs, with half of all women in such sectors working part-time. Elementary occupations include cleaning, agricultural labour, and also cover construction, manufacturing and transport workers. Another occupational group with high part-time shares – more than one third of women in part-time – is service workers and shop and market sales workers. These results square with the fact that part-time work is much more prevalent among people with low educational levels (LFS data, not shown). Occupations with very low part-time shares are legislators, senior officials and managers, providing evidence of the well-known glass ceiling effect according to which women, and more particularly if they work part-time, will find it difficult to gain access to management jobs (for further reading see European Commission 2011i). Occupations in the two typically male-dominated sectors (plant and machine operators and craft and related trades) also show very low part-time share for men and comparatively low shares for women.

## Developments in non-standard employment

Figure 2.11 Female part-time shares by occupation and country. 2011Q2

	total	legislators, senior officials and managers	professionals	technicians and associate professionals	clerks	service workers and shop and market sales workers	skilled agricultural and fishery workers	craft and related trades workers	plant and machine operators and assemblers	elementary occupations
Slovakia	5.7	:	3.6	3.4	3.4	4.3	:	:	:	27.7
Czech Republic	8.6	4.5	8.8	5.9	8.3	10.3	7.3	7.0	2.9	18.4
Lithuania	9.3	:	6.3	9.1	:	8.2	30.6	:	:	18.3
Greece	9.5	:	5.9	4.9	6.1	10.7	16.8	6.2	:	18.5
Latvia	9.7	13.8	5.5	8.6	13.2	8.8	:	:	:	15.3
Poland	10.3	3.3	6.4	8.0	9.5	12.5	20.1	4.9	2.2	17.7
Romania	10.3	:	:	:	:	1.7	28.6	:	:	29.0
Slovenia	11.8	4.0	6.2	9.2	12.2	19.4	29.0	:	5.3	25.4
Cyprus	12.0	:	13.9	7.1	11.4	14.3	46.7	:	:	9.9
Portugal	13.1	:	8.6	:	3.9	9.8	55.8	:	:	28.9
Estonia	14.3	:	13.2	18.5	:	15.6	:	:	:	28.1
Finland	18.8	:	12.2	13.4	17.6	27.3	17.8	13.7	8.8	30.9
Spain	23.9	6.4	12.8	17.0	17.5	28.3	15.6	15.8	14.1	43.2
Malta	24.5	:	18.5	26.1	21.4	30.5	:	:	:	55.3
Italy	29.5	13.2	15.3	23.9	30.7	36.1	20.6	27.4	17.3	52.9
France	30.0	12.3	26.3	24.1	27.0	32.1	24.8	17.6	18.1	58.8
EU27	31.6	12.6	21.5	27.5	30.5	36.5	25.7	16.2	13.9	51.2
Luxembourg	36.3	:	25.7	44.8	34.5	40.7	:	:	:	54.3
Denmark	37.9	:	26.8	26.7	33.5	53.4	:	:	:	61.6
Sweden	38.9	11.1	30.6	26.8	37.2	56.1	34.4	23.3	17.0	57.8
Austria	43.8	21.7	35.3	40.4	43.7	51.0	27.4	24.4	27.7	63.7
Belgium	44.1	17.5	32.0	40.4	43.6	53.3	33.3	37.3	32.9	69.0
Germany	45.2	16.6	34.5	37.3	42.4	56.1	33.7	30.0	33.7	73.9
Netherlands	76.4	51.0	66.3	73.4	77.4	87.1	69.8	68.3	61.6	91.1

Notes: No or very incomplete data by occupation for IE, HU, UK, BG.  
 : - No data.

Source: Eurostat (2011j).

### Segregation in female part-time employment by occupation

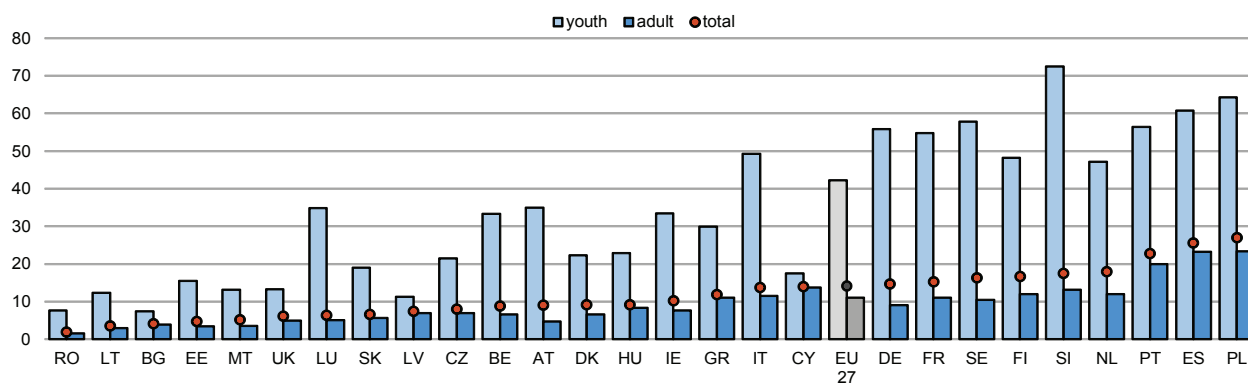
Figure 2.11 shows country-specific outcomes by occupation. Results are shown for women who constitute the bulk of part-time workers. In occupations requiring high educational levels – managers and professionals – few

countries display high part-time shares. The Netherlands is a notable exception, since here every second female legislator, senior official or manager, two thirds of women in professional occupations, as well as three quarters of female technicians and associate professionals, work part-time. The next highest female part-time shares of legislators, senior officials and managers are recorded in Austria where one in every five working women is part-time. Among professionals part-time work among women is more common, with (in ascending order) Sweden, Germany, Austria and Belgium having around one third or more of women professionals in part-time. The same is true

for technicians and associate professionals, among whom more than one third of women work part-time in seven countries (in addition to the Netherlands), namely, Denmark, Luxembourg, Sweden, Austria, Belgium and Germany. Large shares of women also work part-time in these same countries in occupations that require medium-level skills, particularly service workers and shop and market sales workers and clerks. On the lower educational end of the scale, elementary occupations stand out, with Denmark, Austria, Belgium and Germany recording around two thirds or more of female workers employed part-time; the share in the Netherlands is higher than 90% (see next section).

## Developments in non-standard employment

Figure 2.12 Temporary employment by age, 2011Q2



Note: youth: 15-24 years, adult: 25-64 years.  
Source: Eurostat (2011j).

### Large shares of youth in temporary employment

While part-time employment can allow work to be combined with private activities, particularly care work, and can thus facilitate (female) labour market participation, in many cases it is performed not as a matter of choice but because of inadequate provision of encompassing, quality and affordable child- and elderly care (OECD 2007). On the EU27 average, 36.1% of male part-timers and 24% of female part-timers say that they took up this option because they could not find a full-time job (LFS data, not shown). A further 28.2% of women say that they work part-time because they are caring for a child or incapacitated adult. An additional 16.4% of women give as a reason for part-time work other family or personal responsibilities (not shown).

Part-time employment entails obvious negative effects, most particularly in the case of low-hours part-time work. Effects on earnings (not only due to lower hours) are substantial, as are

effects on social benefits, particularly pensions, but often also unemployment benefits. Another crucial issue is that part-time employment is often self-perpetuating, given that changes from part-time to full-time employment are often difficult to make. Some improvements have been seen in this respect, however, in the wake, for example, of the 1999 part-time directive (see e.g. Clauwaert 2002).

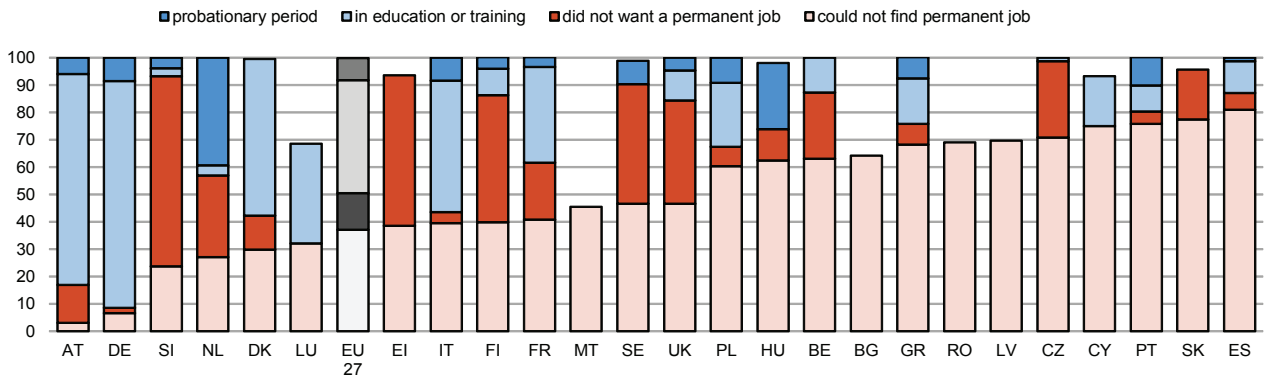
Temporary employment too (i.e. all employment of limited duration) is very unequally spread between EU countries and across the population, with women being slightly more likely than men (on EU27 average 14.7% vs. 13.6% in 2011Q2) and youth much more prone to be in temporary employment. Figure 2.1 already showed EU27 developments in this respect, with temporary employment having decreased markedly in the first phase of the economic crisis but increasing again more recently with – in the light of uncertain economic perspectives – new jobs being concluded on the basis of temporary contracts.

Figure 2.12 shows country findings in terms of total shares of temporary work in employment and the respective shares of youth and adult workers. The EU27 average stands at 14.2% in 2011Q2. Spain and Poland have more than one quarter of the population in temporary jobs, whereas

at the other end of the distribution we find Romania, Lithuania, Bulgaria and Estonia with shares of less than 5%. The national form of employment regulation is naturally of relevance for temporary employment shares (including fixed-term and temporary agency work). Most countries have deregulated temporary employment during recent decades, whereas regulation of permanent employment has in most cases remained more stable (Venn 2009). Employers in countries that have no strict regulation with regard to the employment protection of permanent workers have, of course, fewer incentives to make use of temporary contracts, the UK being a prominent example in this regard. Spain, however, which has been characterised by large shares of temporary employment, has attempted over the last decade to increase regulation for temporary jobs and decrease regulation for permanent jobs, albeit with few impacts on overall shares of temporary employment. Only with the crisis has the temporary employment rate in this country decreased starkly, because workers on temporary contract were the first to lose their jobs. However, most of these workers will have ended up in unemployment which, given the non-standard nature of their previous work history, is often not compensated well (for more details on developments during the crisis see Leschke 2012).

## Developments in non-standard employment

Figure 2.13 Main reason for temporary employment (%) for youth, 2010



Note: results are in many cases unreliable.  
Source: Eurostat (2011j).

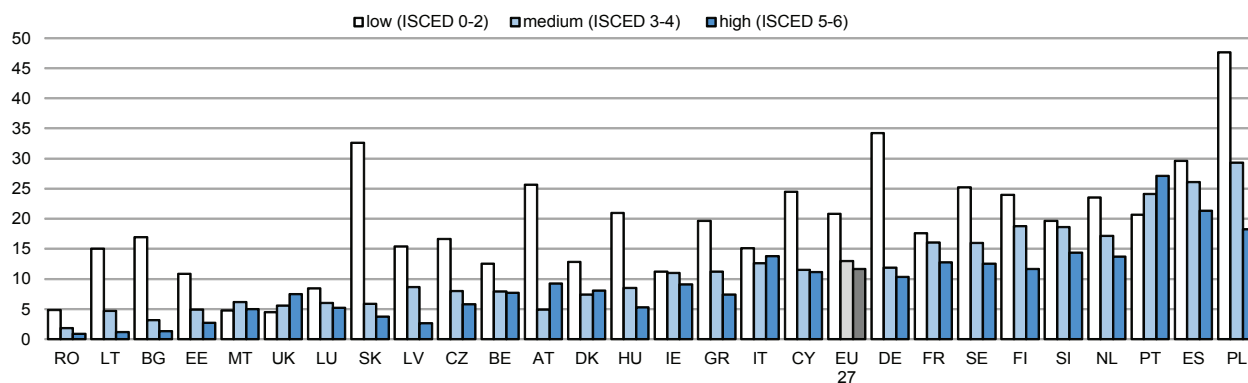
### Temporary employment often involuntary

Among young people working in the EU27, 42% have a temporary contract, which compares with 11% among adult workers. As seen in Figure 2.12, country-to-country differences are once again enormous. However, as many as eleven countries (Slovenia, France, Germany, Sweden, Portugal, Spain, Poland and Sweden, The Netherlands, Finland and Italy) have more than half or close to half of their young workers employed on temporary contracts. When, as is the case in Germany and Austria, the major reason for temporary employment among youth is training or education (in Austria and Germany as part of the dual education system), so that the young persons in question have a reasonable chance of moving on to a permanent job, this is much less problematic (compare Figure 2.13). However, particularly – but not only – in countries with very high total and youth shares, including Portugal, Spain and Poland, large numbers of youth state that they have a temporary job because they could not find a permanent one (75.9%, 81.0%, 60.4%

in these three countries respectively). In Slovenia, on the other hand, which has the highest youth share in temporary employment, only about 24% said that they ‘couldn’t find a permanent job’, with as many as 69% stating that they did not want a permanent job.

## Developments in non-standard employment

Figure 2.14 Temporary employment by education level, 2011Q2



Note: sorted on « total » (not shown).  
Source: Eurostat (2011j).

### Low-educated overrepresented in temporary employment

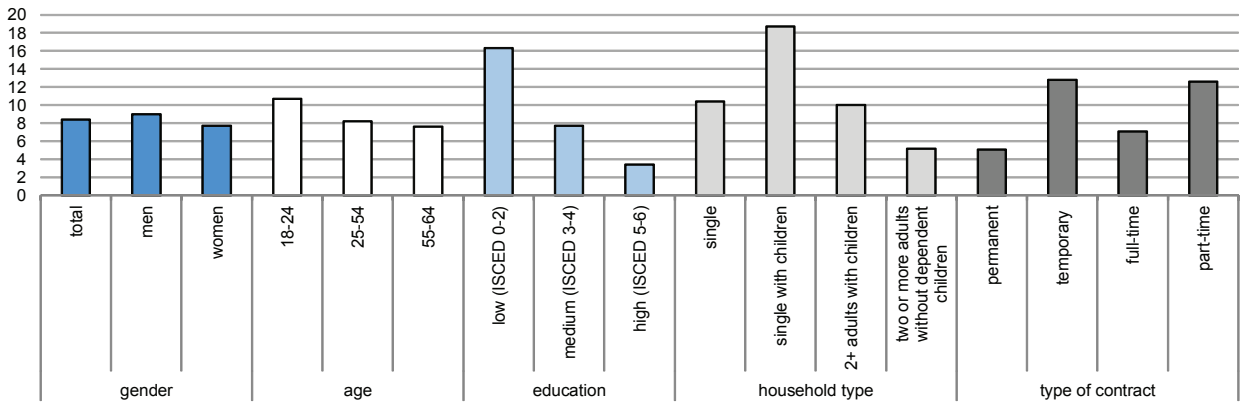
Temporary employment is unequally spread over the population not only in terms of gender or age group but also of educational level, with the least educated persons being particularly affected, as is clearly shown in Figure 2.14. On the EU27 average, 11.7% of people with the highest, 13% of people with medium and 20.8% of people with the lowest educational attainment have a temporary job, while the shares among persons with a low educational level are in some countries as high as 30% or more. This applies to Spain, Germany, Slovakia and Poland, the latter displaying a record level of close to 50%. Among the highest educated category of the population, only Spain and Portugal have levels of temporary employment exceeding 20%, and the same is true of these two countries, and also of Poland, with regard to persons with a medium educational level.

Temporary employment is not problematic only in that it fails to offer job security and thereby also planning

security – in terms of, for example, the decision to have children. It is, in addition, also frequently connected with less access to unemployment benefits (in spite of some, usually temporary, improvements in this respect having been introduced during the crisis), fewer possibilities to participate in training and lifelong learning measures, and also a lack of workplace interest representation. Frequently also, it fails to act as a stepping stone to permanent jobs, in spite of claims along these lines by policy makers and other advocates of temporary employment. Indeed, transition figures illustrate quite considerable ‘stability’ in temporary employment from one year to the next (European Commission 2009c).

## Outcomes of labour market inequalities in terms of in-work poverty

Figure 2.15 In-work poverty for employed persons by subgroup, EU27, 2009



Source: Eurostat (2011g).

### In-work poverty particularly high among the low-educated

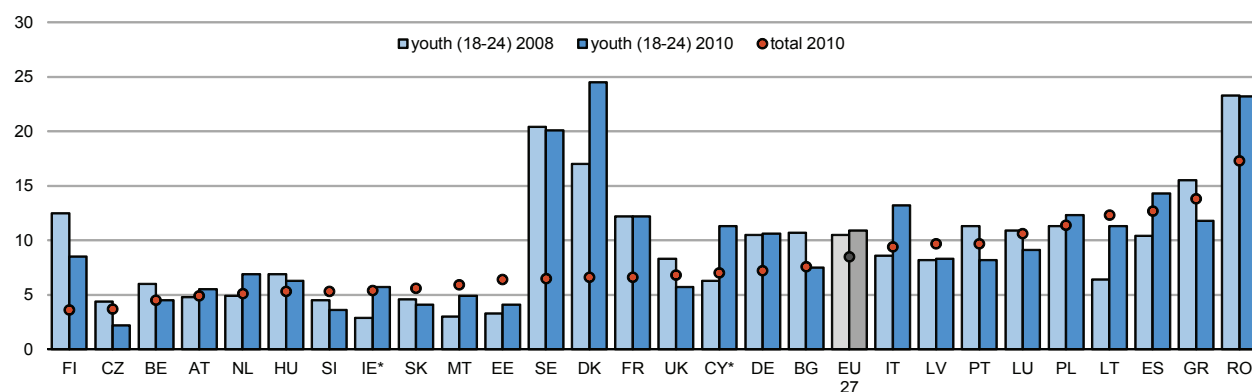
In-work poverty is measured as the rate of poverty risk (less than 60% of median equivalised household income) among persons 'in work' (i.e. employed for more than half of the reference period – usually the previous year). The fact that it is measured at the household level is an explanation as to why women who not only work part-time more often than men but also generally receive lower average hourly earnings (gender wage gap) are less likely than men to number among the in-work poor (for a critical account of the measurement of in-work poverty refer to Eurostat 2010).

Figure 2.15 illustrates how in-work poverty among employed persons is spread over different subgroups. It shows what labour market inequalities imply in practice. On the EU27 average, 8.4% of people were in-work poor in 2009 (latest complete data available); however, when we look at specific sub-groups, the shares can be considerably higher with 16.3% of those with the lowest

educational attainment being in-work poor, but also 10.7% of young people. The reason that the latter share is not higher is that young people often still live in the parental home, which disguises the real scope of the problem. Moreover, both part-time and temporary employment are connected with higher shares of in-work poverty, with 12.8% of temporary workers and 12.6% of part-time workers being in-work poor. This compares with 5.1% of permanent and 7.1% of full-time workers. The household type naturally plays a crucial role: as many as 18.7% of single parents are in-work poor.

## Outcomes of labour market inequalities in terms of in-work poverty

Figure 2.16 In-work at-risk-of poverty for employed persons, developments for youth, 2008-2010



\* Data for IE and CY refer to 2009 instead of 2010.  
Source: Eurostat (2011g).

### Large country variation in terms of in-work poverty

There exist, of course, wide differences among countries in terms of in-work poverty. Figure 2.15 depicts the overall levels for 2010 (2009 for Ireland and Cyprus) and others show marked declines (Finland, Czech Republic, Belgium, UK, Bulgaria, Portugal and Greece). Particularly problematic is the fact that in-work poverty is measured at the household level. This might well mean, for example, that young workers who formerly lived by themselves (and were thus more prone to fall below the poverty threshold), will, on becoming unemployed and moving back to their parents, no longer show up in the in-work poverty statistics if the household income lies above the 60% threshold.

own household (on this issue see also Chapter 3 which discusses in-work poverty for different educational levels). The shortcomings of the concept are further highlighted by the uneven developments in terms of in-work poverty of youth during the crisis. These are concealed by the only slight increase in the EU27 average (10.5% in 2008 to 10.9% in 2010), whereas in fact several countries show marked increases (Netherlands, Ireland, Malta, Denmark, Cyprus, Italy, Lithuania, Spain) and others show marked declines (Finland, Czech Republic, Belgium, UK, Bulgaria, Portugal and Greece). Particularly problematic is the fact that in-work poverty is measured at the household level. This might well mean, for example, that young workers who formerly lived by themselves (and were thus more prone to fall below the poverty threshold), will, on becoming unemployed and moving back to their parents, no longer show up in the in-work poverty statistics if the household income lies above the 60% threshold.

## Conclusions

### Many persistent forms of inequality

The above analysis has shown the considerable variation between labour market outcomes in different European countries. In terms of employment rates, differences amount to as much as 20 percentage points, primarily as a result of the wide spectrum (30 percentage points) displayed by national female employment rates, with a number of Southern European countries faring very badly in this respect and Northern European countries, and particularly Sweden, performing extremely well. In assessing this data, however, it should not be forgotten that the commonly used European Labour Force Survey measure of employment is sub-optimal insofar as it fails to take account of the volume of hours worked. This is of particular relevance in relation to female labour market participation, as illustrated by the example of part-time employment which is prevalent particularly in Nordic and corporatist countries such as Germany and Austria, but much less so in Central and Eastern European and Southern European countries.

The gaps between countries, in particular with regard to unemployment rates, have further increased during the crisis. Unemployment in the EU27 ranges from a low of around 4% in the Netherlands and Austria to as high as 21% in Spain.

The analysis has shown that certain subgroups (particularly youth, persons with low educational attainment, and migrant workers) fare particularly badly with regard to labour market outcomes, and this is true in most countries. There are still large differences in labour market outcomes between men and women, in spite of some closing of gaps during the crisis due to the disproportionate affectedness of particular male-dominated sectors. These differences are most prevalent when it comes to overall employment rates, particularly when expressed in full-time equivalent terms, as women, even if they are in employment, work, on average, considerably fewer hours –

a situation that has repercussions not only on earnings but also on social benefits and, particularly importantly, on pensions (see also Chapter 5).

Youth, of whom disproportionate numbers are in temporary employment and are thus easy to shed, have suffered particularly during the crisis. Their unemployment rate, already high before the crisis, has increased further by 5 percentage points over the last three years, currently standing at about 21% with a non-negligible number of countries having one third or more of young people in unemployment. In this regard, it is important to emphasise that youth is not only more likely to be unemployed but also less likely to have access to unemployment benefits.

Another group with consistently poor labour market outcomes are persons with low educational attainment. This group has very low employment rates, as well as much higher unemployment rates than those with higher educational levels, and is also over-represented in non-standard forms of employment. Another group that stands out is migrant workers, among whom particularly those from outside the EU27 have high unemployment rates while even EU27 migrants also fare worse, in most countries, than the national population (compare ETUC and ETUI 2011: 67-68). More restricted access to unemployment benefits is also a fact of life for this group.

It is highly questionable whether, in the light of the ongoing – and in several countries worsening – economic crisis and the severe austerity measures put in place by the majority of countries, labour market improvements and a narrowing of inequalities in line with the ambitious Europe 2020 headline targets is in fact feasible (for a critical account refer to Leschke et al. 2012).

# Education and inequality in Europe: a youth perspective

## Introduction

At the launch of the Lisbon Strategy, R. Atkinson and S. Davoudi (2000) commented on the way the concept of ‘social exclusion’ had gained increasing currency in the European Union discourse. While pointing out the instrumental role played by this concept in shifting the debate from mere income inequality to the incorporation of the social and cultural dimensions of exclusion, these authors stressed also that European debates on social exclusion had reached a crossroads: on the one hand, it could be that social exclusion would come to be viewed as the result of people’s deviant social behaviour which served to limit European economic growth and competitiveness; on the other hand, the concept might well gain in complexity through increased attention being paid to the manifold causes and multi-faceted nature of inequality (associated with labour market, welfare systems, family and community structures, as well as entailing a significant geographical aspect).

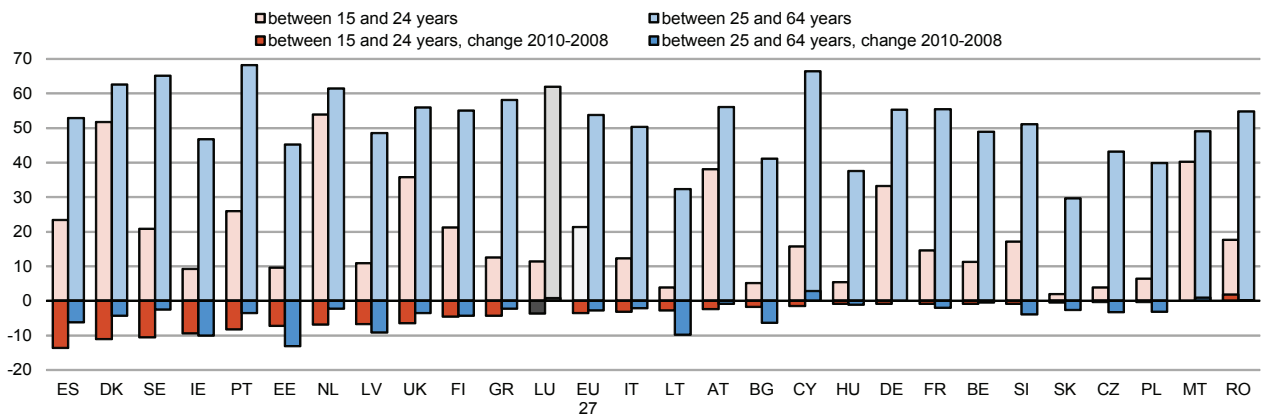
More than ten years later, Atkinson and Davoudi’s observations remain highly topical and are more relevant than ever. The Lisbon strategy – intended to substantially contribute to increased economic growth and social cohesion – failed to achieve its goals, not least the educational and social ones. At the present time, the new Europe2020 strategy will, in all probability, prove even more difficult to implement since not only do its goals appear more challenging but the existing inequalities are likely to be exacerbated still further as a result of the ongoing crisis and austerity measures (see ETUC and ETUI 2011). Strong claims have been made for the fundamental role of education in breaking the vicious circle of inequality (Nicaise 2010), not only insofar as it serves to enhance labour market opportunities (higher employment rates, better protection against unemployment and better jobs, see Chapter 2), but also because it exerts important positive ‘spillover’ effects on the social dimension, making people into healthier and more active citizens (OECD 2011b; Dee 2004). However, the current crisis has shown that education does not always provide a crisis-proof shelter, especially for fragile groups (e.g. youth and immigrants) who are paying a high toll in terms of job losses (e.g. disproportionate rise in unemployment, see also Chapter 2) and uncertain future prospects such as the risk of long-term unemployment and/or of in-work poverty.

## Topics

> <i>Labour market outcomes and educational attainment</i>	41
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## Labour market outcomes and educational attainment

Figure 3.1 Employment rate and changes by age and low educational attainment (ISCED 0-2), 2008-2010



Source: Eurostat (2011j).

### Education or age: what is to blame?

The crisis has placed most European countries in bleak labour market situations. Other chapters (Chapters 2 and 7) provide quite extensive analysis of labour market outcomes and developments for different sub-groups (women, youths, migrant workers). Figures and data presented here aim at complementing this information with a youth- and education-based perspective. Youth employment and unemployment rates are known to be more influenced than those of adult workers by fluctuations in the economic cycle (Lefresne 2003). The role of education in reducing, preventing and better responding to changing economic needs has been discussed and translated into several European-level initiatives focused on the need to improve the overall skills level of young people (e.g. New skills for new jobs (European Commission 2009d); ET2010 and ET2020 (Council of the European Union 2002 and 2009) and the need to increase the employability of young people (European Commission 2011a); New Skills for Jobs (European Commission 2010b); Youth on the Move (European Commission 2010f) as well as the European Employment Strategy taken as a whole). Education and training should in fact help to counter

the 'age effect' resulting from young people's relative lack of work experience and disadvantaged position compared to older workers.

Figures (from 3.1 to 3.6) show how inequalities in labour market outcomes spread over two dimensions: between generations (youth vs. older workers) and within generations (low-skilled vs. medium/high skilled). Figures 3.1 3.2 and 3.3 show two age groups (young workers 15-24/25-29 and adult workers 25-64) by level of education attained and changes of employment rate in percentages in 2008 and 2010 (downward bars). Changes in employment rate were included as they show more clearly the interesting developments which have affected not only countries most hit by the crisis (Ireland, the Baltic countries, Spain, Portugal), but also the less intuitive ones (such as Denmark).

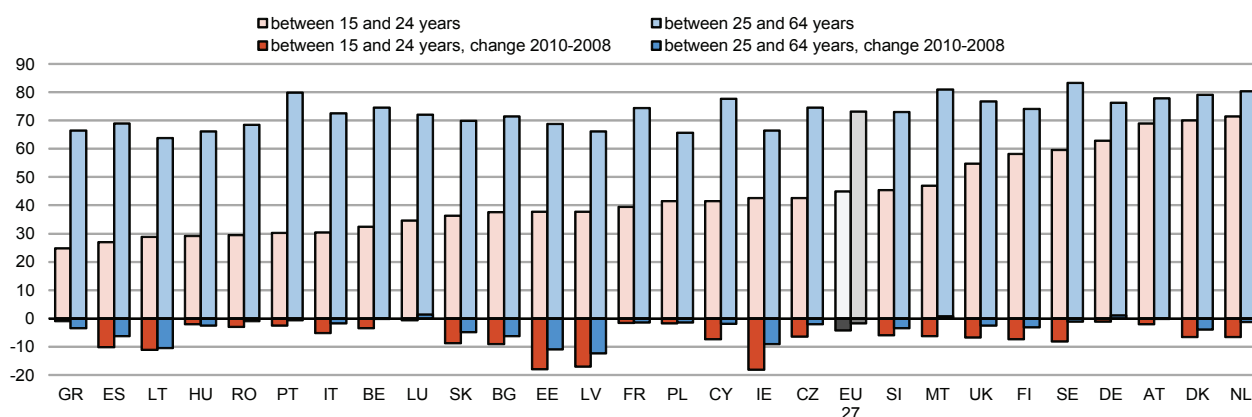
Figure 3.1 shows negative changes in employment rates for low-skilled workers (ISCED 0-2, i.e. pre-primary, primary and lower secondary education) in all EU countries and for both age groups. Only Romania, Malta, Luxembourg and Cyprus present modest increases, particularly for the adult active population. Countries particularly hit hard by the crisis, such as Spain, Latvia, Estonia, Ireland and Portugal, present very strong employment reductions for young people ranging from -9.2% in Latvia to -13.6% in Spain. Nonetheless, also in countries with overall – at least before the crisis – high employment rates, such as Denmark,

Sweden, the Netherlands and the UK, youth suffered major reductions in employment rates. In these countries rates have significantly decreased for youth with lower education while less marked reductions were recorded for adults. In Denmark, employment rates for youth fell from 62.9% in 2008 to 51.8% in 2010; a similar trend was recorded in the Netherlands where the high employment rate for youth – 60.8% in 2008 – decreased significantly to 53.9% in 2010. Despite similar employment contractions, in Sweden and in Ireland the initial rate was already significantly lower (in Sweden 31.3% in 2008 and 20.8% in 2010; in Ireland 18.6% in 2008 and 9.2% in 2010). On the EU27 average, meanwhile, the lower-educated youth employment rate decreased by 3.5% (from 24.9% to 21.4%).

For most countries, lower-educated youth experienced the worst contractions in employment, although in a few member states, including the Baltic countries, low-skilled prime-age workers were the group most affected by the crisis. Contractions in employment rates among low-skilled young workers are due to job losses in transport, warehousing, communication, but also manufacturing and construction. Some exceptions – Malta, Luxembourg, and Germany – show no reduction in employment rates for youth – or a very low one. This is in line with very low unemployment increases in these countries for both youth and prime-age workers (see Chapter 2).

## Labour market outcomes and educational attainment

Figure 3.2 Employment rate and changes by age and medium educational attainment (ISCED 3-4), 2008-2010



Source: Eurostat (2011j).

### Poor labour market outcomes for medium-skilled workers

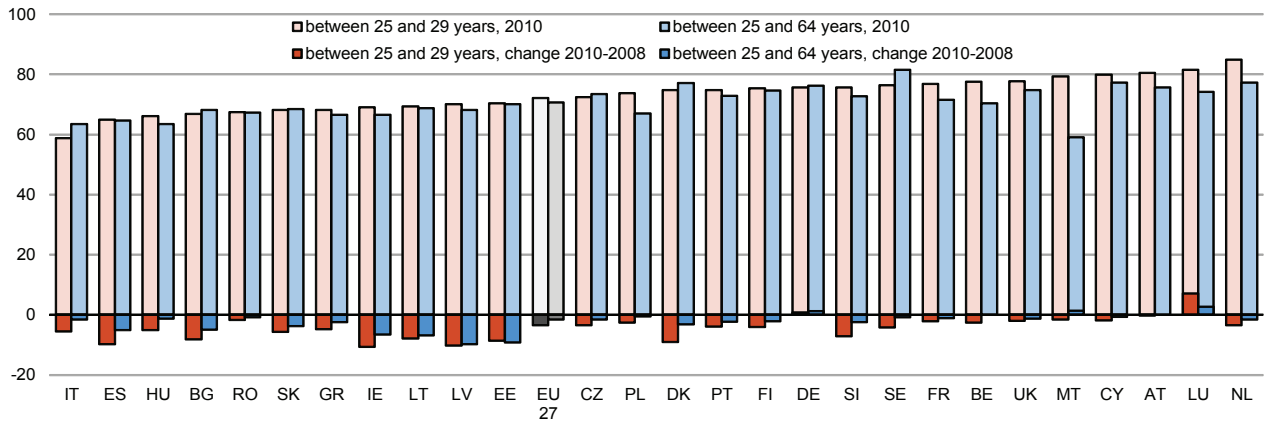
Figure 3.2 compares employment rates for 2010 for individual age groups and changes (2008-2010) in employment levels for medium-skilled youth and adult workers (i.e. those having an upper secondary and post-secondary non-tertiary educational level, ISCED 3-4). The left part of the graph shows countries with significantly deteriorating values for particular groups (Ireland, Estonia, Latvia, Lithuania, Spain), highlighting those countries which were most hit hard by the crisis. In general, significant negative changes affected younger people more than older workers. As for the previous Figure 3.1, it is important to note that rates of deterioration conceal very different starting levels. In 2010, despite decreasing employment rates, the Nordic countries (around 60% for Finland and Sweden and more than 70% for Denmark) and the Netherlands (71.5%) still had higher employment rates for medium-skilled youth. In relation to all Figures based on employment rates

provided by Eurostat, it is to be noted that they are not full-time equivalents but that the employment figures include all people who report having worked at least one hour in the week of reference investigated in the survey. This extremely broad concept of employment might explain in part why the Nordic countries and the Netherlands, but also Germany and Austria, present higher employment rates, for these are all countries in which it is customary for young persons to take up employment in conjunction with their studies.

The Nordic countries show high rates of working students with part-time contracts (in 2009 in Denmark, and also in the Netherlands, almost 50% of students aged between 18 and 24 had either full-time or part-time jobs); in Germany, meanwhile, more than 20% of students (18-24) – mainly in upper secondary education (medium skilled- ISCED 3-4) – are working under a training contract in the context of the well-known dual vocational education system that combines in-work training and classroom-based vocational education (Eurostat 2009).

## Labour market outcomes and educational attainment

Figure 3.3 Employment rate and changes by age and high educational attainment (ISCED 5-6), 2008-2010



Source: Eurostat (2011j).

### Higher education and employment rates

Figure 3.3 shows employment rates for highly skilled youths aged between 25 and 29 years old, compared to workers aged 25-64 (because Eurostat does not provide figures for the 30-64 age group, there is partial overlap of categories in this Figure). This older age group was chosen as representative of 'youth' because in several countries young people in the 15-24 age group are less likely to have completed their higher education and do not commonly combine studies with work, a situation that will tend to lead to underestimation of employment rates and overestimation of unemployment rates (Lefresne 2003).

This is also confirmed by differences in employment rates among countries: in spite of being significant also for the 25-29 group (at the one extreme Italy, with 58.8%, at the other The Netherlands, with 84.9%), the differential between the two extremes is smaller than for the 15-24 age group (Italy 25.3%: Finland 79% in 2010 – Figure not shown).

Compared to Figures 3.1 and 3.2 for the youngest group (15-24), the changes

in employment rates among the 25-29 age group were less dramatic when compared to older workers' rates. Again Ireland, Latvia and Spain show the highest reductions for youth (around 10%), while Austria, Germany and Luxembourg recorded either a very minimal reduction (-0.3% for Austria) or an increase (0.8% for Germany and more than 7% in Luxembourg). The employment rate for this relatively young group decreased markedly also in Denmark (-9.1%).

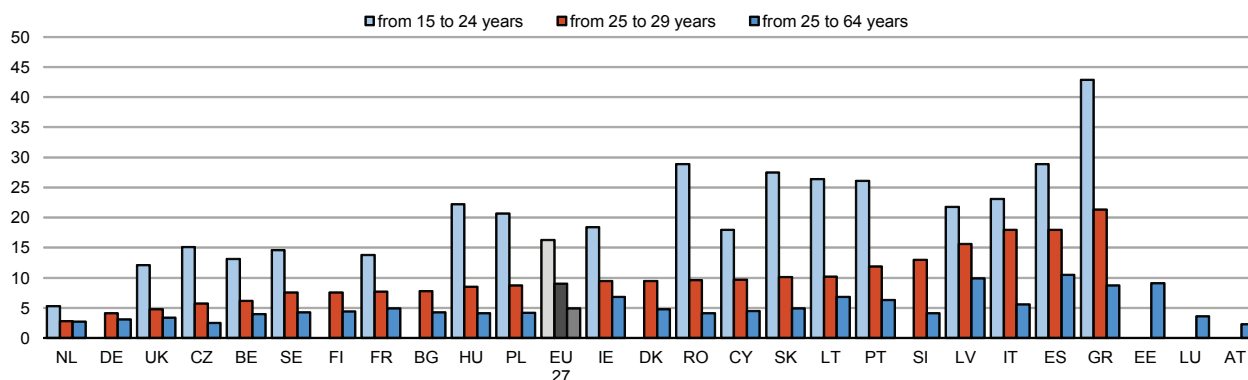
Employment rates for young persons aged 25-29 years appear to be higher than those for older workers. However, this is a distortion mainly due to low employment rates among workers aged between 55 and 64 years old (19 countries have a less than 50% employment rate for this group, see Chapter 2, Figure 2.4). If youth (25-29) are compared to prime-age (25-54) workers, differences in employment rates between youth and prime-age workers still emerge, but less markedly so than for the youngest group (15-24). Tertiary education would appear to be least valued in Italy where the employment situation of graduates is by far the worst in Europe: in 2010 only 54.2% of young people aged between 25 and 29 years old were in work (-17.5% compared with Greece which has the second lowest rate in Europe).

Age and education effects on employment (as well as unemployment) are difficult to disentangle completely

and this cannot be done only by using aggregated data; nonetheless, some conclusions can be drawn from the data presented: a) as expected, youth generally show lower employment rates compared to prime-age workers and have been shown to be more affected by adverse economic cycles; b) the lower-educated youth population have been most hard-hit by the crisis; c) there are significant differences in employment rates among member states for both young and prime-age workers; and finally d) in many member states young people, and especially the youngest age group (15-24), who had completed higher education were not protected against the crisis and were more hard-hit compared to higher educated adults.

## Labour market outcomes and educational attainment

Figure 3.4 Unemployment rates by age (25-29) and high educational attainment (ISCED 5-6), 2010



Notes: data for youth 15-24 for BG, DK, DE, EE, LU, AT, SI and FI is missing. For LV data is from 2009; data for youth aged 25-29 is missing for EE, LU, AT. Data for MT is missing. Source: Eurostat (2011).

### Youth on the labour market: a dire situation

As with the employment figures, age groups with a given educational level are compared for unemployment rates.

Data are structured by age group (15-24 or 25-29 for youths and 25-64 for adults) as well as by educational attainment (low skilled workers with ISCED 0-2; medium skilled workers with ISCED 3-4 and highly skilled workers with tertiary education degree ISCED 5-6).

Inequalities between age groups and level of education appear very significant.

Figure 3.4 shows the unemployment rates for 2010 of active highly educated young (15-24 and 25-29) and adult workers. From a comparison of this figure with the following Figure 3.5, it can be seen that highly educated adults have been less affected by the crisis than lower- and medium-skilled adult workers.

Despite their education, highly educated young workers have more easily lost their jobs and are less likely to find another one than are adult workers. In all member states, differences in unemployment rates between younger and older workers with tertiary

education are very pronounced. For example, in Italy, Romania, and Slovakia, young graduates are five to six times more likely to be unemployed than are adult workers. The most dramatic developments in youth unemployment have been recorded in Greece, rising from an already high level of 24.6% in 2008 to 42.9% in 2010 (data not shown). Data for highly educated youth aged between 15 and 24 are rather patchy. Moreover, it should be noted that figures for tertiary graduates among the 15-24 age group might be overestimated for some countries, as no more than a small proportion of people in this group have already completed their studies (Lefresne 2003).

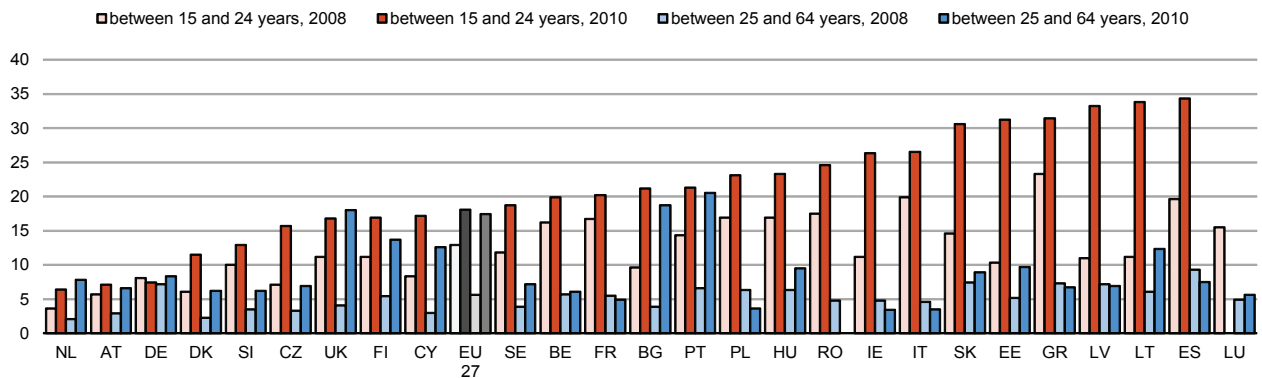
As for the unemployment rate, the rate for the 25-29 age group of highly educated persons is shown. It is assumed that most people in this group have finished their university studies and thus the unemployment indicator should be less biased by a reduced active working population as denominator.

Significantly unequal labour market outcomes compared to adults are still very present: in Italy and Greece, as well as in Spain, the rates are respectively 18%, 21.3% and 18%, thus still very high. However, other countries show markedly lower rates for this older group of young people compared to the younger ones, namely, the UK, but also, among others, Slovakia, Czech Republic and Belgium.

Data (from the Eurostat LFS, not shown) comparing low, medium and highly educated young people aged between 25 and 29 shows that high inequalities in unemployment rates within this age group were already recorded and were exacerbated by the crisis. Lower-educated youths were harshly affected by the crisis and their unemployment rates rose dramatically in Spain, Ireland, Latvia, and Lithuania, to mention but a few countries. Differentials in rates are indeed also marked in Germany, Hungary, Belgium, and Poland. Highly educated and medium-skilled adult workers generally present lower rates of unemployment compared to lower-educated and younger workers. However, their rates do not always differ substantially and in some cases highly educated adults have higher rates of unemployment. In 2010, this applied to Italy, Cyprus, Denmark, Greece, and Slovenia, indicating that higher education is not always a crisis-proof shelter even for workers with some degree of working experience that might be expected to prove an asset in their attempt to return to the labour market.

## Labour market outcomes and educational attainment

Figure 3.5 Unemployment rates by age and medium educational attainment (ISCED 3-4), 2008-2010



Note: Data for MT is missing; data for youth 2010 for LU is missing; data for adults 2010 is missing for RO.  
Source: Eurostat (2011j).

### Increased unemployment rates also medium-skilled youth

In general, before the crisis the medium-skilled young (15-24) unemployed had higher unemployment rates than the medium-skilled older working population (Figure 3.5).

In 2010, all countries saw their unemployment rates among young people increase significantly, with the single exception of Germany where the unemployment rate for this group of young middle-skilled workers actually fell slightly (0.7%).

The Baltic countries, as well as Greece, Spain, Portugal and Slovakia, recorded the highest rates (between 30.6% for Slovakia and 34.3% for Spain), but also in Italy and Ireland (both around 26%), Portugal (21.3%) as well as in some other Eastern European countries such as Romania, Poland, Bulgaria and Hungary, youth unemployment shares are above 20%. France, Belgium and Sweden also have rates of around 20%; the increase for Belgium and France between 2008 and 2010 was around 3%, while for

Sweden the crisis has led to a significant 7% increase in unemployment among the young age group. The Czech Republic and the UK, together with Finland and Cyprus, have rates below an already high EU27 average (18.1%).

Changes from the initial rate of unemployment in 2008 are disproportionate and dramatic, in a few countries particularly so: Slovakia, for example, has doubled its initial rate in two years.

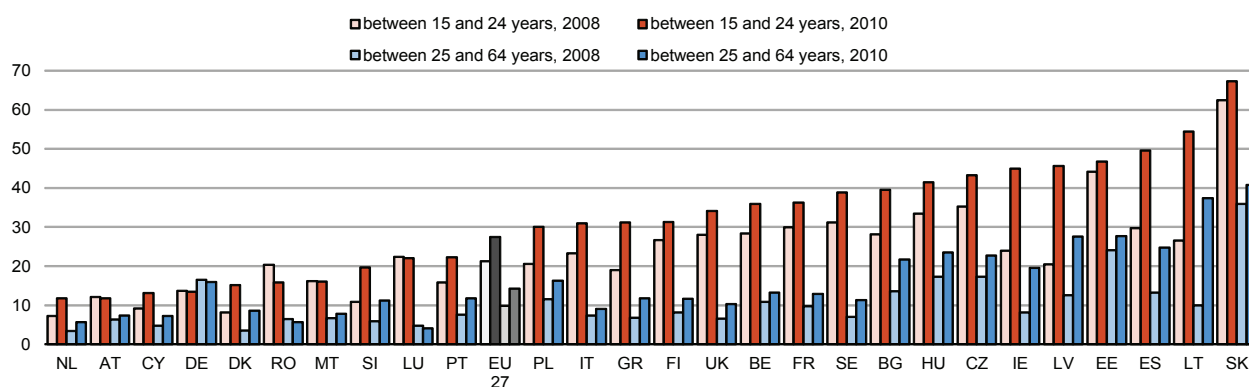
In 2010 the remaining member states had youth unemployment rates of between 6.4% (The Netherlands) and 12.9% (Slovenia). The Netherlands, Denmark, Germany, Austria and Slovenia have a quite developed vocational training system that tends to provide a very specific vocational education and thus ease the transition to often pre-determined jobs that exist in accordance with labour market requirements. Despite this well-developed link with the labour market and very low rate of unemployment for this group in 2008, the economic crisis has increased the unemployment rates among youth even in these countries: both Denmark and the Netherlands had almost doubled their figures in 2010, the former rising from 6.1% to 11.5% and the latter from a very low 3.6% to 6.4%.

It is important to emphasize that differences between age groups are still very dramatically disproportionate in most of the countries. Among the most striking examples in this respect are Italy

and Greece with an unemployment rate difference between the two age groups of 20.4% and 18.8% respectively. Most European countries have rates for young people with medium skills that are at least 10% higher than among adults (the rate differential for the EU27 is 10.3%). Moreover, the increase in the rate for adults has been significantly less pronounced than for young workers; only in the most affected countries (right-hand side of the graph) was this older age group of workers severely affected by job losses.

## Labour market outcomes and educational attainment

Figure 3.6 Unemployment rates by age and low educational attainment (ISCED 0-2), 2008-2010



Notes: data for EE for youth and adult for 2008 are from 2009  
Source: Eurostat (2011j).

### Low-skilled workers paying the highest price

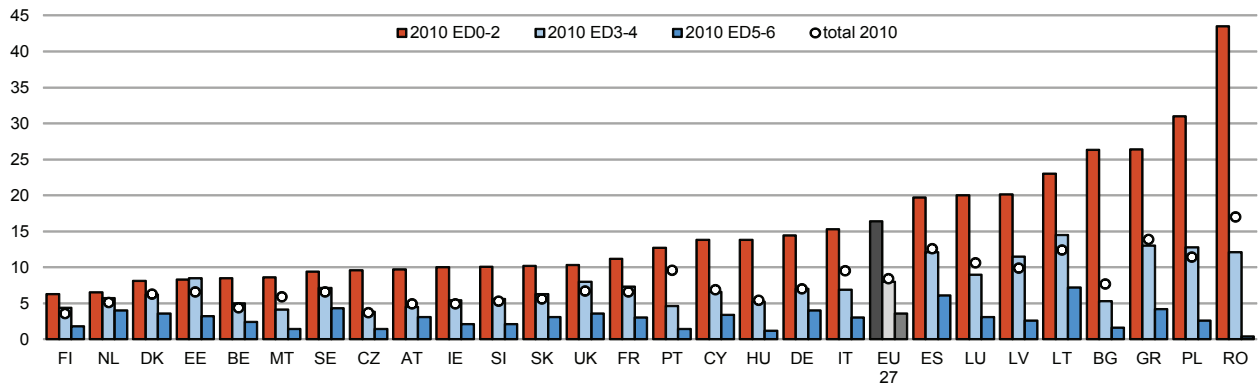
Figure 3.6 for low-skilled workers shows that this group has paid the highest toll. Both age groups (young and adult workers) were severely affected by the aftermath of the crisis. Sky-rocketing unemployment figures for youth are found in Slovakia (67.3%), in the Baltic countries, but also in Sweden and Spain, as well as Ireland where rates rose above 40%. A series of countries, meanwhile, show relatively low unemployment rates for low-skilled workers compared to many other member states: in Germany, Austria, Denmark, the Netherlands, Cyprus, Malta and Romania these rates remain below or around 15%. In these countries, rates for lower-skilled unemployed youth are equal to or lower than the average rate for this group, meaning that they present lower rates of unemployment compared to medium and high-skilled young workers. Despite relatively lower rates for youths, the scope of changes and the trend are quite important: in Denmark, for example, youth unemployment increased by almost 50% over two years. In many countries, the most

affected sectors have been construction, hotels and tourism, as well as small manufacturing industries, in which low- and medium-skilled young workers are predominantly employed. Nonetheless, a more marked increase in unemployment among highly-skilled youths might appear in the annual Labour Force Survey for 2011, as an increase in unemployment rates for the public and service sectors was recorded in that year (see Chapter 2). In most of the countries young people were more affected by crisis also because they are more likely to be employed on fixed-term contracts, especially where labour market segmentation is particularly pronounced (see Chapter 2), which usually means that they are more easily dismissed in times of economic hardship. Fixed-term contracts for youth are often found in sectors such as hotels and tourism and retail which are heavily dependent on seasonal low-skilled work. Adult workers with at most an educational level of ISCED 0-2 (pre-primary, primary and lower secondary education) saw their unemployment rate increase by between 1% (Austria) and 27% (Lithuania) between 2008 and 2010. Among younger workers, only Germany, Romania and Luxembourg present slightly falling rates for both groups between 2008 and 2010. The case of Romania is particularly interesting as here the rate of unemployment is significantly higher for medium and highly educated young workers (in 2010

24.6% for medium-skilled and 28.9% for highly skilled) than for the lower-skilled. This might be partially due to a limited active population represented by this indicator (as previously commented, Lefresne 2003), but also to the economic structure of the country where most of the job losses were found in manufacturing industry but also in the service sectors such as education and health where low salaries prompt emigration (a drop of 16.5% among young teachers was recorded in 2009 (European Foundation for the Improvement of Living and Working Condition 2011), while a small rise was recorded in agriculture (5.6%). This has been explained by the growing interest in the primary sector among young people, who find it increasingly difficult to enter the secondary and tertiary sectors (mostly involving young people with medium and higher skills). However, the fact of being employed does not preserve the young lower-educated Romanian from suffering in-work poverty. The following section and Figure 3.7 look at the social risks connected to lower education.

## Social and educational inequalities

Figure 3.7 In-work at-risk-of-poverty rate by education level, 2010



Note: CY and IE data from 2009  
Source: Eurostat (2011g).

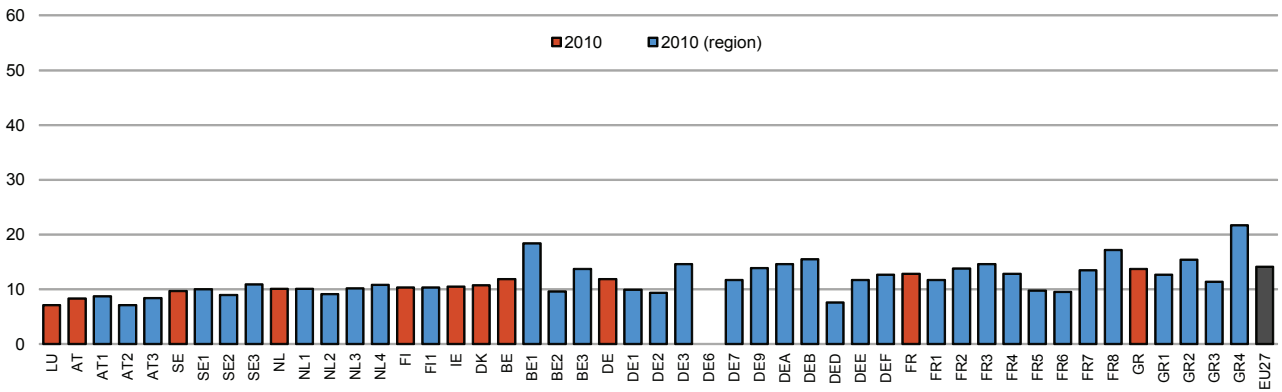
### Lower education, higher social risks?

The in-work at-risk-of-poverty data from the EU-SILC database is based on household income level, meaning that the at-risk-of-poverty indicator is computed by adding together the personal income received by all household members plus income received at household level (work-related and social transfers, as well as private income from properties and transfers between households, Eurostat 2011c). In consequence, young people who decide to move out of the parental home are considered to be more at risk as they are no longer computed as benefiting from financial support of their parents or families. This indicator thus has its limits in depicting the risk of in-work poverty (see Chapter 2). However, Figure 3.7 interestingly shows how a lower level of education entails a dramatic increase in the risk of in-work poverty for the working population at large (aged between 18 and 64). Romania, Poland and Bulgaria have by far the most significant differences (in Romania lower-skilled in-work poverty is 44 times higher than for the highly skilled, while these differences are also particularly large in the southern countries (Spain, Italy, Greece, and Portugal).

Finland and the Netherlands show a fairer distribution of this risk among educational levels as well as overall lower in-work-poverty rates (respectively 3.6% and 5.1%), while Belgium, Austria, the Czech Republic, Hungary and Slovenia – despite having an in-work poverty rate of around or less than 5% – have more pronounced differences among groups with different educational attainment. Differences in in-work-poverty rates by level of education might also be compared with the relative earnings from employment by educational attainment (OECD 2011b): in countries where there are more compressed returns in earnings from education (i.e. smaller differential in relative earnings for higher- and lower-skilled workers) there seem also to be lower in-work-poverty differentials between lower- and more highly educated workers. Moreover, social transfers (see Chapter 5) play an important part in preventing low-paid workers from falling into poverty. In the southern European countries, as well as in the eastern countries, these mechanisms of social redistribution are lacking or are not so well developed as in countries to the north.

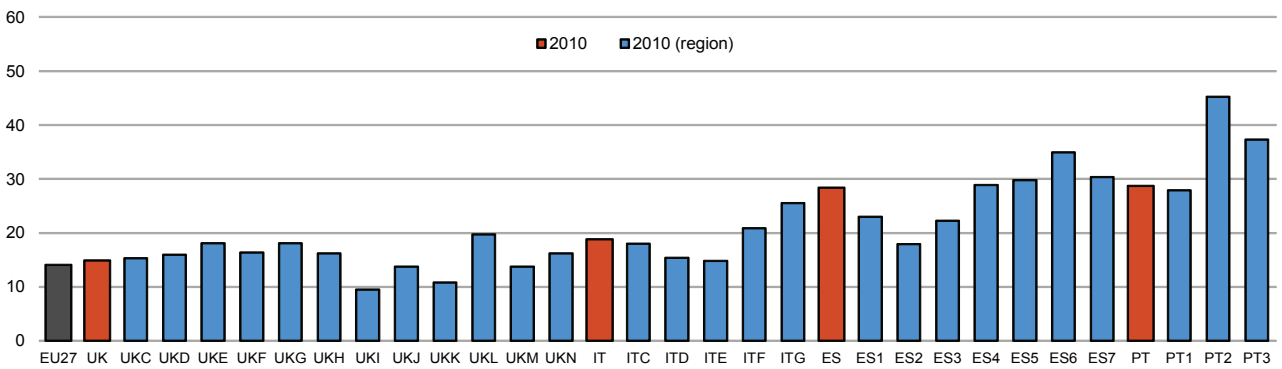
# Social and educational inequalities

Figure 3.8 Early school leavers, old member states (1)



Note: Brandenburg, Bremen, Mecklenburg-Vorpommern, Saarland, Thüringen, Aland are missing  
 Source: Eurostat (2011d).

Figure 3.9 Early school leavers, old member states (2)



Note: Brandenburg, Bremen, Mecklenburg-Vorpommern, Saarland, Thüringen, Aland are missing  
 Source: Eurostat (2011d).

## **Social and educational inequalities**

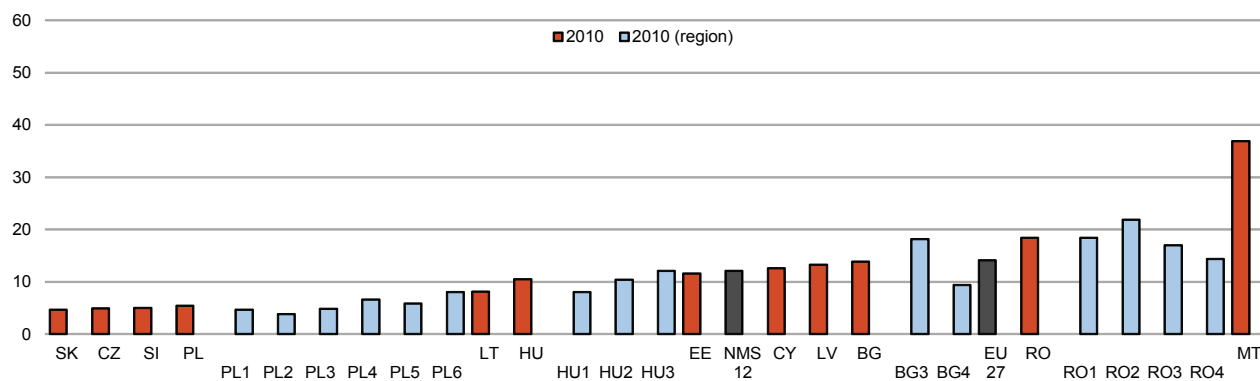
### **National averages conceal large regional differences**

member states. Figures 3.8, 3.9 and 3.10 on ESL present both national averages and regional rates.

Two interesting indicators, presented in the following Figures (3.8, 3.9, 3.10 and 3.11, 3.12 and 3.13), can contribute to highlighting the importance of education in preventing social inequality (e.g. at-risk-of-poverty) as well as unequal labour market outcomes. These are the Early School Leavers (ESL) and NEETs (Not in Education Employment or Training) indicators. Both have been broken down at regional level (NUTS1) in order to highlight differences within countries, for the aggregate national levels of ESL and NEETs fail to capture the significance of the regional dimension. Although data do not lend themselves to the establishment of clear causal relationships, it is widely recognised that educational attainment and labour market outcomes are also dependent on the surrounding socio-economic situation (NESSE 2010). ESLs are indeed the social outcome of complex economic, social and institutional circumstances. Studies (European Commission 2011a) confirm that ESLs are more often living in socially and economically disadvantaged areas (compare Chapter 7) and in poor families. Consequently, they can rarely benefit either from the support of more highly educated parents or family members or from quality education or other extra-curricular activities. Moreover, the areas in question are often rural, with poor connections to cities and infrastructure such that young people might also be discouraged from continuing in further education given the long commuting distances. The local socio-economic environment and educational provision are crucial in preventing, reducing and tackling early school-leavers. Data confirm strong regional inequalities in almost all EU countries: pronounced differences are found in bigger countries and mostly in the southern and eastern

## Social and educational inequalities

Figure 3.10 Early school leavers new member states



Source: Eurostat (2011d).

### Early School Leavers: a context-related issue

Early School Leavers (young people aged between 18 and 24 with at most lower secondary education and not in education or training in the last four weeks before responding to the Labour Force Survey) have recently attracted increasing attention. Since the adoption of the Lisbon Strategy and the Open Method of Coordination on Education and Training (Council of the European Union 2009, see ETUC and ETUI 2011), ESL have been identified as a priority because of their social and economic cost (European Commission 2011a). Moreover, ESL rates are now a headline target of the Europe 2020 strategy (European Commission 2010d), and member states rates will in future be monitored by means of the National Strategy Reports. However, the headline target of reducing ESL to less than 10% for the whole 27 member states is an output average target that conceals great divergences among member states and within countries themselves.

The regions shown in Figures 3.8 to 3.13 are not defined by administrative internal boundaries, but are territorial units delimited by Eurostat (NUTS1) for statistical

purposes (for small countries there is a single region covering the whole country). Figure 3.10 shows the regional situation in the new member states (NMS), and Figures 3.9 and 3.8 in the old member ones. The NMS show on average lower rates compared to old member states, except for Malta (more than 35%) and Romania (21%). Despite a national average close to the EU27 average, Bulgaria displays significant regional differences, similarly to Hungary. Even Poland, with one of the lowest ESL rates, shows higher percentages in its northern areas, where per capita GDP is lower compared to the other regions of the country.

The old member states show higher rates of ESL and Spain, Portugal and Italy are among the worst performers in this respect. Within the 15 old member states, differences in ESL are even stronger, meaning that older member states seem more heterogeneous in terms of educational attainment of the population as well as in terms of employment opportunities and socio-economic structures. This is the case of Italy where in the southern part and the two main islands of Sardinia and Sicily rates are at least 10% higher than the lowest rate in the country (in the north-eastern area). The same analysis can be carried out for Portugal and Spain, where young people living in areas with strongly tourism-based economies (such as the islands) are much more likely to leave school earlier. Despite being a small country, Belgium shows marked differences and young people in

the Brussels region, mainly due to a high rate of immigration and a poor urban context, are twice as likely to become ESL than are the inhabitants of Flanders.

A reverse pattern is recorded in the United Kingdom where the lowest rate of ESL is in the City of London, and the most likely to drop out of education live in Wales (19.7%) or in Yorkshire or the West Midlands (18.1%). The specificity of the socio-economic situation as well as the characteristics of the population considered are important factors to be taken into account (e.g. the presence of declining industries – like the mining sector).

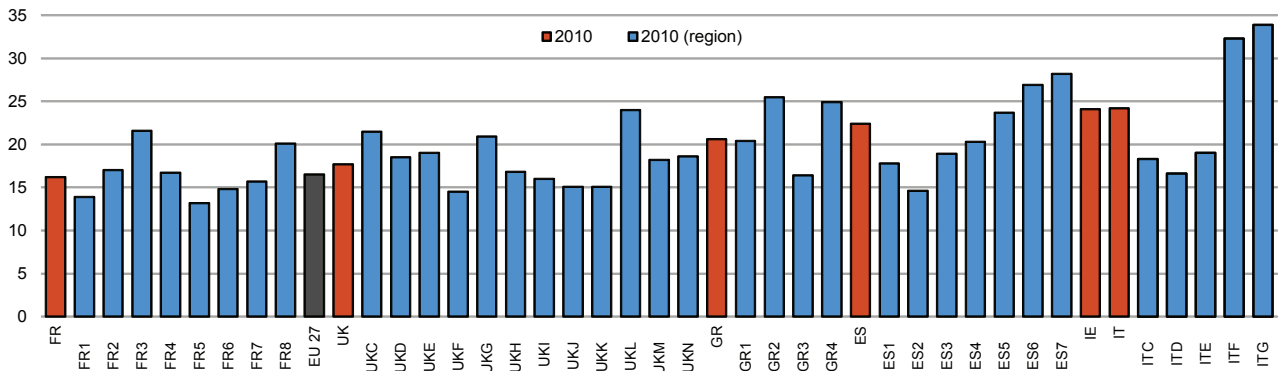
From a time perspective (data from Eurostat not shown) ESL rates have evolved before and since the crisis. Since 2007 there have been small decreases in most European countries, in line with a generally decreasing trend within Europe.

The most significant reductions were recorded in Spain and in Portugal and apply to virtually the whole of these countries. In Portugal a 7% reduction of the national average was recorded between 2008 and 2010; while in the same period in Spain this record has decreased by between 3 and 4%.

Reductions (figure not shown) in early school-leavers in these countries seem to have speeded up slightly after the impact of the crisis (2008-2010). This might be explained by the fact that young people opt to stay longer in education rather than to enter the labour market under very uncertain conditions.

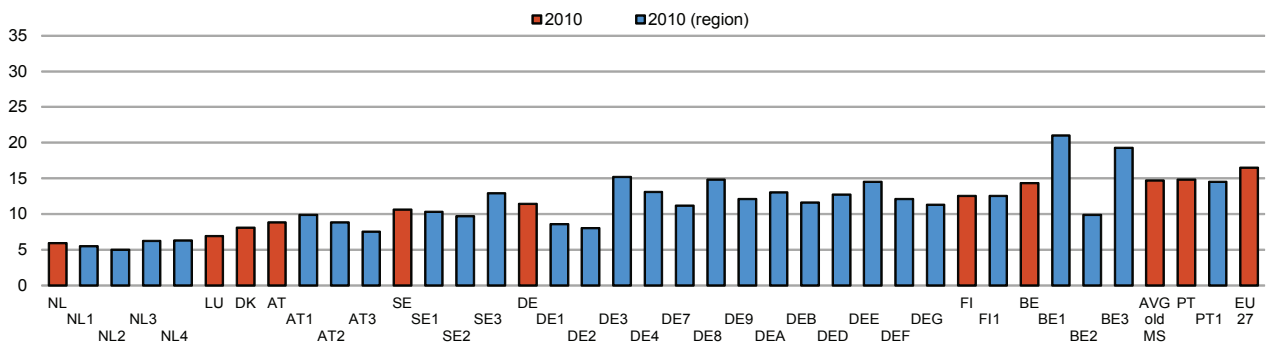
## Social and educational inequalities

Figure 3.11 Young people not in employment, education or training by NUTS 1 region (NEET rates), old member states (1)



Source: Eurostat (2011d).

Figure 3.12 Young people not in employment, education or training by NUTS 1 region (NEET rates), old member states (2)



Source: Eurostat (2011d).

### NEETs rates: strong differences within and between EU countries

The other indicator – NEETs – shows the rate of young people who are not in Employment Education or Training at regional level (NUTS 1).

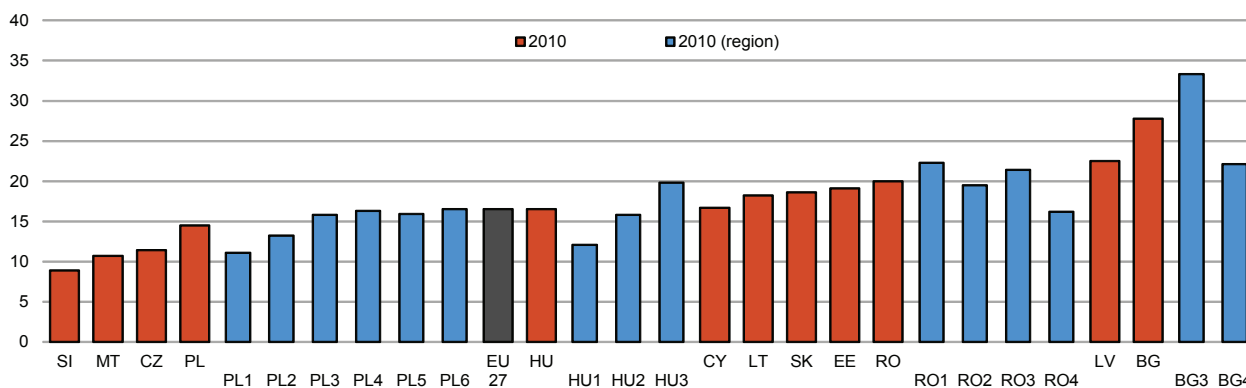
In fact, compared to other age groups, young people are particularly likely to drop out of the labour force and become inactive when jobs are hard to find (Eurofound 2011). While NEETs theoretically covers all levels of education, most persons in this category tend to have low educational attainment. In this chapter young people aged between 15 and 24 years old were considered.

The term NEETs appeared in the 1980s in the English-speaking countries and particularly the UK to define a group that may face serious difficulties in finding work or drop out of the

labour force altogether because of disaffection or for other unspecified reasons (as opposed to those who are inactive because of family commitments, military service, travel or leisure). Studies, mostly conducted in the UK (Furlong 2006; Sachdev et al. 2006), have shown that there are marked regional differences within the country (for example Wales has 24%, almost 10% more than the East Midlands with 14.5%). In all the UK regions there has been an increase in the NEETs rates from 2008 (data not shown) with a disproportionate increase in Wales.

## Social and educational inequalities

Figure 3.13 Young people not in employment, education or training by NUTS 1 region (NEET rates), new member states



Source: Eurostat (2011d).

### The vicious circle of NEETs, poverty and social exclusion

Huge disparities in NEETs rates are found also within Italy (North-East 16.6%; Sicily and Sardinia 33.9%); Spain (North-East 14.6%; the Canary Islands 28.2%); Belgium (Brussels 21%; Flanders 9.9%); Germany (Bavaria 8%; Mecklenburg-Vorpommern 14.8%); but also France (13.9% in the Paris region; 21.6% in the Northern region), and Greece (16.4% in Attica; 25.5% in Kentriki Ellada in central Greece). Disparities within Austria are also recorded, even though the highest rate in this country is below 10%, compared to a EU27 average of 16.5% in 2010

As expected, the NEETs rates (which include people who are not employed, i.e. covering both inactive and unemployed) rose significantly from 2008 to 2010 (from Eurostat – LSF, data not shown), especially in those countries which were most affected by the crisis and where youth unemployment rose significantly (Ireland, Spain, Italy, Greece). The breakdown by region reveals also that in countries like France and the UK where the overall rate of NEETs did not rise from 2008 to 2010

as much as in other countries (respectively 2.7% and 2.3%), the reality of the youth situation concealed by an aggregate figure is more complex, with marked disparities among regions.

The situation within New Member States is rather similar to that in the old ones. Huge differences among regions are found in Bulgaria (from 22.1% up to 33.3% BG3 in the graph); but also in Hungary (ranging between 12.1% and 19.8%). All the NMS have seen a significant increase in their NEETs rates since 2008 (data not shown), and this is as much as 10% in the North-Western Region of Romania (RO1). Major increases are recorded also in the Baltic countries, whose rates have reached almost 18% and, in the case of Latvia, more than 20%. This is also confirmed by the skyrocketing unemployment rates among youth and changes in unemployment rates for the population as a whole (see Chapters 7 and 2).

While a brief spell of NEETs status is quite normal during the period of transition from education to the labour market, it is important to investigate developments over time, i.e. for how long and how many times young persons experience this status. What is worrying are the results of a study (Quintini et al. 2007) showing that there exists, in several European countries, a hard-core group of youth who retain NEETs status over a 5-year period: this group is particularly large in Italy (about 30%), as well as in Greece (around 20%),

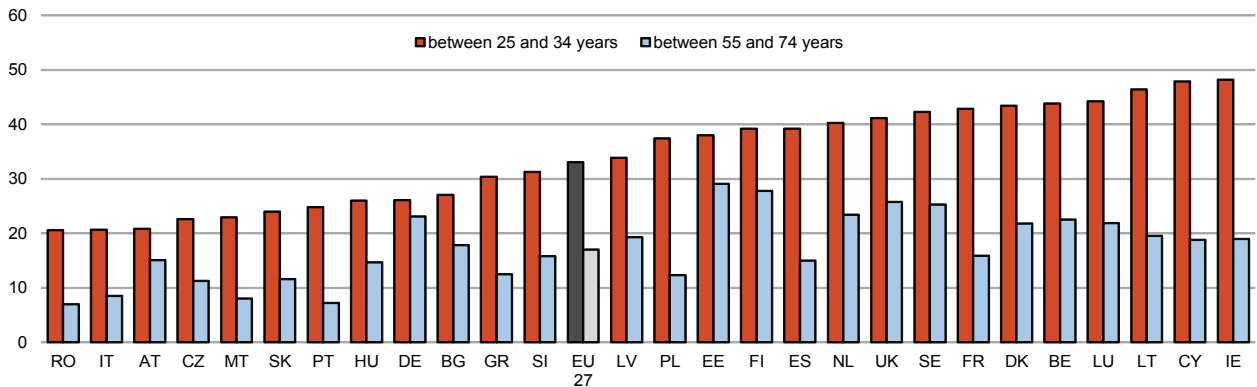
but in several other countries too – including France, Germany, Ireland, the Netherlands and Spain – it exceeds 10%.

Even if for young people aged between 25 and 29 the share of NEETs is definitely smaller than for people aged between 15 and 24, there are still countries where this share represents more than 20% of young people (i.e. young people who are unemployed, inactive, whether willing or unwilling to work (European Commission 2009a)).

Despite the obvious heterogeneity among the NEETs population, available evidence provided by literature suggests some common characteristics: low levels of aspiration, no educational qualifications, truancy and/or expulsion from school, low-skill occupation of parents, living in a household where neither parent works full-time, having a child at an early age, living outside family home, having health problem or disability, as well as having parents living in rented accommodation (Robson 2008). This indicates that preventive measures are required to ensure that young people do not drop out of education once and for all (Maguire and Rennison 2005). In times of rising unemployment and bleak job prospects, the problem of NEETs needs to be urgently addressed. Strong coordination among educational, social and labour market policies seems imperative, as partial solutions tackling only one aspect of the disadvantage will not efficiently prevent youth from slipping into a vicious cycle of poverty or poor social integration.

## Social and educational inequalities

Figure 3.14 Tertiary educational attainment by age, 2010



Source: Eurostat (2011d).

### Massification without democratisation?

Current trends in employment and unemployment, as well as those of early school-leavers and NEETs appear in contrast with an increasing level of educational attainment among the youngest generations. Indeed, the trend of education expansion during the post-war period is often described as a 'massification of education' (Altbach and Peterson 1999).

Figure 3.14 shows higher educational attainment for two age groups. In 2010 young people aged between 25 and 34 are more likely to have a higher education degree compared to the previous generation (aged between 55 and 74 years old).

On the left side of the spectrum are southern European (Italy, Portugal), but also eastern European countries (Romania, the Czech Republic and Hungary), as well as Malta, Germany and Austria with the lowest rates (less than 30% for youths).

Both Germany and Austria have strongly institutionalised vocational educational and training systems, which might explain the low rate of tertiary

graduates among the younger generation as well as only a moderate increase in percentage compared to the older generation.

On the right side of the spectrum are most of the old member states, which, despite not having higher rates for the older generation, proved able to expand participation in tertiary education quite significantly.

Among the old member states, France, Denmark, Ireland and Belgium present both significant differences between the two generations and have some of the highest shares of graduates among the youth population. Other old member states, such as Italy and Austria, have a lower rate of tertiary graduates, despite the fact that Italy displays a difference of around 12% between generations.

Among New Member States, two groups can be identified: some NMS with relatively high rates for the older generation (Estonia, Latvia and Lithuania) have increased their rates to above 45% (for Lithuania) and already reached the Europe2020 target (40% of people aged 30-34 with a tertiary degree). Other NMS show low rates for the older generation (between 10 and 20%) and significantly higher rates for the younger generation, especially Poland and Slovenia.

However this strong increase in educational attainment – the so-called 'massification of higher education' – should not be confused with an increased democratisation of educational attainment.

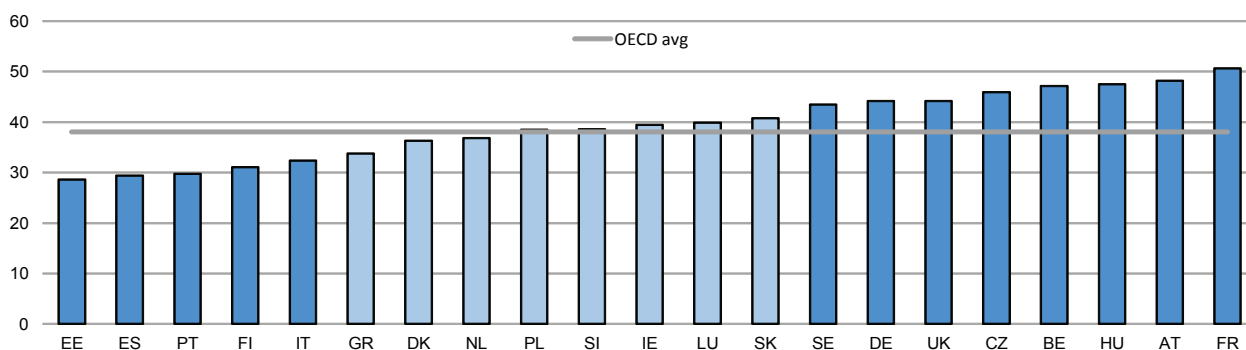
Firstly, increased rates of young people accessing higher education do not automatically mean increased access for more disadvantaged youth. Secondly, the 'massification of education' does not entail a more equal distribution of opportunities for young students when it comes to opportunities to enter the labour market.

Several self-reinforcing factors may reduce the positive impact of even a well performing education system: poor social environment (e.g. family, community, personal difficulties) leading to poor educational outcomes, low employment opportunities, and consequently low incomes, poor chances of further lifelong learning and, again, low social opportunities.

A life-course approach to education and training has been supported by the EU in the last 20 years in order to tackle this vicious cycle, and is well integrated in a long-term perspective for the development of European cohesion (for example the target for adult participation in further learning of 12.5% in the Lisbon Strategy – or the increasing attention to early childhood education – European Council 2009). More recently Europe2020 has set two headline targets concerning education aimed at increasing the overall level of education of the population (decreasing early school-leavers rate to less than 10% and increasing the tertiary educational attainments of people aged between 30 and 34 to at least 40%), (ETUC and ETUI 2011).

## Social and educational inequalities

Figure 3.15 Score point difference in reading performance with one unit increase in the PISA index of ESCS



Source: OECD (2011b).

### A self-fuelling system of inequalities

An indubitable aspect of the importance of higher and better education is that it has been shown to enhance, in general, opportunities for better social and labour market performance. Educational attainment is highly dependent on previous social and economic situation. However, despite an increased proportion of population with higher educational levels (see Figure 3.14), studies have demonstrated that education does not always serve as a tool for breaking the poverty cycle.

The latest available data which deal with unequal educational performance are provided by the OECD annual publications *Education at a Glance 2011* (OECD 2011b) and *Pisa 2009* (OECD 2010a). Figure 3.15 shows how reading performance changes with an additional unit of the Socio-economic and cultural index (OECD 2010a), which takes into account not only the parents' socio-economic position, but also the cultural resources available at home. The OECD average score is 38. Countries ranging between Estonia and Italy are considered to have a positive effect in 'levelling the

playground' and reducing the influence of personal background thanks to the structure of the education systems, and thus of the policies adopted. Their positive impact, however, says nothing about their capacity to provide quality education or to increase the overall performance of the students. Greece, Denmark, the Netherlands, Poland, Slovenia, Ireland, Luxembourg and the Slovak Republic are regarded as 'neutral' since the score difference is not statistically significantly different from the OECD average slope (OECD 2011b: 88). Countries with rates above the average include Germany and Austria, but also the United Kingdom, Belgium and the Czech Republic. The impact of socio-economic background is thus not efficiently mitigated by these countries' educational systems.

Studies have confirmed these trends as they have found that in Western Europe inequalities in educational attainment are still marked in spite of the significant expansion of post-compulsory education. Machin (2004) found that in the UK an increase in social immobility has occurred at the same time as the rapid expansion of post-compulsory education, meaning that mostly children from richer families have benefited from this expansion. This change in the education system has increased rather than alleviated inequality across generations, reinforcing and exacerbating already existing intergenerational inequalities.

For Germany, Reamer and Pollak (2009) argue that vertical and horizontal inequalities persist in spite of increased participation in education, since social background still has a strong impact in gaining access to tertiary education.

Another example is provided by Heath et al. (2008) who compared the educational attainment of the second generation of immigrants in France, the UK, Belgium, Sweden, Austria, Denmark, Norway, Switzerland and the Netherlands. They found that young students with an immigrant background tend to perform worse than native fellow pupils and the explanatory variables include the socio-economic and minority backgrounds, language skills, lack of aspirations and family encouragement, as well as discrimination and reduced access to citizenship. Oppesidano and Turati (2011) also found that, for France, Germany, Italy, Greece Norway, Portugal, Spain, Sweden and the UK, lower education results are associated with both school effect *and* social background. The same phenomenon was identified more than ten years ago for Belgium (Vanderberghe 2000).

## Conclusions

### Rising inequalities, increased responsibilities

This chapter set out to describe, on the one hand, how unequal educational attainment impacts on labour market (employment and unemployment, NEETs) and social outcomes (in-work poverty); and, on the other hand, how regional and socio-economic background affect educational attainment (reading score and socio-economic and cultural background and early school-leavers), especially among youth.

Data have highlighted strong inequalities in labour market outcomes *within* generations depending on different educational levels, as well as *between* generations: youth have been significantly more affected by the crisis, and this impact is even stronger for lower-skilled youth. It is thus confirmed that education indeed represents an important long-term personal and social investment. However, the crisis has acted as a stress test and highlighted the urgent need for multidimensional policies and action to combat inequality. Inequality is also likely to be exacerbated by the multiplicity of forms of labour contract, which contributes to segmentation of the labour market (see Chapter 2), and makes social partner intervention more fragmented and less incisive. This applies particularly to young people who are known to have weak attachment to the labour market due to precarious or temporary work contracts (e.g. increased use of badly paid/unpaid internships often not even protected by social security).

It is important to stress that access to quality education might be hindered by institutions and socio-economic factors as well as by personal characteristics. Education systems promoting meritocracy or equal opportunities have shown their limits: while the first denies the influence of the non-personal and socio-economic context, the latter aims at providing the

same opportunities regardless of whether or not pupils and their families have the necessary tools to convert these opportunities into achievements.

Because of this complexity and the extent to which labour market and social policies overlap, comprehensive action on education and training is badly needed. At the European level, coordination among employment policies, social intervention and education and training programmes needs to be enhanced. For example, stressing the importance of tertiary education is indeed a sound approach, but insufficiently far-reaching if not enough attention is focused on real opportunities for people from diverse backgrounds. Thus, for instance, Youth on the Move (European Commission 2010f), or the Communication on the Modernisation of Higher Education (European Commission 2011d), should have placed more emphasis on a commitment to broaden access to higher education, rather than focusing principally on the economic potential of tertiary education.

The concept of social exclusion should thus evolve towards a more positive idea of favourable social integration, meaning – for example – that labour market participation should always be seen to reduce the risk of poverty, while education should be promoted through recognition of its invaluable contribution to society and an awareness that its role goes beyond the human capital idea of investment for private economic return.

Finally, it needs to be acknowledged that, in a precarious economic and social situation, the individual willingness to engage in forward-looking investment (such as education) is inevitably reduced if and when their attention is demanded by more urgent matters linked to daily challenges. That is why social investments by public institutions and private companies to stimulate formal and non-formal (e.g. on-the-job training) education for youth and the unemployed should be seen as a major and urgent responsibility to be achieved, and all the more so in a context of widespread austerity measures which frequently target social spending and support for the unemployed (Leschke et al. 2011).

# Collective bargaining and diversity in wage developments

## Introduction

The European Union hosts a great variety of collective bargaining systems. Country-specific collective bargaining institutions, in turn, contribute to divergent macroeconomic performance, impacting on employment, prices and income inequality.

In this chapter we address three macroeconomic developments influenced by wage bargaining. First, we investigate to what extent different collective bargaining regimes were able to ensure that wages develop in line with price and productivity increases. We show that this was most effective in systems of so-called ‘multi-employer bargaining’ (MEB) where collective agreements are legally binding and, at the same time, a legally enforceable peace obligation exists (Traxler et al. 2001).

Secondly, we focus on the effects of particular features of the bargaining system on wage inequality. Here, we provide additional evidence for the link between bargaining coverage and income distribution (e.g. Visser and Checchi 2009; Hayter and Weinberg 2011), showing that in EU member states characterised by high rates of collective bargaining coverage, the degree of income dispersion tends to be smaller. The same countries featured the least dramatic decrease in real wage compensation during the recent crisis.

Finally, we examine trends in the wage share, i.e. in compensation per employee as a percentage of GDP. We find that states characterised by high collective bargaining coverage retained the highest wage share throughout the 2000s, including the 2008-2009 downturn. We thus assert that countries with high bargaining coverage were better equipped to fight income inequality and downward pressures on real earnings; they also managed to provide a more equal distribution of profits between capital and labour. This finding is important with regard to the current crisis in the euro area, which is mainly the result of mounting macroeconomic inequalities. At the same time, ensuring social peace and a socially equitable compensation of workers is a key task for the future.

## Topics

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## Industrial relations regimes in the EU

Figure 4.1 Industrial relations regimes in the EU: an overview

Dimension \ Regime	North European	Central-West European	South European (Mediterranean model)	Liberal-West European (Anglo-Saxon model)	Central-East European
Trade union density (2000-2009)	73.1	33.9	23.5	33.2*	19.8
Collective bargaining coverage (2000-2009)	88.4	83.3	74.7	42.1*	36.3
Predominant level of collective bargaining	sector	sector	sector (FR : company)	company	company
Predominance of MEB <sup>a</sup> or SEB <sup>b</sup>	MEB	MEB	MEB	UK, MT: SEB IE, CY: MEB	SEB
Practice to extend collective agreements	no (except FI)	yes**	yes**	no	limited
Statutory minimum wage	no	yes (DE partly)	yes (except IT)	yes	yes
Role of social partners in policy making	institutionalised	institutionalised	Varying; politicised	ad hoc; issue-specific	politicised; social partners weak
Role of state in collective bargaining	limited	limited; strong legalism	state active; clientelistic relations	state strong but its interventions rare	state dominant; strong legalism

\*without Cyprus and Malta; \*\* in Austria and Italy; functional equivalent to extension; <sup>a</sup> 'Multi-employer bargaining'; <sup>b</sup> 'Single-employer bargaining'  
Sources: Marginson and Traxler 2005, Visser 2011, and ETUI 2011.

## Industrial relations variety in the EU

In the first decade of the 21st century, Europe was home to a plethora of industrial relations systems. Due to the absence of EU harmonisation pressures, country-specific institutions continued to exist, contributing to cross-national variation in terms of the quality of collective interest representation and the degree of social partners' inclusion in the policy-making process.

For analytical purposes, it is nevertheless useful to group the EU's 27 member states into the following five clusters, which can be broadly referred to as industrial relations regimes (cf. European Commission 2009b):

- North European, including Denmark, Finland and Sweden;
- Central-West European, including Austria, Belgium, Germany, Luxembourg, the Netherlands and Slovenia;
- South European, including France, Greece, Italy, Portugal and Spain;
- Liberal-West European (Anglo-Saxon), including Cyprus, Ireland, Malta and the UK;

- Central-East European, including Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

## **Industrial relations regimes in the EU**

### **Mind the diversity**

Figure 4.1 shows that the five country groupings vary systematically in relation to a number of features. They display different unionisation and collective bargaining coverage rates (for the evolution of these indicators over time by country, see Figures 4.2 and 4.3 in the next sections).

Moreover, the level at which collective bargaining takes place varies, as does the nature of employer involvement: while for the North, South and Central-West European groups the sector remains the main locus of negotiation and employer associations are unions' bargaining partners (i.e. multi-employer bargaining), in the Anglo-Saxon and Central-East European states company-level bargaining between unions and individual employers (i.e. single-employer bargaining) is the norm. The negotiated provisions are, in some cases, later extended by law to those companies that are not members of the signatory employer organisation. In some countries there exist functional equivalents (such as obligatory membership of the main employers' associations in Austria and the constitutional requirement for fair pay in Italy) to such formal extension. In Central-Western Europe – with the exception of Germany where the practice of extending agreements has become less frequent since the early 2000s – and Southern Europe, collective agreements are frequently extended. In the Northern and Anglo-Saxon systems, by contrast, no automatic extensions are permitted, while in the Central-East European EU member states, despite its formal possibility, it is barely used in practice. As will be shown in the next section, the practice of extending collective agreements has a direct impact upon bargaining coverage levels.

Furthermore, the role played by social partners in policy-making varies across the regimes. In the North and Central-West European corporatist clusters, involvement by trade unions and employer associations' in drafting policy proposals is extensive and their relationships with political actors are highly institutionalised.

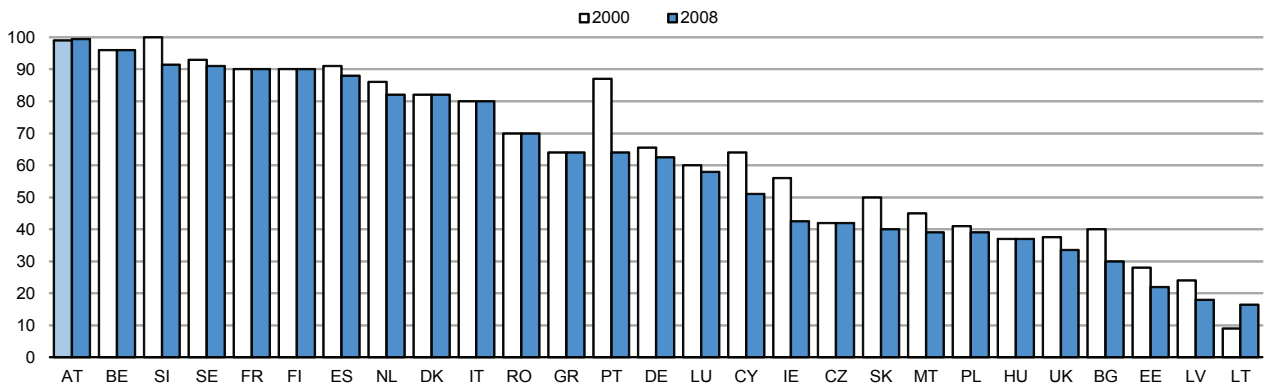
In Anglo-Saxon countries, while social partners are periodically engaged in socio-economic discussions, their voice is not always reflected in policy outcomes. In Southern Europe, social partners are usually formally involved in public policy-making but their participation in practice depends on individual governments' willingness to include them. Politicisation of the organisations is an additional factor that can stand in the way of effective social partnership in these countries, as is also the case in Central-Eastern Europe where, combined with the overall weakness of organised interest representation, social partners' politicisation seriously limits their influence in the policy-making sphere.

Last, but not least, the degree of state involvement in collective bargaining differs considerably across the clusters. Instances of actual state intervention are rare in Northern, Anglo-Saxon and Central-Western Europe, although in the latter region there exist detailed legal provisions governing collective bargaining processes. In Southern Europe, clientelistic links with social partners enable the state to influence collective bargaining outcomes indirectly. In Central-East European countries, meanwhile, tripartite negotiations are dominated by the government; given the limited extent of bargaining at other levels, law continues to be the main instrument regulating employment relations in this region.

In the next sections, we will analyse developments over time in areas relevant to trade union activity, focusing on both countries and country groups. We will also demonstrate that the five industrial relations clusters feature different dynamics in terms of wage development and that they score differently on a number of inequality indicators.

## Industrial relations regimes in the EU

Figure 4.2 Collective bargaining coverage rates in the EU27 (%)



Sources: European Commission (2011h); Visser (2011).

### Stable bargaining coverage, but decentralisation looms large

A closer look at collective bargaining coverage in Europe, as depicted in Figure 4.2 above, reveals that, between 2000 and 2009, the share of employees covered by collective agreements remained relatively stable. This was true especially for North European countries, which, despite the lack of legal mechanisms to extend collective agreements, managed to maintain high coverage rates thanks to high trade union (and employer) density rates (compare Figure 4.3). Likewise, bargaining coverage is high in the states forming the Central-West and South European clusters, where statutory extension mechanisms or their functional equivalents are in place. In the latter group, Portugal alone has witnessed a sharp decrease in collective bargaining coverage, in the wake of legislation, passed in 2004, that restricted the duration of collective agreements; the collective deals struck since then have covered a considerably smaller share of the country's workforce (European Commission 2011h). Finally, states from the

Central-West and Central-East European clusters exhibited stable or slightly declining coverage rates. The only exception among the new EU member states was Lithuania, where coverage rates have increased, but nonetheless remained the lowest in the EU 27.

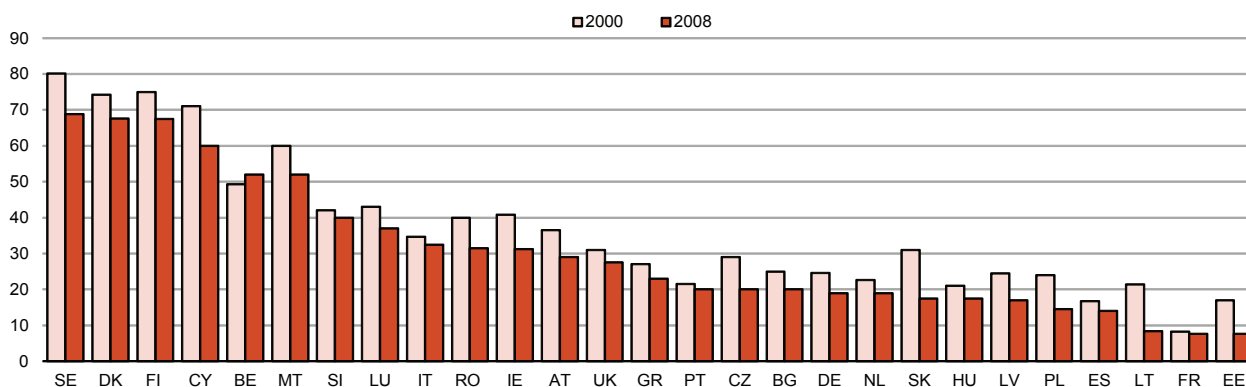
Stable coverage rates notwithstanding the economic crisis of 2008-2009 strengthened the tendency towards collective bargaining decentralisation. In Finland, for instance, no central agreement was in force between 2009 and most of 2011, whereas a number of sectoral deals allowed for wage deviations at companies that faced economic difficulties. Ireland, similarly, saw the breakdown of central collective bargaining talks in 2009, followed by pay freezes in the public sector and voluntary guidelines for the 2010 wage bargaining round in the private sector.

Collective bargaining decentralisation is detrimental to bargaining coverage in countries featuring single-employer bargaining structures. In Slovakia for instance, where bargaining coverage was remarkably high in 2000, the continuous shift towards company-level wage settlements was accompanied by a decrease in coverage.

High levels of bargaining coverage are key in reducing income inequality, as is demonstrated in section 4.11 of the present chapter.

## Industrial relations regimes in the EU

Figure 4.3 Net union density in the EU27 (%)



Sources: European Commission (2011h); Visser (2011).

### Across-the-board fall in union density rate

A striking tendency in European industrial relations is the falling rate of trade union density. The changing structure of European economies, in particular the declining importance of manufacturing (regarded as the traditional 'labour bastion') alongside the growth of service sectors and fixed-term and temporary forms of employment (see Chapter 2), have been partially responsible for this trend. Sluggish progress in the organising of service employees and young workers, a growing feeling of powerlessness among workers, and, in some cases, their dissatisfaction with union strategies, have further contributed to the pessimistic outcome: as shown in Figure 4.3, between 2000 and 2008, the share of unionised employees fell in nearly all EU member states.

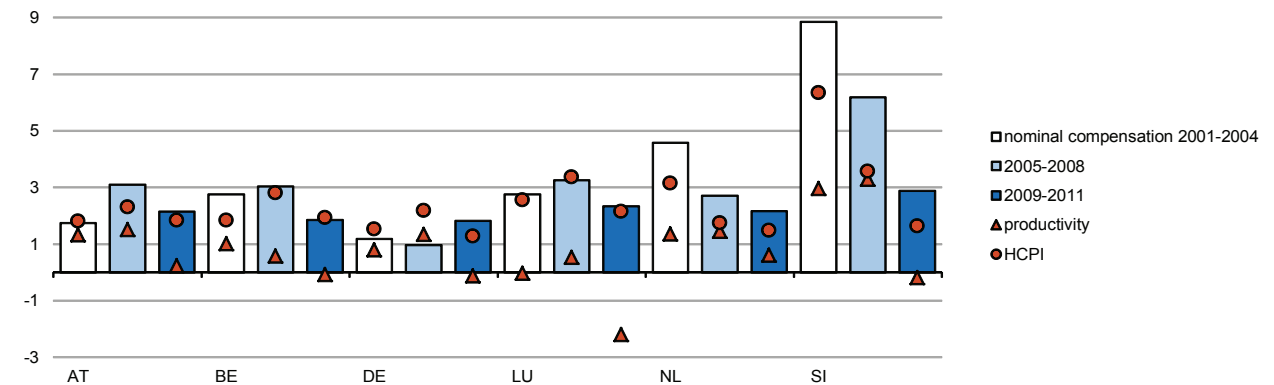
Looking at particular country clusters, it is to be observed that even countries with strong and encompassing labour movements, such as the Northern European states, witnessed substantial falls in trade union membership rates. Should this trend prove sustained, the resulting decline in the unions' associational power

could undermine the legitimacy of the current interest intermediation systems, thereby imperilling the Nordic countries' high bargaining coverage rates. In the Central-West European grouping, Belgium alone managed to retain – and even slightly increase – its union density rate, a development attributable, in all likelihood, to the Belgian unions' involvement in the administration of unemployment insurance (Vandaele 2009). In some countries, such as Spain or Italy, absolute increases in the number of unionised workers did not keep pace with employment growth, resulting in the overall decline of union density rates (European Commission 2011h).

The most dramatic outflow of union members, however, took place in Central-East European countries. In the case of Slovakia and Lithuania, unionisation rates fell by as much as 13 and 13.5 percentage points respectively. In the 2000s, the decline was mainly due to the dynamic growth of the largely non-unionised private sector, dominated on the one hand by large multinational companies and, on the other, by domestically-owned small- and medium-sized enterprises. Despite positive tendencies such as union depoliticisation and a surge in organising efforts, the region's labour organisations have remained on the defensive.

## Wage growth and macroeconomic developments

Figure 4.4 Nominal compensation, labour productivity and HCPI, Central-western Europe (2001-04, 2005-08, 2009-11)



Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.  
Data source: AMECO (2011).

### Central-Western Europe: wage moderation in good and bad times

Figure 4.4 indicates the growth of nominal compensation (per employee, total economy), prices (measured as the harmonised consumer price index – HCPI) and productivity (measured as GDP at 2005 market prices per person employed), averaged over 4-year (or 3-year) periods, in countries conforming to the Central-West European model of industrial relations. In these states, unions' ability to control wage developments at the company level is comparatively high, due to the strong presence of trade unions in works councils.

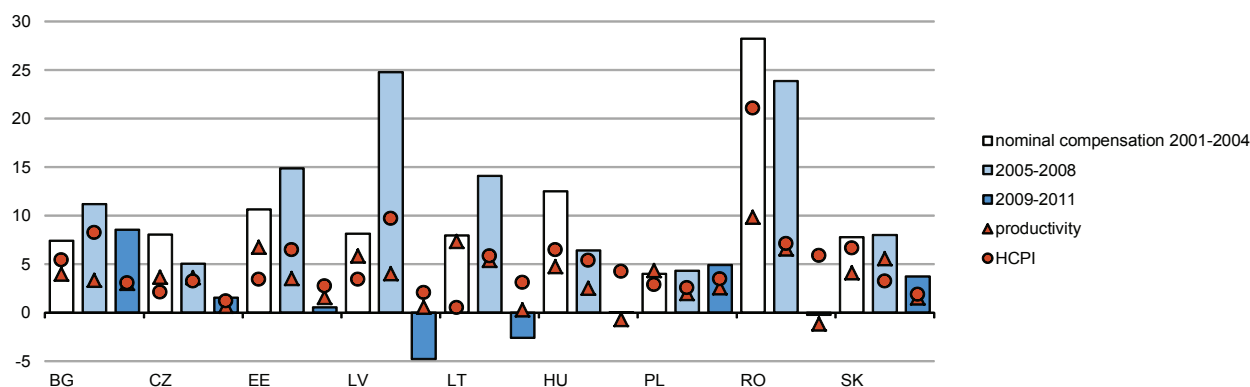
The data shows that wage moderation was the main trend observed over the 2000s in most of Central-Western Europe. Nominal wages grew slightly above the rate of inflation over the entire period (2001-2011) in Austria and Luxembourg. In Belgium, nominal compensation, on the average, fell slightly below price increases in the recent years of the current economic downturn. In the Netherlands growth of nominal compensation exceeded price increases, albeit to a lesser extent than in

the years preceding and during the crisis. In Germany, wage restraint was most pronounced over the entire period, and was one of the main causes of divergence in unit labour costs in the Eurozone (see chapter 2); strikingly, even during the period of economic boom before the current recession, nominal wages fell markedly below price increases, amounting to no more than an average of 1 per cent, while in the other countries nominal compensation grew by around 3 per cent over the same period.

As seen in Figure 4.4, Slovenia represents a striking case in terms of wage dynamics. The highly dynamic growth in nominal compensation resembles that in Central-East European countries; average annual growth of nominal compensation in the first half of the 2000s was around 9 per cent, and above 6 per cent in the years before the economic downturn. Even between 2009 and 2011, when the global economic crisis hit, nominal wages continued to increase more than prices (i.e. by around 3 per cent on average per year). In other words, workers in Slovenia were participating in productivity growth to a greater extent than in the other countries of this cluster. This might be due to the comparatively dynamic pattern of wage growth that rather resembles the developments in the CEE countries.

## Wage growth and macroeconomic developments

Figure 4.5 Nominal compensation, labour productivity and HCPI, Central-eastern Europe (2001-04, 2005-08, 2009-11)



Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.  
Data source: AMECO (2011).

### Central-Eastern Europe: volatile wages and falling purchasing power during crisis

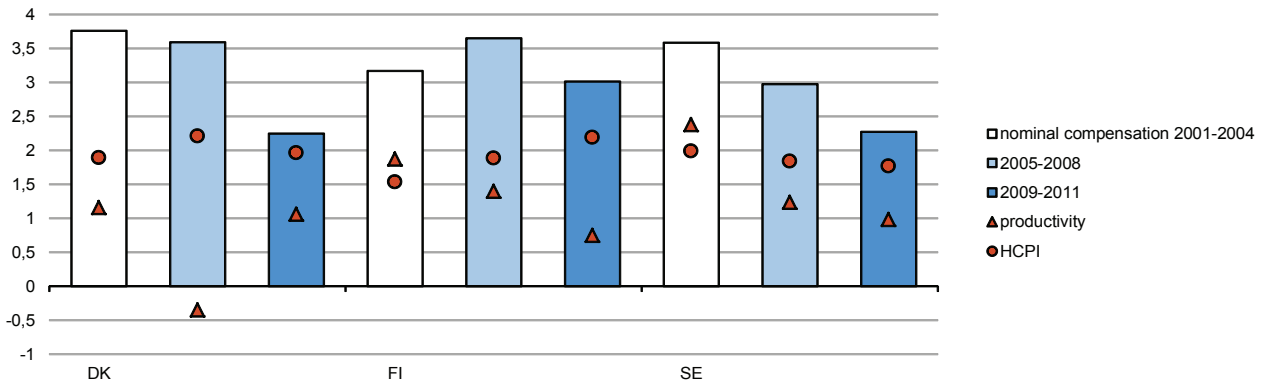
Figure 4.5 shows striking variation in the development of nominal wages, prices and productivity in the Central-East European EU member states. Throughout most of the 2000s, nominal wages, on the average, grew moderately and in line with the averaged annual inflation rate in Poland, and to a lesser extent in the Czech Republic and Slovakia. In Poland nominal compensation grew most moderately, that is, by below 5 per cent, on the average, over the entire period, while the inflation rate remained between 3 and 4 per cent, on average. However, the country was not directly hit by the global crisis, with GDP growth remaining positive in the years 2009 to 2011 (see Chapter 1). This development contrasts with the situation in Romania, Latvia, Estonia and Lithuania, where nominal compensation largely outgrew price increases in the first half of the 2000s and in the boom years before the crisis hit. In Romania

and Latvia nominal wages grew by 25 per cent on average between 2005 and 2008, while inflation was around 7 and 10 per cent respectively. Similarly, in Estonia and Lithuania nominal wages increased by 15 per cent while prices, on the average, grew by 5 and 7 per cent, respectively, in the same period. Thus, highly dynamic wage growth in these decentralised and weakly coordinated bargaining systems contributed to the build-up of bubbles in housing and financial markets. During the years of economic crisis, however, marked downward adjustment of nominal wages was observed; in Latvia nominal wages shrunk by 5 per cent, on the average, between 2009 and 2011, while inflation was around 2 per cent. In Romania wages stagnated during the recession while inflation was above 5 per cent. In all these countries this signified severe losses in the real purchasing power of workers. In Hungary nominal wage growth was more dynamic in the first half of the 2000s, and more moderate in the years before the recession. Recently, the continuation of nominal wage restraint with inflation at around 5 per cent resulted in considerable losses in purchasing power. In Bulgaria, a rather different picture emerges, in that growth of nominal wages was in line with price developments, on the average, from 2001 to 2008; the recession has indeed not yet impacted upon wages that continued to grow dynamically (i.e. by above

8 per cent, on the average), and clearly exceeded the average rate of inflation of about 3 per cent.

## Wage growth and macroeconomic developments

Figure 4.6 Nominal compensation, labour productivity and HCPI, Northern Europe (2001-04, 2005-08, 2009-11)



Note: annual % change, averaged over periods 2001-04, 2005-08, 2009-11.  
Data source: AMECO (2011).

### Northern Europe: positive wage drift and wage growth despite recession

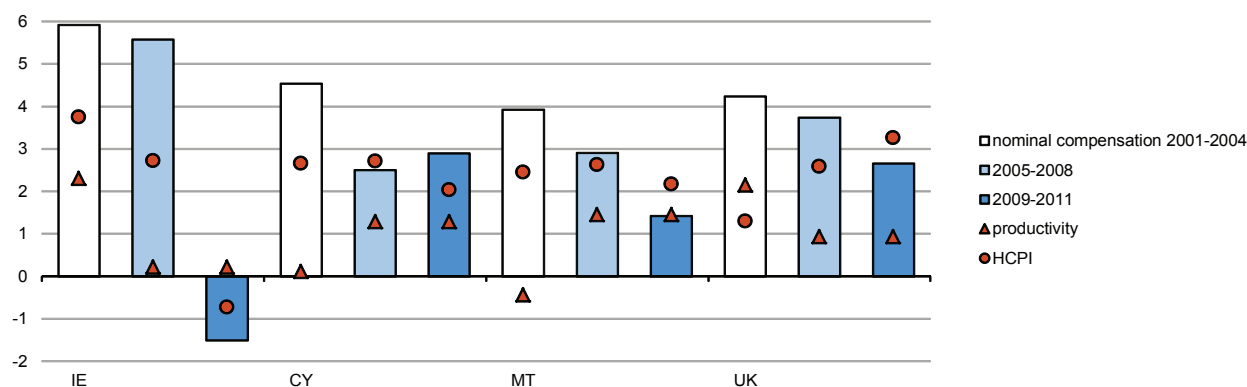
In the Nordic EU member states nominal wage growth was more dynamic than in the Central-West European countries (Figure 4.6). In Denmark and Sweden wages are settled according to a two-tier system with basic wage increases set at the industry level (or multi-sectoral level, such as manufacturing), while effective pay is negotiated at company level. With local unions that are exclusively entitled to negotiate with management, and traditionally strong trade unions (see Figure 4.3), positive wage drift is a typical feature of collective bargaining systems in Northern Europe. In all three Nordic countries, nominal wages grew by between 3 and 4 per cent, on the average, in the period between 2001 and 2008, far above the price increases of around 2 per cent. In Denmark, remarkably, nominal compensation grew by around 3.5 per cent, on the average, in the years 2005 to 2008, during a period when average productivity growth was actually negative.

During the recession, the adjustment of nominal compensation to declines

in GDP and increasing unemployment was comparably moderate in all Nordic EU states. Wage growth in Denmark and Sweden remained, on the average, above 2 per cent in the years 2009 to 2011, slightly in excess of price increases. In Finland nominal compensation grew by 3 per cent, on the average, largely exceeding average price increases (of above 2 per cent) between 2009 and 2011, while productivity growth was lower (0.8 per year, on the average) than in the other two Scandinavian EU countries.

## Wage growth and macroeconomic developments

Figure 4.7 Nominal compensation, labour productivity and HCPI, Liberal-Western (Anglo-Saxon) Europe (2001-04, 2005-08, 2009-11)



Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.  
Data source: AMECO (2011).

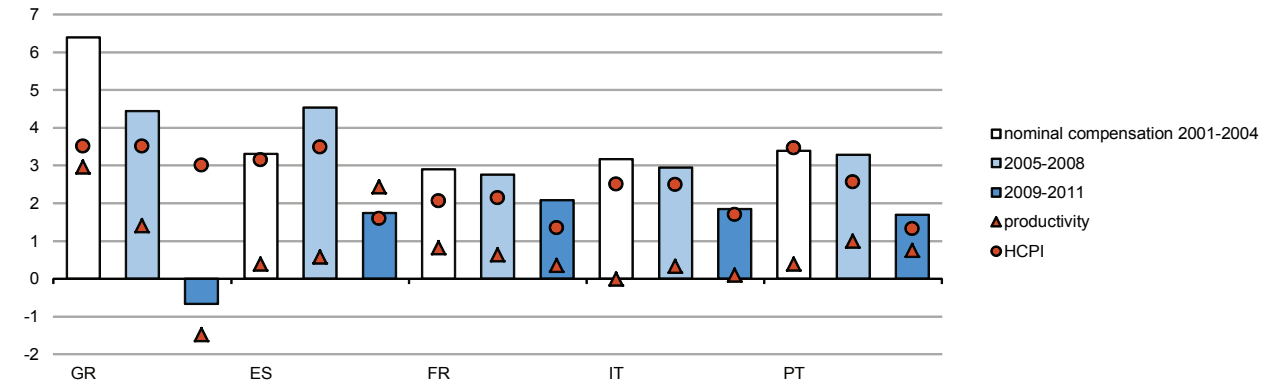
### Liberal-Western Europe: wage increases stalled by the downturn

Uncoordinated bargaining, as in the case of the UK, and weakly coordinated bargaining in Ireland, Cyprus and Malta, was less effective in bringing nominal wage growth into line with price and productivity developments. In the UK, for instance, nominal wages grew dynamically by above 4 per cent, on the average, in the first half of 2000s, while inflation remained moderate, albeit increasing steadily over time; nominal wages grew, however, to a lesser extent in the years immediately preceding the crisis than compared with the years before and have increased at more moderate levels during the recent years of recession, while price developments have actually accelerated. In Cyprus the relatively stable development of inflation and the constant increase in productivity was not mirrored in nominal wage growth over the entire period. Ireland stood out with regard to strong wage dynamics; nominal compensation grew by almost 6 per cent, on the average, and largely above price increases

between 2001 and 2008. Subsequently, however, the Irish economy was hit by a deep and protracted recession (see Figure 1.1 in Chapter 1) that brought marked downward adjustment of nominal wages. Nominal compensation, on the average, shrunk to a larger extent (i.e. - 1.5 per cent) than prices (- 0.7 per cent) between 2009 and 2011. Likewise, in both Malta and the UK, wage restraint during the economic crisis resulted in real income losses for workers. Only in Cyprus was positive real wage growth maintained over the years of recession. However, the outlook for economic development in this country is rather subdued due to the possibility of spill-over effects from Greece that is in the grip of a deep crisis.

## Wage growth and macroeconomic developments

Figure 4.8 Nominal compensation, labour productivity and HCPI, Southern Europe (2001-04, 2005-08, 2009-11)



Note: annual %-change, averaged over periods 2001-04, 2005-08, 2009-11.  
Data source: AMECO (2011).

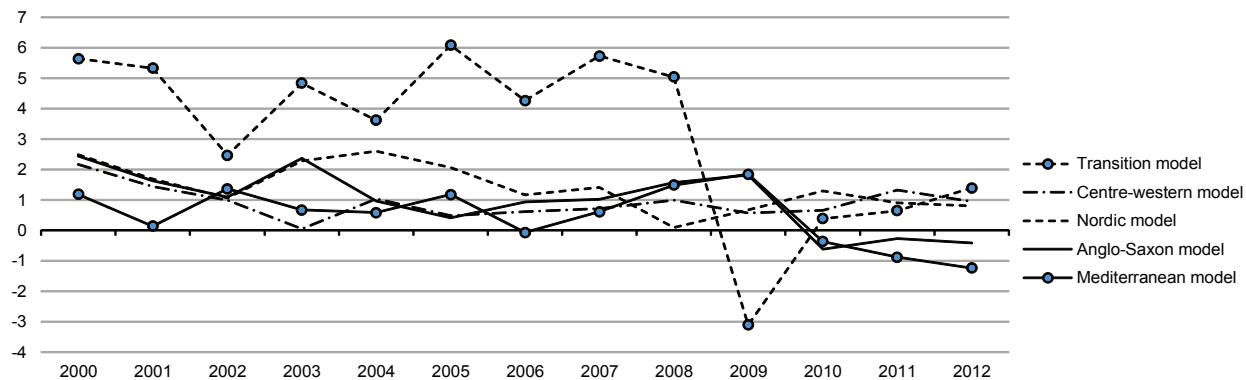
### Southern Europe: wages growing in line with productivity and inflation, ups and downs in Greece

Greece stands out among the Southern EU countries in having experienced very dynamic nominal wage growth in the first half of the 2000s, (i.e. above 6 per cent per year on the average; Figure 4.8), while prices increased by around 3.5 per cent. Wage growth moderated during the years before the economic crisis hit and – in response to the steep economic downturn in the debt-ridden country – nominal compensation shrunk (by 0.7 per cent on the average) between 2009 and 2011. Inflation remained at comparatively high levels (i.e. 3 per cent), resulting in a pronounced drop in workers' real purchasing power. In Spain, with the exception of the pre-crisis years, nominal wages developed in line with inflation. During the years of recession, however, nominal wage growth fell behind labour productivity growth, which actually increased due to soaring unemployment.

In Italy, France and Portugal nominal compensation grew largely in line with price increases while productivity grew at moderate rates over the entire period of observation. In Spain nominal compensation developed most dynamically in the three years before the economic crisis broke out. During the economic downturn, growth in nominal wages in Southern Europe was – except in Greece – moderate, i.e. around 2 per cent, on the average.

## Wage growth and macroeconomic developments

Figure 4.9 Change (in %) in real compensation, 2000-2011



Note: Simple average of annual %-change by groups of countries.  
Source: AMECO (2011).

### Diverging real wage developments in the EU

As Figure 4.9 indicates, collective bargaining regimes in the Central-East European countries were less effective than other systems in ensuring sustainable wage growth. Real compensation growth fluctuated between above 2 per cent and as much as 6 per cent per year during the 2000-2008 period. When the economic recession hit new EU member states, real compensation had begun to slump, falling on average by above 3 per cent in 2009 as compared to the previous year. This was the largest decline in real compensation in the EU in comparison with other regions. Real wages, after stagnating in 2010, made a weak recovery in 2011 and are expected to gain a stronger dynamic in 2012.

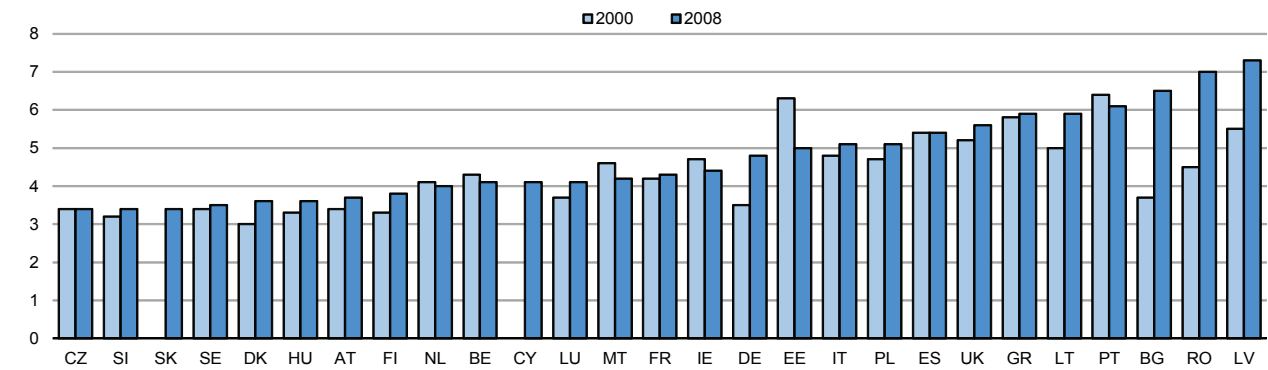
In the Nordic EU countries, characterized by effectively coordinated two-tier bargaining at the industry and company level, real wage developments were comparably dynamic, with a growth rate of about 2 per cent during the years 2003 to 2005. Real wage growth was more moderate in the years immediately preceding

the recession, as compared to the previous period. After a slump in 2008, real compensation has now made a moderate recovery. In the Liberal-West European countries, variation in growth of real wages was higher than in the rest of Western Europe. Real wages grew by between 0.4 per cent (in 2005) and 2 per cent on the average, between 2000 and 2007. Subsequently, real wages increased at higher rates (of around 2 per cent) in 2008 and 2009, and declined steeply from 2009 to 2010. According to forecasts, real wages will continue to shrink (by around 1 per cent) through 2011 and during 2012. Central-West European corporatism ensured, on the average and in comparison with other regions in the EU, the most moderate development of real wages in the period from 2001 to 2008. In comparison with the less effectively coordinated multi-employer bargaining systems in Southern Europe, upward and downward movements of real wage growth were more subdued. On the average, growth of real compensation remained positive during the recent years of recession.

Downward adjustment of real wages in the years of the economic recession was most pronounced in Latvia, Romania, Lithuania, Hungary, the Czech Republic and Estonia, where real compensation contracted by between 2 and almost 12 per cent in 2009 (AMECO 2011, data not shown). In Ireland, Spain and Portugal real wage growth remained positive (between around 3 and 4 per cent), despite high and steeply increasing unemployment and, as in the case of Ireland, a marked decline in GDP in the same year. With the continuation of the economic downturn that went along with extensive reductions of public sector employment and pay in some countries, real wages shrunk in Hungary, Greece, Latvia, Lithuania, Romania, Luxembourg (i.e. by between around -4 and -2 per cent) and, to a lesser extent, in Ireland (-1 per cent), while in the Czech Republic, Slovenia, Poland, Bulgaria, Slovakia and Finland real compensation grew by between around 3 and 6 per cent in 2010. Real wages developed – except in debt-ridden Greece where they shrunk by 4 per cent – in a more stable manner in 2011. While real wages declined somewhat in Portugal, Slovakia, the UK, Lithuania, Malta, Spain and Romania, in Bulgaria, Germany, Slovenia and Poland they increased by between 2 and 3 per cent.

## Collective bargaining and income distribution

Figure 4.10 Inequality of income distribution (80/20 income quintile share ratio), 2000 and 2008



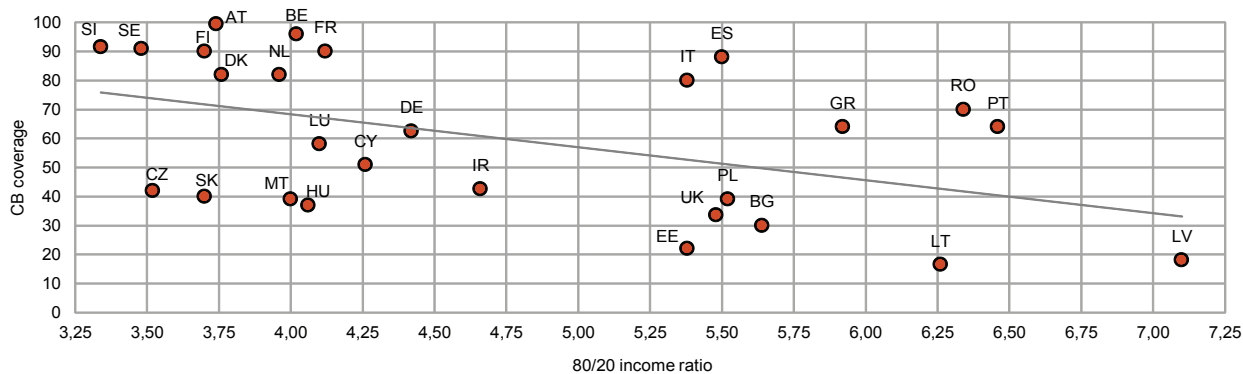
Notes: The income quintile share ratio or the S80/S20 ratio is calculated as the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (bottom quintile). For CZ, DK, and SE figures refer to 2001; no data is available for CY and SK for 2000 and 2001. Source: Eurostat (2011g).

### Income inequality on the rise

Figure 4.10 presents the extent of inequality in income distribution in the EU in 2000 and 2008, measured by the income quintile share ratio (based on nominal income). The higher the ratio, the larger is the gap between the most (top 20% quintile) and least well-off (bottom 20% quintile). Income inequality was highest in Estonia, Portugal, Greece, Latvia and Spain in 2000 and grew considerably in Bulgaria, Romania, Latvia and Germany between 2000 and 2008. In Estonia and, to a lesser extent, Malta, Ireland, Portugal and Belgium, income inequality somewhat declined as from 2000 while remaining stable in the other EU countries. As a general observation, the income distribution tends to be more equal in the Nordic countries and the corporatist countries of Central-Western Europe, while it is most unequal in the Baltic states, Romania, Bulgaria, the UK, and some of the Southern European countries.

## Collective bargaining and income distribution

Figure 4.11 Income inequality and bargaining coverage



Note: Average 80/20 income ratios 2005-2010 and bargaining coverage rates for 2008.  
Sources: Eurostat (2011g); European Commission (2011h).

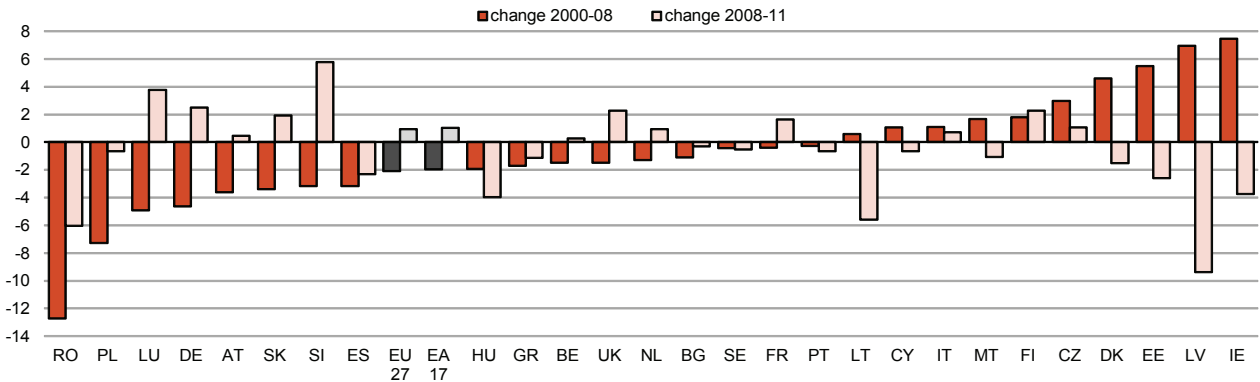
### High bargaining coverage: an important factor for reducing income inequality

The relationship between the inclusiveness (or exclusiveness) of the collective bargaining system, measured by the bargaining coverage rate, and income inequality, measured by the income quintile share ratio, is depicted in Figure 4.11. A clear pattern of countries clustering in four groups emerges. First, the three Nordic EU member states, most of the Central-Western corporatist countries and France are grouped in the top left of the table, with high collective bargaining coverage of around 80 to 100 per cent combined with the lowest income inequality. Then, in the bottom-left corner of Figure 4.11 we find a rather heterogeneous group of countries, including corporatist Germany and Luxembourg, Liberal-Western Ireland, Cyprus and Malta, as well as the Central-East European economies of the Czech Republic, Slovakia and Hungary. This group of countries is characterised by comparatively low bargaining coverage

(i.e. between 30 and 60 per cent) and relatively low income inequality. This finding suggests that income inequality is not affected by collective bargaining coverage alone, but depends rather on a multitude of factors, such as tax regulation and social security systems. In the cases of the Czech Republic, Slovakia and Hungary, public welfare benefits are more generous in comparison with those provided by the welfare regimes of the Baltic states, Romania and Bulgaria (see also Chapter 5). The third cluster of countries comprises the Southern European countries (except France) and Romania. In this group the collective bargaining coverage rate is comparatively high, i.e. between 70 and 90 per cent, and income inequality is more pronounced, reflecting the fact that welfare regimes of the Mediterranean type are characterised by segmented, status-oriented provision of benefits. Finally, the fourth group of countries, centred in the bottom-right quarter of Figure 4.11, is made up of Poland, the UK, Bulgaria and the Baltic states, together with Latvia which has the most exclusive bargaining system and the highest income inequality. In this group of countries, bargaining coverage is low, i.e. between 20 and 40 per cent, and welfare regimes provide only limited benefits.

## Collective bargaining and income distribution

Figure 4.12 Change (percentage points) in the adjusted wage share (2000-2008, 2008-2011)



Source: AMECO (2011).

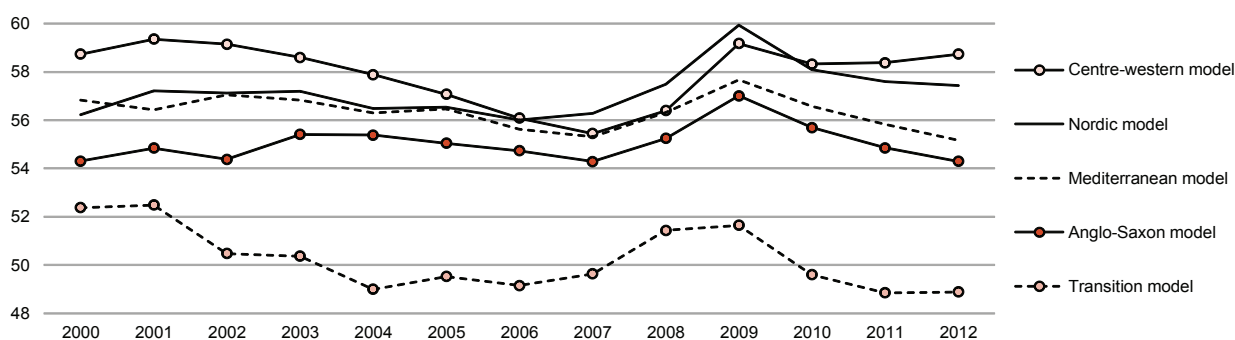
### In crisis: shrinking wage share in Southern and Central-Eastern Europe

Figure 4.12 shows a country-by-country comparison of the change in the adjusted wage share in the period between 2000 and 2008 and over the years since the global economic recession hit, that is, between 2008 and 2011. Over the 2000s, the wage share shrunk the most in Romania (i.e. by around 12 percentage points), while in Poland and Germany the decline was 7 and 5 percentage points respectively. In Germany, labour market reforms aimed at making labour markets more flexible and, at the same time, reducing unemployment benefits, contributed to the considerable decline in the wage share over the 2000s. Strikingly, in Latvia the wage share grew more than in any other EU country (i.e. by almost 8 percentage points). Marked growth in the wage share was likewise observed in Estonia and Ireland, mostly due to very dynamic growth of nominal compensation (see Figures

4.5 and 4.7). In the period between the onset of the recent economic crisis and 2011, trends in the development of the wage share were largely reversed. In the Baltic countries, Romania and Ireland, Hungary, Spain and Greece, where the recession was particularly deep and protracted and, as in the countries at the periphery of the Eurozone, debt levels became unsustainable, the wage share was declining. This was mostly due to pronounced wage restraint in the private sector and pay cuts and freezes in the public sector in a large number of countries in Central-Eastern and Southern Europe. Slovenia and, to a lesser extent, Luxembourg are distinguished by marked increases in their wage share (i.e. by almost 5 and above 3 percentage points respectively) during the recession years when GDP was contracting. However, as Figure 4.12 underscores, the reversal of the longer-term downwards trend of the adjusted wage share in Europe was merely temporary due to the steep declines in GDP.

## Collective bargaining and income distribution

Figure 4.13 Adjusted wage share (2000-2012)



Note: The adjusted wage share is measured as compensation per employee as percentage of GDP at current factor.  
Source: AMECO (2011).

### Wage share stable only where bargaining coverage is high

As shown by Figure 4.13, the adjusted wage share, measuring compensation per employee (i.e. wages and employers' social contributions) as a percentage of GDP, was highest, on the average, in the Central-Western corporatist economies (i.e. 59 per cent) at the beginning of the 2000s. In both South and North European EU states, the adjusted wage share was, on the average, slightly lower than in Central-Western Europe and reached its lowest levels in the Liberal-West and Central-East European economies (i.e. 54 and 52 per cent, respectively). In Central-Western and Eastern Europe, the wage share fell constantly between 2000 and 2007, dropping, in the latter region, below 50 per cent. This contrasts with developments in the countries featuring Anglo-Saxon industrial relations, as well as with the Southern and Northern EU member states, where the wage share remained rather stable over the same period. During the economic recession, a temporary turn-around was observed,

due to rising unemployment among the lower-paid segments of the labour force and steeply declining GDP. However, since 2009, the adjusted wage share has once again begun to fall across all EU countries. Only in the Nordic countries, characterised by highly coordinated and inclusive multi-employer bargaining systems and encompassing welfare regimes, as well as in the Central-West European corporatist economies, has wage share development stabilised since 2010. In Central-East European countries featuring weakly coordinated, decentralised and exclusive bargaining systems and less generous welfare regimes, the wage share has fallen to alarmingly low levels. Similarly, the existence of institutions for employee representation at the workplace tends to dampen the growth of managerial pay and thus reduces income inequality (see Chapter 8).

## Conclusions

### Strong collective bargaining systems promote income equality

This chapter showed that, since 2000, the five industrial relations country clusters have featured divergent wage developments. In Central-Western Europe, the main trend was wage moderation. Still, wages grew moderately following the introduction of the Euro, and the nominal compensation increased slightly. In the Nordic EU countries, wage growth was more sustained, with nominal compensation developing in line with price and productivity increases. Even during the crisis, wage adjustments were moderate in these countries, compared with other European regions. Importantly, Central-Western and Northern European countries achieved the highest wage share levels among EU member states, even though Central-West European corporatist institutions were less able to prevent the decline of wage shares in comparison with those of the Nordic states. Likewise, the inclusive and encompassing bargaining systems of Northern and Central-Western Europe contributed to lower levels of inequality in income distribution.

In the South European grouping, in Greece (and to some extent Spain) nominal wages outgrew price and productivity developments in the ten years before the downturn. Real wages grew in the 2000s, on the average, but declined more steeply during the recent recession. Wage shares were slightly lower than in Central-Western and Northern Europe in the early the 2000s and have declined at a faster rate since the outbreak of the crisis. Similarly, the degree of income inequality remained very high or became stronger in most of the Southern Europe.

Finally, in the Central-Eastern and Liberal-Western European groups, trends in nominal compensation were disconnected from price and productivity developments. While real wage growth

was very dynamic through most of the 2000s, it slumped drastically after 2008. Wage shares in the Central-Eastern and Liberal-Western clusters were slightly lower than in the rest of Europe throughout most of the 2000s. After 2008, the English-speaking countries' wage shares developed largely in line with those in the rest of Western Europe, but in Central-Eastern Europe they declined at a very fast rate. The UK featured the highest levels of income inequality among old EU member states, whereas the Baltics, Romania, Bulgaria and Poland were the most unequal countries not only within Central-Eastern Europe, but also in the EU as a whole.

The divergent wage developments have contributed to differences in unit labour costs between countries (see Chapter 2), and, further, accelerated mounting macroeconomic imbalances that place the future of the Eurozone in peril. Collective bargaining at central or industry level tends to mitigate cyclical movements of wages, while decentralised and ineffectively coordinated bargaining promotes volatile wage developments and thus amplifies economic cycles and divergence in the Eurozone and beyond. In this respect, our findings suggest that, if stable, balanced and socially equitable economic growth is to be ensured, the strengthening of collective bargaining systems is essential. This is true for the effectively coordinated and encompassing bargaining systems of Northern and Central-Western Europe that show current tendencies towards decentralisation, and in some cases, erosion. At the same time, it is even more important, and represents even more of a challenge, to support the creation of higher-level bargaining structures and to improve the articulation between bargaining levels in the fragmented and weakly coordinated Central-Eastern European systems.

# Social security and inequality

## Introduction

Welfare states, and more particularly tax-benefit systems, are regarded as one of the main instruments in mitigating and correcting inequality. And yet the original purpose of social protection systems was in fact not to redress inequality but rather to reproduce the prevailing social hierarchy (Esping-Andersen and Myles 2009). The question of these systems' ability actually to *reduce* inequality thus remains open and it comes as no surprise that the currently found varieties of welfare system display varying degrees of ability in this respect: some countries have neither created the appropriate institutions nor set aside the requisite financial resources; others have set up welfare systems that are designed mainly to operate as piggy-banks (e.g. Continental Europe); some, finally, have set up welfare systems intended to play a Robin Hood role (e.g. Denmark), deliberately aimed, in other words, at narrowing the gap between rich and poor (Barr 2001).

The varying ability of welfare systems to reduce inequality and the efficiency with which they succeed in doing this notwithstanding, there remains an entrenched belief that social protection and tax systems should, to some extent, contribute to mitigating and containing the various forms of inequality created by the market. This is all the more important in a context characterised, as at present, by rising inequality and persistent recession.

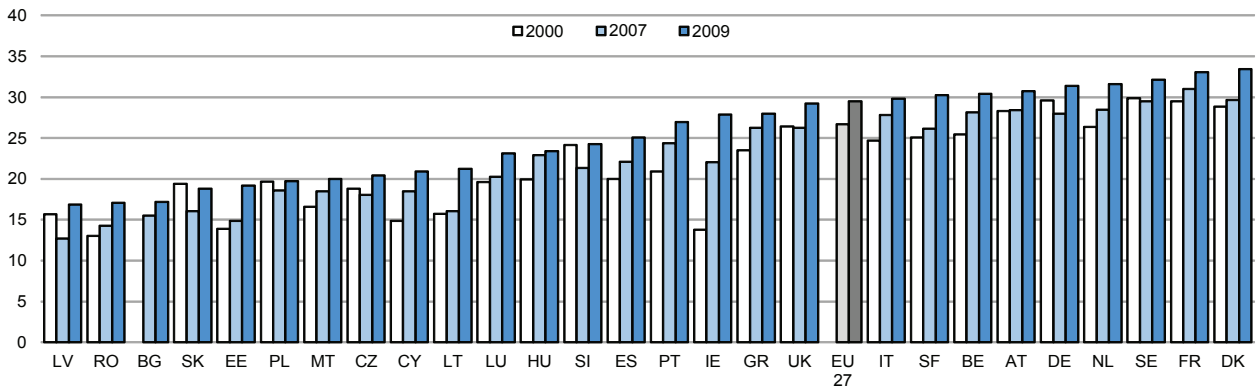
This chapter will first of all look at how social protection spending is evolving, after which it will investigate developments in income inequality and how they relate to the variety of social protection systems found in the European Union.

## Topics

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> <i>Development of income inequality</i>	78
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## Social protection spending

Figure 5.1 Social protection spending as a percentage of GDP (2000, 2007, 2009)



Source : Eurostat (2011k).

### Social protection systems as automatic stabilisers

In 2009 (latest available data) average spending on social protection in the EU as a percentage of GDP stood at a high of 29.5 %, up from 25.7 % in 2007. Over the 2000 to 2007 period, social protection spending had, in a majority of cases, decreased or remained stable, as economic growth had been boosting labour markets and member states were reforming their social protection systems to become leaner (exceptions being Romania, Malta, Cyprus, Hungary, Portugal, Greece, Italy and The Netherlands). As from the onset of the financial crisis in 2008, however, social protection spending rose as a percentage of GDP because the systems had begun to play their role of automatic stabilisers and to provide income security to workers who lost their jobs or saw their working time – and hence their wages – reduced. Accordingly, between 2007 and 2009, social security spending as a percentage of GDP in the EU jumped by 3.8 % points. In the countries hardest hit by the crisis (the

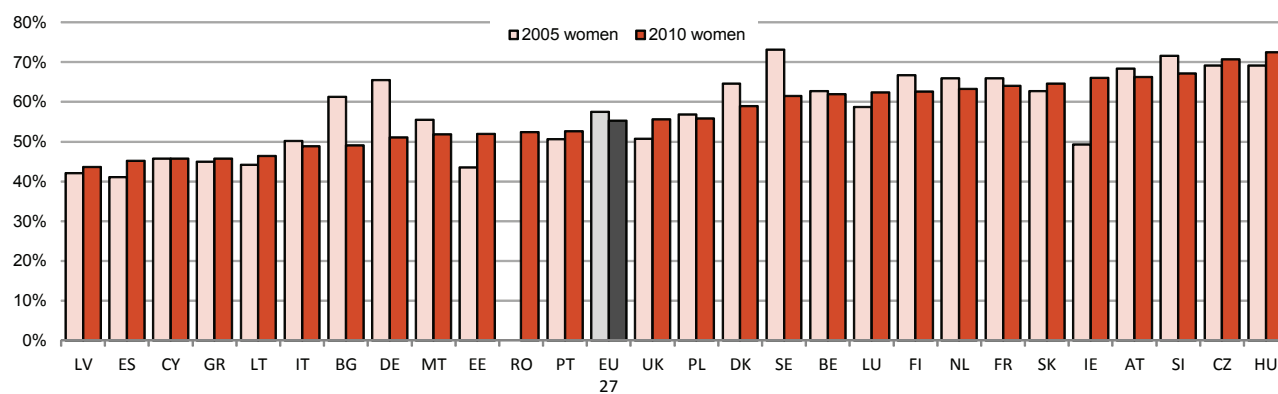
Baltic states and also the UK and Ireland), however, the increase in spending was above 5 percentage points as GDP contracted dramatically and spending rose (or in some cases decreased). In Hungary alone did spending as a percentage of GDP rise by less than one percentage point (such a small increase may be attributable either to higher spending, or to a drop in GDP, or to a combination of the two). When examined in absolute terms (i.e. in euros), spending on social protection rose in most EU member states between 2007 and 2009, the exceptions being Hungary, Poland, Sweden and the UK where spending in euros decreased between 2007/2008 and 2009. This decrease may be due either to a pick-up in the labour market (see Chapter 2) or to reforms aimed at cutting spending, the latter being clearly the case in both Hungary and the UK.

Social protection spending continues to vary greatly across the EU member states. About 10 EU member states, mostly central and eastern European countries, spend around or less than 20% of their GDP on social protection (the three Baltic states, Romania, Bulgaria, Poland, Slovakia, Czech Republic, Cyprus, Malta); 9 member states, southern European and English-speaking countries, spend between 20 and 30 % of GDP on social protection (Spain, Portugal, Greece, Italy, Luxembourg, Hungary, Slovenia, the UK and Ireland).

The continental European Union and the Nordic countries all spend around 30% of their GDP on social protection, demonstrating thereby the importance attributed by these countries to ensuring security for their population, especially in the case of social risks. The differences in spending may be expected to widen in the coming years as austerity measures will put pressure on social protection spending in the southern European countries.

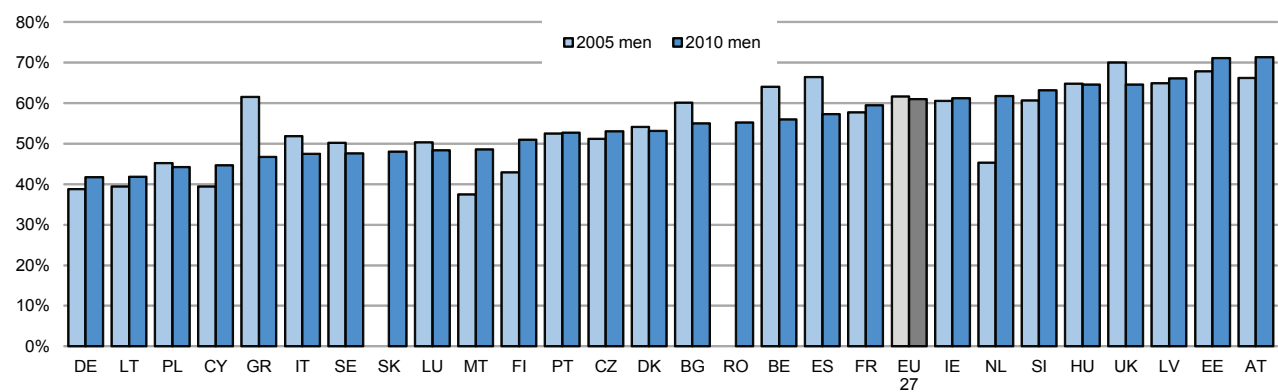
## Efficiency of the welfare state

Figure 5.2 Efficiency of tax benefit systems in reducing poverty, women 18 to 64 years, 2005 and 2010



Note: Efficiency of social protection = (poverty before transfers - poverty after transfers) / poverty before transfers.  
Source: Eurostat (2011k).

Figure 5.3 Efficiency of tax benefit systems in reducing poverty, men 18 to 64 years, 2005 and 2010



Note: Efficiency of social protection = (poverty before transfers - poverty after transfers) / poverty before transfers.  
Source: Eurostat (2011k).

## **Efficiency of the welfare state**

### **Welfare state efficiency reduced, especially for women**

As will be developed in the section on inequality in this chapter (Figure 5.6), inequality has risen across most European Union member states, the reasons for this being manifold. The OECD (2011b) analysis shows that market inequality has been the dominant trend and that, at the bottom end of the income distribution, the main causes have been joblessness, as well as precarious employment conditions, while at the higher end of the income distribution the most important factor has been the increase in capital income. As market-based inequality rises, governments might be expected to ‘stem the tide’ and use the tax-benefit system to compress and contain inequality. The same study, however, shows that this has not been the case. In seeking to gain an idea of how EU member states have fared in terms of welfare state redistribution, the ability of each member state to reduce poverty emerges as a relevant form of measurement.

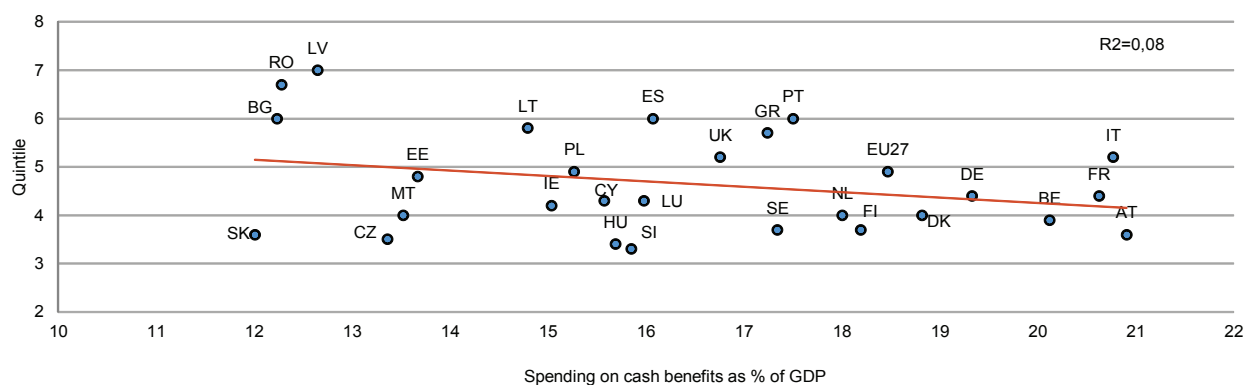
Figures 5.2 and 5.3 show us that the capacity of tax-benefit systems to reduce poverty diminished between 2005 and 2010, and that this was especially the case in relation to women. In 2005, the EU27 average for men stood at 62% and in 2010 it was down to 61%, indicating that the tax-benefit system was able to reduce market poverty by one percentage point less. For women the EU27 average was lower and stood at 57% in 2005 and 55% in 2010. Some countries (Hungary, Czech Republic, Latvia, Lithuania, Estonia, Portugal), however, stand out in that their efficiency has increased. From a gender perspective, a worrying trend is appearing as countries – for example, Bulgaria, Denmark and Sweden – that formerly had efficient systems to prevent female poverty have seen large decreases in this efficiency.

Furthermore, some of the countries that have increased the efficiency for men have actually decreased the efficiency for women, such countries including Germany, Austria and the Netherlands.

This general trend of becoming less efficient in reducing poverty is attributable to numerous factors; however, it should be noticed that the trends are not necessarily the same for men and women in the respective member states. As permanent austerity seems to be the framework within which welfare states will operate in the medium term, the above observations clearly hint that there is a risk that the current restrictive reforms could lead to far less efficient systems, and particularly in the case of women.

## Efficiency of the welfare state

Figure 5.4 Correlation between income inequality for women and cash benefits



Source: Eurostat (2011k).

## Not only cash benefits matter. Goods and services vital for female inequality

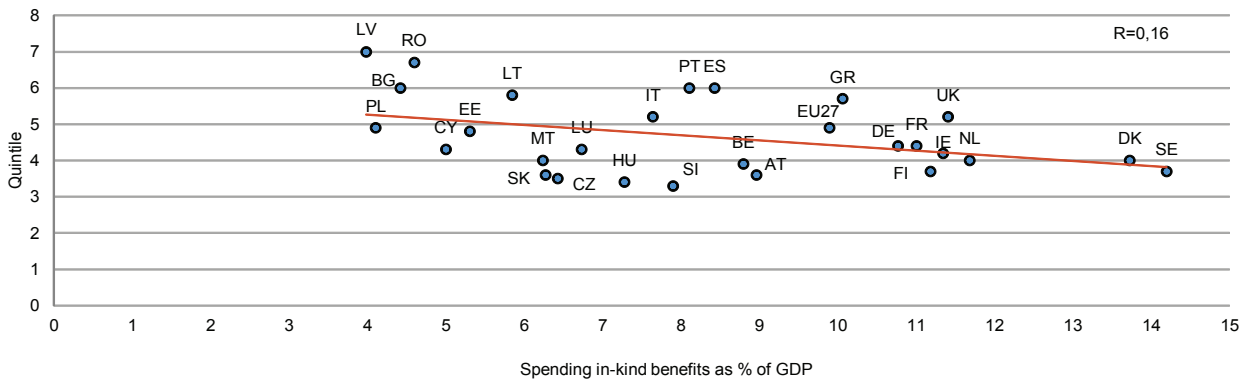
income inequality for women; this relationship holds also for men. What the figures imply is that the higher the level of spending on social protection the lower the inequality, and this relationship is stronger for in-kind benefits than for cash. In other words, the way in which social protection systems distribute their spending between cash and in-kind benefits is an important consideration.

The efficiency of social protection systems in reducing inequality and poverty does not depend only on the amount spent on social protection but also very much on the institutional setting and mix of provisions within the system. As several recent publications highlight (OECD 2011b; European Commission 2012), the tax-benefit arrangements have become less effective in offsetting market-based inequality, the previous section having demonstrated the same phenomenon in relation to poverty reduction, in particular as it affects women. The debate on what an efficient social protection system should look like is a longstanding one (Esping-Andersen and Myles 2009).

Figures 5.4 and 5.5 display the correlation between social protection spending on benefits in cash (money) and in-kind (goods and services). Both Figures display a negative correlation between social protection spending and

## Efficiency of the welfare state

Figure 5.5 Correlation between Income inequality for women and in-kind benefits



Source: Eurostat (2011k).

## Finding the right mix

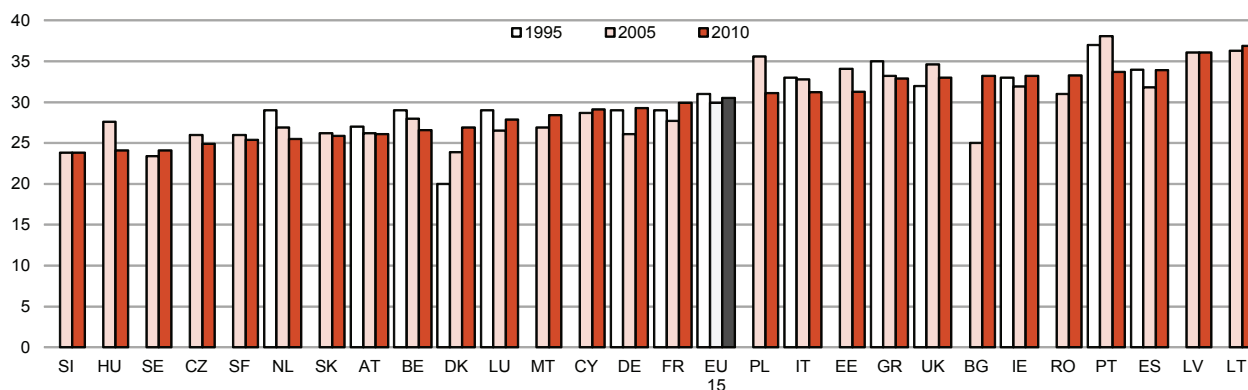
The discussion about the set-up of social protection system centres particularly on the question of universal versus targeted forms of provision. Universal forms of provision grant rights to all citizens, for example, and hence cover a large part of the population; targeted provision meanwhile grants rights to a sub-set of the population based on a set of criteria, for example, means-tested forms of benefit. The conclusion reached in Esping-Andersen and Myles (2009) is that if the aim is to reduce inequality, the universal approach is more efficient than the targeted approach, there being two main reasons for this: firstly, targeted systems tend to be less generous and voters are less prone to support high social protection spending; secondly, targeted systems are complicated and often lead to low take-up rates as access is guided by complicated rules, especially for those most in need. The universal approach gains more support from the population and has better take-up rates.

Another debate pertains to the optimal mix of cash and in-kind benefits (goods and services) within the social protection system. Very often this

discussion focuses on what cash benefits should be made available, how they should be accessed and what should be their duration. However, goods and services provided by the social protection system are just as important, if not more so, for the purpose of containing as well as offsetting forms of market-based inequality. In other words, the provision of health care, child care (see also Chapter 2), housing (see also Chapter 6), education (Chapter 3), transport facilities, etc. may be said to represent a twofold contribution by, on the one hand, fostering the equal opportunities that will help to limit the formation of market inequality, and, on the other hand, correcting some of the inequality that is unavoidably bound to arise. This finding goes against the mainstream-economist conclusion, namely that cash benefits should be favoured over in-kind benefits as they increase utility.

## Development of income inequality

Figure 5.6 The Gini coefficient - Inequality of income distribution



Source : Eurostat (2011k).

### Europe becoming more unequal

Income inequalities can be measured in a host of ways, each entailing advantages and disadvantages (compare Chapter 4). The Gini coefficient displayed in Figure 5.6 measures the extent to which equalised disposable household income is distributed across the population. The Gini coefficient equals zero if the income is perfectly distributed across the population and 100 if all the income belongs to one person; in other words, the higher the Gini coefficient, the greater the inequality. This measure takes into consideration the entire income distribution.

Several recently published publications (OECD 2008 and 2011b; European Commission 2012) emphasise that market as well as income inequality has risen over the past decade. The reasons for this increase, in most EU member states, are manifold, but the most important ones seem to relate to globalisation, technological change, demographic change, and changes in institutions and regulations – in other words, changes in social protection and taxation systems.

Figure 5.6 displays the Gini coefficient for 1995, 2005 and 2010. The figures confirm the above-mentioned studies, as

the general trend of the Gini coefficient from 1995 to 2000 was a decrease across the then EU12. In 1995 Denmark had the lowest Gini coefficient at 20 and Portugal, with 37, the highest. In general, the Nordic countries could boast the most equal societies, followed by continental Europe, then the English-speaking countries, with, finally, the southern European countries displaying the most unequal distribution of disposable income. The period from 1995 to 2000 was characterised by a general decrease in, or stabilisation of, the Gini coefficients in all countries. The ranking did not change dramatically. However, the trend in the period from 2000 to 2005 took a quite different course as the Gini coefficient increased in nearly all countries. Especially some of the more equal countries saw a rapid rise in the Gini coefficient; Denmark rose from a low of 20 in 1995 to 24.9 in 2005, Finland from 24 to 26, and Germany from 25 to 26.1. The ranking of countries meanwhile remained more or less the same, with Slovenia, Bulgaria and the Nordic countries showing the lowest degrees of inequality and the southern European and newly joined Baltic countries the highest.

The period from 2005 to 2010 presents a less clear picture, with some countries showing a decreased degree of inequality (Finland, The Netherlands, Belgium, Italy, Poland, Greece, UK, Estonia and Portugal) while others continued

to see their Gini coefficient rise. In both Sweden and Denmark income inequality continued to widen, as was the case also in France and Germany (in the latter the coefficient rose from 26.1 to 29.3). Finally, some of the most unequal countries – for example, Spain and Ireland – became even more unequal. As a result of these highly diverse trends over the most recent period, the ranking of countries with regard to their Gini coefficient has altered as compared to the past decade. Some of the traditionally equal countries, Denmark and Germany, have moved down the ranking towards the English-speaking countries, while the central and eastern European countries, in particular, have moved up the ranking. However, inequality has, on average, increased, the increase being a combination of labour-market-based inequality and the outcome of reforms that have taken place in the welfare state (OECD 2011b).

## Conclusions

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### Not less, but more social spending is the answer to crisis

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Social protection spending has risen as a percentage of GDP in all EU member states; in the countries hardest hit by the crisis this increase has exceeded 5 percentage points. However, this increase in spending expressed as a percentage of GDP did not translate into an increase in spending in absolute terms. Poland, Sweden, Hungary and the UK actually spent less money on social protection; in the latter two countries in particular, this is a clear effect of austerity measures implemented at the onset of the financial crisis. The figures on spending for 2010 and after could, as they become available, confirm this trend for most EU member states as the austerity measures start to take effect.

The pressure on social protection spending gives cause for concern on two main counts. Firstly, inequality has, generally speaking, risen right across the European Union; secondly, the welfare state has, over the past decade, become less efficient in terms of off-setting, or providing the framework for lowering, market-based inequality. This trend seems to be more marked for women than for men.

Hence, at a time when equality in its many forms is on the rise, there is tremendous pressure to decrease government spending on social protection. If social protection systems are to adapt and regain their former degree of efficiency in limiting inequality and decreasing poverty, spending cuts cannot be the answer; it is vital rather, on the contrary, that social protection be beefed up and able to provide the security for social risks as well as essential goods and services for the wellbeing of the European Union's population. Furthermore, achievement of the Europe 2020 target of reducing poverty (see also ETUC and ETUI 2011) seems very distant and difficult to attain on the basis of current

trends in social protection spending and reforms. Inequality and poverty cannot be dissociated, for they go hand in hand.

# Climate change and inequality

## Introduction

Inequality is an inherent feature of the distribution of global material and resource use and its impact on environmental degradation and climate change. While developed economies with a fraction of the global population use about half of global resources and continue to cause the bulk of environmental degradation, the impact of this behaviour is overwhelmingly apparent in its effect on the rest of the world, and particularly the poor and vulnerable populations living in the societies of Asia, Africa and South America (Shah 2010). Even if the emergence of China is shifting this distribution markedly, it remains the case that a small share of the world population – the developed economies including the industrialised regions of China account for approximately 23% of this population – is responsible for two thirds of globally emitted greenhouse gases.

In quantitative terms, Raupach et al. (2007) have shown that developed countries are responsible for 77% per cent of all emissions since the mid-eighteenth century.

This global and historical context of inequality should be borne in mind when we refer, in this publication, to inequality in Europe. We should be aware that the build-up of income inequality in Europe during the last two decades (see Chapter 4) brought to an end the golden era of relative post-war equality in the developed industrialised world, which itself rested on these global imbalances inherent in the resource-wasting model of production and consumption (Raupach et al. 2007). We also need to see that labour's fair share of the wealth generated within that economic model was based on increasing use of resources and materials, entailing detrimental consequences for the global poor and effects that were bequeathed to the next generations. This clearly never was a sustainable model!

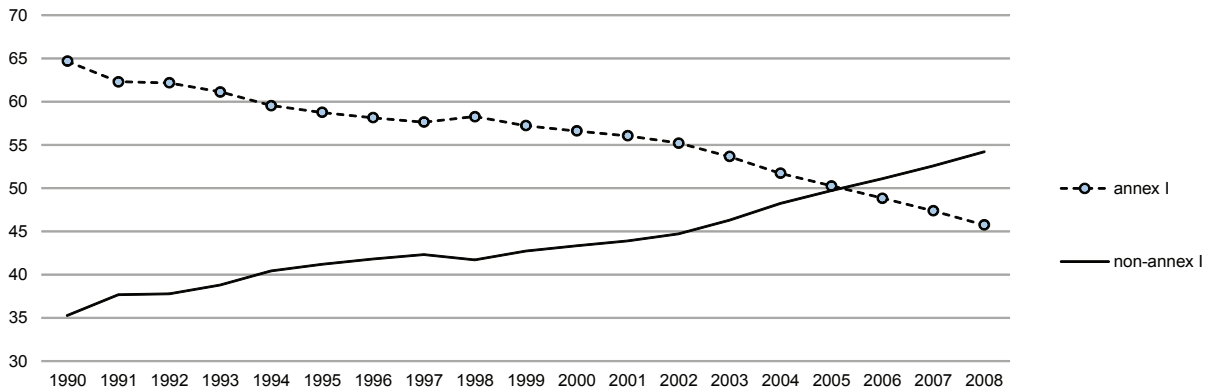
In this chapter we focus on the key processes of sustainable development in Europe with an emphasis on inequality within this European context. Tracking progress in the reduction of greenhouse-gas (ghg) emissions and in material and resource efficiency will be the theme of section one. Section two will focus on gaps and imbalances present in European member states' record of behaviour in terms of resource intensity and ghg emissions intensity. Section three will focus on the most readily apparent form of environmental inequality, i.e. energy poverty in Europe.

### Topics

> <i>Global inequality in greenhouse gas emissions and its consequences</i>	81
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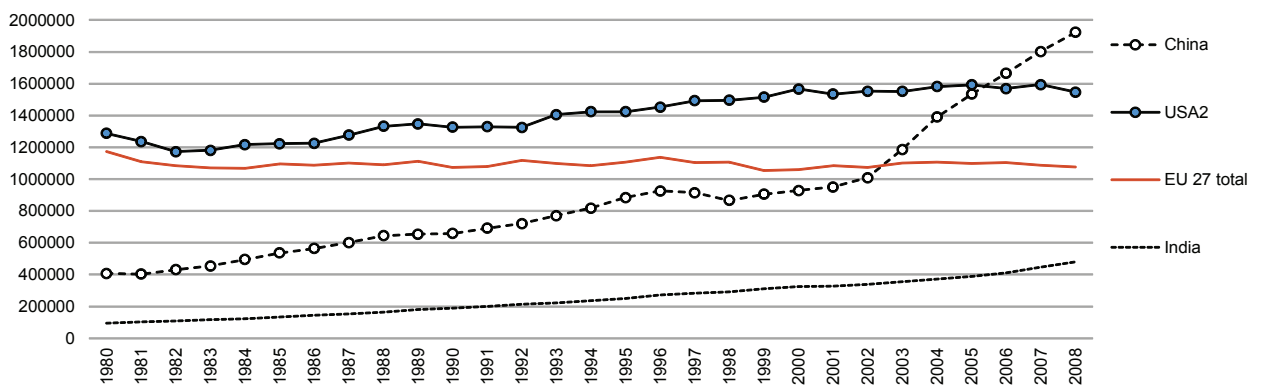
## Global inequality in greenhouse gas emissions and its consequences

Figure 6.1 Greenhouse gas emissions by Annex 1 (developed) and non-Annex (developing) countries



Source: Laurent (2012) and Raupach et al. (2007).

Figure 6.2 CO<sub>2</sub> emissions from fossil fuels and cement in MtC/yr (TgC/yr), 1980-2008



Source: Laurent (2012) and Raupach et al. (2007).

### The big picture of inequality

Developed economies (Kyoto annex I. countries), with 15% of the global population, use about half of the global resources and still cause the major effect in terms of environmental degradation (45% of ghg emissions in 2004), as Figure 6.1 shows.

Meanwhile, the poorest 37% per cent of the world's population accounted for only

7% per cent of CO<sub>2</sub> emissions. In per capita terms, this indicates a factor of inequality of more than 15, when actual emissions are taken into account. As the Intergovernmental Panel on Climate Change (IPCC) has pointed out, while Africa accounts for less than 4 per cent of greenhouse gas emissions in the world, this continent may well, as early as 2020, have between 70 million and 400 million people exposed to water shortage caused by climate change. This shows the other dimension of inequality, in terms of exposure to the impact of climate change.

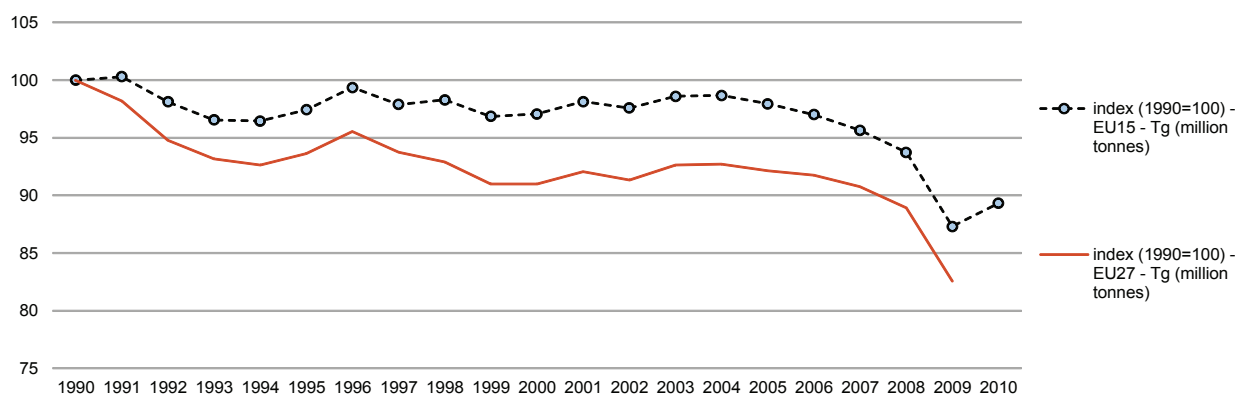
Figure 6.2 shows the shifting balance in global ghg emissions due to the

emergence of China (classified as a developing country and thus *not* subject to ghg reductions under the Kyoto Protocol). In terms of use of the categories 'developed' and 'developing' countries, this shift would seem to indicate a decrease in 'pollution inequality' insofar as the share of 'developing countries' is growing. In fact, the opposite is true. Assuming the industrialised urban population in China to be around 600 million, 23% of the world population is now causing two thirds of global ghg emissions.

At the same time, the emergence of China also demonstrates the absolute limits of this resource-intensive development model.

## European performance in reducing greenhouse gas emissions

Figure 6.3 Greenhouse gas emissions in Europe (1990-2010)



Source: EEA (2011).

### ‘Green recession – black recovery’: more ghg reduction caused by crisis than resulting from climate policy

While global greenhouse gas (ghg) emissions in 2008 were 41% above the 1990 levels and the emissions of developed countries (subject to the Kyoto Protocol) showed no decrease (Schepelmann 2009), the EU (as part of the latter group) did achieve a significant cut in its emissions during this period (while the emissions of other developed economies, such as the US or Japan, continued to increase).

For the EU27, ghg emissions in 2009 (last available data, EEA 2011) showed a substantial 17.4% decrease compared to the 1990 base; for the EU15, however, the achievement was just -12.7%. The crisis year of 2009 showed a record decrease of 6.4% for both the EU27 and the EU15 indicating the on-off effect of the collapsing economic activity. Data available for the EU15 show,

however, that the slight economic recovery in 2010 resulted in an immediate 2% increase in ghg emissions, reducing the overall cut to 10.7% for the EU15 when compared to 1990.

Even if the 2020 targets are – at least for the EU27 – within reach, this does not indicate any effective decoupling of ghg emissions from economic growth.

What the huge difference between the performance of the EU15 and the EU27 shows is that the greater reductions were made in the new member states due primarily to the collapse of their previous industrial base in the 1990s. The same effect applies to post-unification Germany with the dismantling of the polluting east-German industries (also serving to improve the EU15 performance). Out of the EU27’s total 11.3% reduction in emissions between 1990 and 2008, 7.3% had already been achieved in 1994 (at the lowest point of the transformation crisis in CEE), constituting clear evidence that the bulk of the emission cuts was the result of contraction and not of climate policy (see also ETUC and ETUI 2011: 51).

A breakdown of the examined period shows also that the overwhelming majority of the emission cuts were achieved during the first decade of the observation period, as in 1999 ghg emissions were already 9.1% below the reference level of 1990 in the EU27 and 5.3% below this level in the EU15. The period

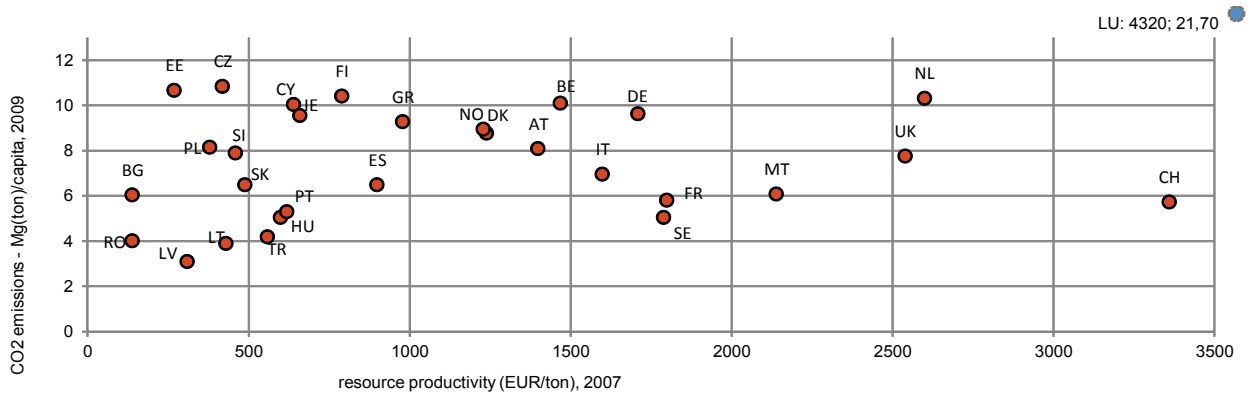
2000-2007 saw no more than a marginal additional decrease in emissions (0.4% in EU27 and 1.4% in EU15). What is more, the single crisis year of 2009 contributed more to a larger decrease of ghg emissions for the EU15 than the preceding 18 years all together! This amounts to clear proof that the achievements so far are less a result of conscious climate policy measures and much more the outcome ad hoc events and crises.

Even if Europe has been performing better than the rest of the world, it cannot be stated that it is well on track towards fulfilment of the ambitious 2050 targets agreed at the G8 Summit in 2009 (Euractiv 2009). The achievement of the 80% emissions cut target for industrialised economies by 2050 would presuppose a cut in emissions to two tonnes of CO<sub>2</sub> equivalent per capita per year. As the current EU27 average is 10 tonnes per capita, achievement of this target calls for a genuine paradigm shift in our production and consumption model.

The case of the CEE transformation crisis in the early 1990s, and the 2009 crisis, provide instances of how climate policy targets should not be reached. This will be a lesson for the next three decades over which the aim is to achieve four times the ghg reductions of the period 1990-2010. Europe cannot afford more recession, even if it is green. What it needs is a recovery that must be also be sustainable and green.

## Divided Europe: resource productivity and per capita emissions

Figure 6.4 Resource productivity and per capita greenhouse gas emissions by member state



Source : EEA (2011) for CO2/capita; Eurostat (2011p) for resource productivity.

### Inequality across member states: from 'poor and clean' to 'rich and dirty'

The differences in resource productivity and per capita ghg emission characteristics by individual member states indicate an important dimension of diversity that can also manifest in terms of actual or potential inequality.

Figure 6.4 shows the great divergence, in both resource productivity (vertical axis) and per capita ghg emissions (horizontal axis) across European countries. Resource productivity, defined as the ratio between gross domestic product (GDP) and domestic material consumption (DMC), indicates how much value added is produced by the input of one tonne of material resource in a given economy. The gaps are enormous as, for example, the level of resource productivity in Luxembourg (4320 EUR/tonne) is more than thirty-fold what it is in Bulgaria (140 EUR/tonne), this gap being far wider than corresponding gaps in per capita GDP or wages. Even if Europe as

a whole is currently profiting from the huge 'emission drops' in CEE new member states caused by the collapse of their traditional industrial base in the early 1990s (see also ETUC and ETUI 2011: 51 ff), these countries face huge challenges when it comes to the need to raise their resource productivity in the future.

If, on the other hand, we look at per capita CO2 emissions, we also see huge differences, but here they are quite differently distributed among countries (CO2 emissions are responsible for the bulk of ghg emissions).

Luxembourg, the best performer in terms of resource productivity – i.e. needing the least amount of material input for producing a unit of GDP –, has, in relation to per capita CO2 emissions, the worst result, namely, 21.7 tonnes, while Latvia has just 3.08 tonnes per capita. This shows how great are the differences even within Europe, but also how many different facets sustainable development has.

While resource productivity depends on both resource efficiency and the economic structure (in terms of the share of resource-intensive industries in economic activity), per capita emissions reflect emission intensity and are thus also linked to the amount of material wealth generated in a country. This means that for instance Luxembourg generates a unit of GDP with high resource productivity but, since there are

many of those units (in terms of production and consumption), this adds up to a huge amount of emissions.

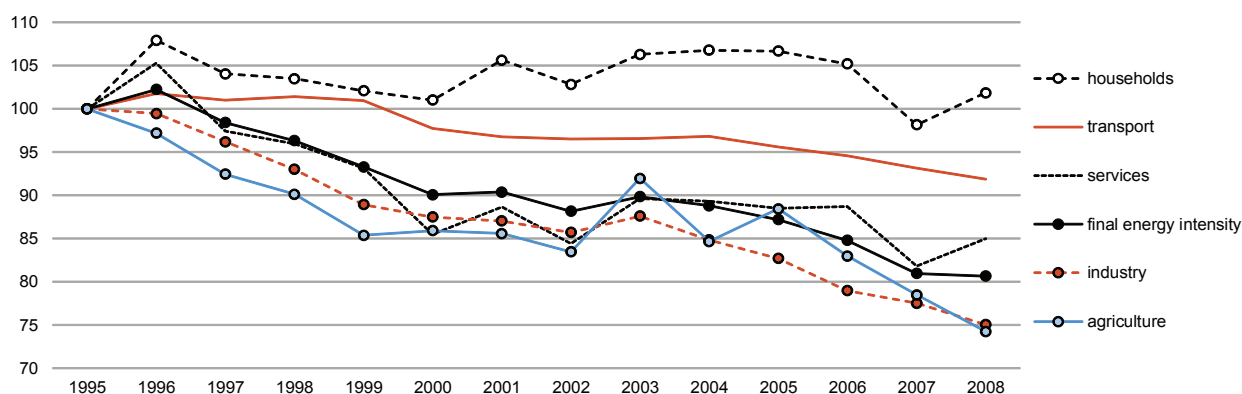
A rich country can thus have relatively high resource productivity values, but still be the highest per capita polluter, because it is not as resource-efficient as it is rich.

On the other hand, a poor country can have low resource productivity and still be a low per capita polluter because the total amount of used resources is relatively low. The targets for 2050 are 2 tonnes of CO2 emissions per capita for developed countries. The challenge for Luxembourg is to bring its per capita emissions down by more than 90%, without giving up its high income level and future growth.

Challenges are even greater for the poorer countries: they should achieve convergence with richer economies and at the same time improve their resource productivity and efficiency. Bulgaria for example would need to cut its per capita emissions by two thirds and at the same time generate 5-6 times the income it does today (there are no targets for convergence, however). This will represent a twofold challenge.

## Energy intensity by broad sector

Figure 6.5 Index of final energy intensity and energy intensity by sector, EU27 (1995-2008)



Source: EEA (2011).

### Energy intensity: huge improvement in industry, but not in the household sector

Economic growth has been entailing steadily less final energy consumption within the EU27 economy, although progress in this respect is piecemeal. Over the period 1990 to 2008, the total gross domestic product (GDP) of the EU27 grew at an annual average rate of 2.1 %, while final energy consumption grew by no more than 0.5 % a year (EEA 2011). In other words, final energy intensity was decreasing during this period at an average annual rate of 1.6 % – which still means that final EU27 energy consumption increased by 9.5 %.

Looking at the performance by broad economic sector, the period 1995-2008 will be examined in more detail.

Improvements in energy intensity have shown huge differences by broad economic sector as shown by Figure 6.5 for the period 1995-2008.

Over the period in question as a whole, final EU27 energy intensity

decreased by around 1.6% a year on average, but most strongly during the years 1996-2000 (-3.1%/year). For the whole period this amounted to a total decrease in final energy intensity of 19%. The decoupling of growth from final energy consumption was most successful in agriculture and in the industrial sector where energy intensity decreased by 25.7% and 24.9% respectively. In the tertiary and transport sectors the final energy consumption intensity decreased by 15 % and 8% respectively compared to 1995.

Two interesting lessons can be drawn from these trends. On the one hand, industry that is often blamed as a major pollutant was one of the best performers in the reduction of energy intensity. This indicates the possibility of an alternative to deindustrialisation on the road to a low-carbon economy.

The performance of the household sector, on the other hand, was rather poor, in spite of programmes designed to raise energy efficiency.

Between 1995 and 2008 final per capita energy consumption in European households increased by 1.9 %. The energy consumption of households has been influenced mainly by two opposite drivers. Efficiency improvements in space heating and in the performance of large electrical appliances have reduced consumption. Meanwhile, the size of dwellings has increased so that increased

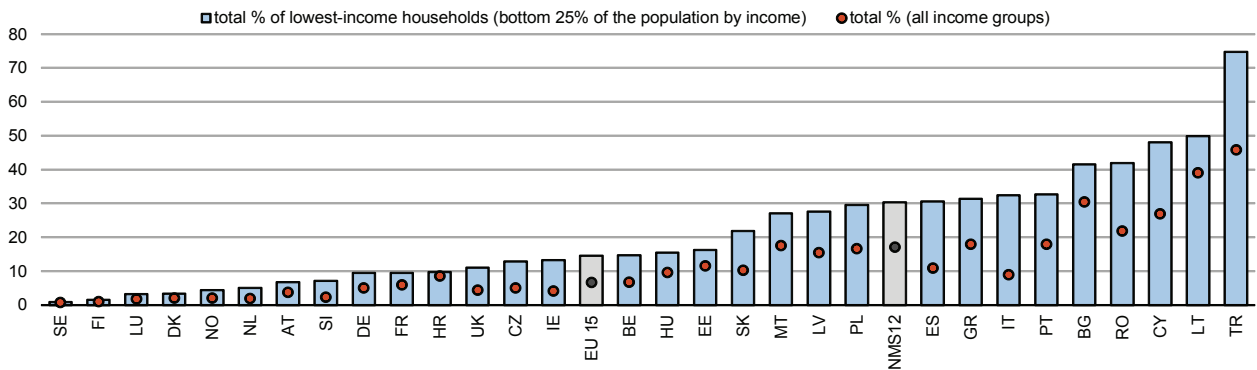
use of electrical appliances and central heating have contributed to an increase in consumption, thereby offsetting most of the energy efficiency benefits. However, CO<sub>2</sub> emissions per dwelling were 24% below their 1990 level in 2008, mainly because of CO<sub>2</sub> savings resulting from switches to fuel with a lower CO<sub>2</sub> content.

The relatively poor performance of the household sector in reducing energy intensity is of key importance in two respects. It shows again how great is this sector's potential for greening the economy and also that government programmes for retrofitting buildings would deserve much more attention from policy-makers.

Involved also, however, is an important inequality aspect. The data reveal two opposite processes: energy intensity grew due to larger and better dwellings and due to more and bigger electrical appliances (the populations mainly affected here are the upper income groups). On the other hand, energy-efficiency improvements, attributable to the switch to fuel with a lower CO<sub>2</sub> content, had a price effect that hit, above all, poorer families. Both trends – larger dwellings on the one hand, more heating efficiency on the other (at a higher price) – clearly indicate an upward pressure in the direction of greater inequality

## The micro-dimension of environmental inequality – fuel poverty in the EU

Figure 6.6 Share of the population who cannot afford to keep home warm if needed, 2008



Source: Eurostat (2011p).

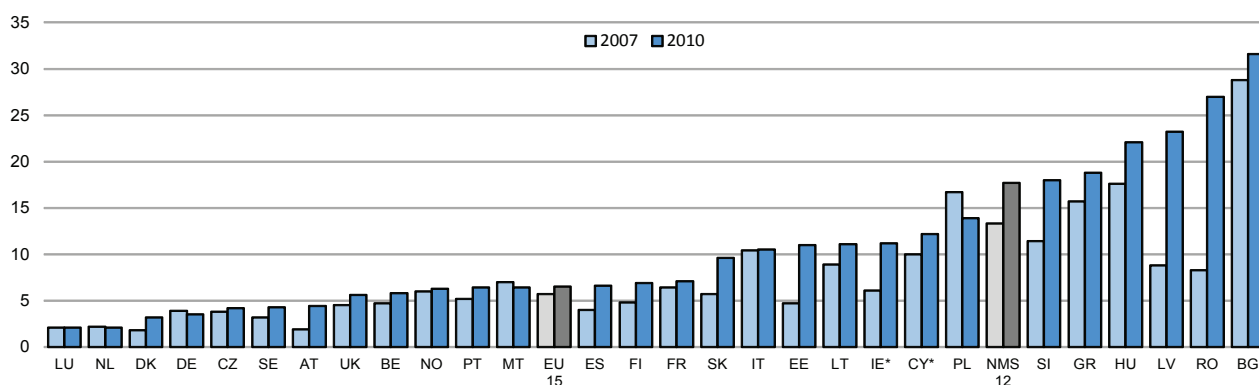
## Fuel poverty on the rise in the EU

In Europe, constant increases in energy prices lead several million households to turn off their heating in winter in order to reduce their energy bills (EPEE 2010).

Fuel poverty is on the rise in the EU and has reached alarming levels in certain member states, even if the latest available data do not yet include the worst years of the crisis (European Foundation for Improvement of Living and Working Conditions 2009). Figure 6.6 shows the share of the population (for the total population and for the poor households) that cannot afford to keep their homes adequately warm when necessary. In 2008 6.7% of the EU15 population and 14.5% of poor households were affected; for the NMS12 the corresponding shares were 17.1% and 30.3%. The situation was worst in Lithuania where 39% of the total population and 49.9% (!) of the poor experienced fuel poverty.

## The micro-dimension of environmental inequality – fuel poverty in the EU

Figure 6.7 Utility bill arrears in EU member states (2007 and 2010, as % of total population)



\* IE and CY: data for 2010 = 2009.  
Source: Eurostat (2011a).

### Dramatic increase in utility bill arrears during the crisis

Figure 6.7 shows another aspect of fuel poverty: the share of the population finding it hard to afford to pay their utility bills for the year 2007 (before the crisis) and for 2010 (after the crisis).

The social impacts of the crisis are clearly visible as serious arrears with utility bill payments have increased in almost all countries. While in 2010 for the EU15, 6.5% of the population was in serious arrears with utility bill payments (in Italy 10.5% and in Greece 18.8%), in the NMS12 the average figure was 17.7%, Bulgaria being the most affected with 31.6% (!) of the total population. Increases in utility bill arrears also show the dramatic effect of the crisis. The new member states showed an increase of the population affected by utility bill payment difficulties from 13.3% in 2007 to 17.7% in 2010. Particularly alarming was the trend in Romania (an increase from 8.3% to 27.0%) and Latvia (from 8.8% to 27.0%). On the other hand, Poland saw a corresponding decrease from 16.7% of

the affected population in 2007 to 13.9% by 2010. Fuel poverty is thus a serious phenomenon in the EU and, with the continuing increase in energy prices, it could take on dramatic proportions. This has important policy consequences, especially if we take account of the two-fold challenges of the coming years: increasing social tensions due to austerity programmes and rising energy prices due to increasing scarcity of resources and climate policy.

## Conclusions

### Avoiding green recession and green poverty

Once this protracted crisis is behind us, there will be no way back to the pre-crisis growth model that rested on credit-fuelled expansion, inequality, and imbalances. Nor can we return to the broader economic model pioneered by Western industrial civilisation. Enduring recovery will be possible only through a fundamental shift towards a resource- and material-efficiency-based low-carbon economy.

When talking about Europe's performance in climate policy targets and the effects of climate policy and resource prices on the population, we need to bear in mind the global context. The industrialised developed world of which Europe is an integral part has been the major beneficiary of the outgoing resource-wasting production model, the consequences of which are disproportionately hitting the developing poor countries. Against this background, Europe has a crucial responsibility to reverse this process and take a leading role in managing the transformation towards a low-carbon and resource-efficient economy.

We have shown some of the results that Europe has managed to achieve in this process, but these are controversial.

Reductions in ghg emissions were predominantly achieved on the back of crises. This should not be the way forward! Europe cannot afford greening through recession. Further decoupling of growth from energy and resource use should be the strategy, even if this route is a more difficult one.

Major imbalances among member states can be seen in this process and these too point up the controversial features of certain climate policy achievements. In terms of resource productivity (generated GDP value from unit resource), the gap among member states is 1:30 (Luxembourg vs. Bulgaria). Per capita ghg emissions meanwhile show an opposite picture: here Luxembourg, the

worst performer, has 7 times higher per capita emission than the best performer, Lithuania. Both indicators are somewhat disturbing: the resource productivity of the national economy can reflect the specifics of an economic structure (e.g. high share of financial services or other high value/low material input activity). Per capita ghg emissions seem to be more indicative of the wealth level of a country than of its performance in resource and energy efficiency. Since poorer countries (above all the NMS) tend to have the lowest per capita emissions, but also the lowest resource productivity, the big question will be how to manage 'green convergence'. Previous experience with the catching up of south-European countries shows that the process of convergence caused emissions to increase rapidly.

Beside the big picture of inequality in environmental and resource use in the world, and the uneven performance in Europe, there is also a micro-dimension of environmental inequality.

This manifests itself in growing fuel poverty in Europe. As we have shown, this is already posing a huge social challenge. Data that reflect the effect of the crisis are not yet available, but there can be little doubt that it will have served to aggravate the situation even further. Nor do we have data to show the extent to which different forms of vulnerability combine within specific social groups. Inadequate housing and inefficient heating systems often go hand-in-hand with unemployment, mortgage problems and falling housing prices. In certain disadvantaged regions some groups in society may become 'locked in', i.e. unable to stay but unable to move either.

If we look ahead to the challenges of a just transition towards a low-carbon economy, some policy recommendations can be drawn. In sustainable development and climate policy a paradigm shift is required. Even if Europe appears to be performing better than the rest of the world, the process towards the 2050 targets is not sustainable. A more comprehensive policy framework is needed and targets must be underpinned by functioning economic tools. Climate policy, industrial policy, employment

and social policy need to be based on an integrated approach. There exists a danger that the forced fiscal and financial consolidation programmes currently underway in Europe may undermine all the dimensions of this policy framework. One example is government programmes for retrofitting buildings, with regard to which there is a major risk that declared objectives will be not met due to austerity. While the housing sector represents the best potential for energy saving and for the reduction of greenhouse gas emissions, a proper design can also help the growing share of families in fuel poverty. Publicly financed programmes would have the highest return here, but if these are being cut, or discontinued, due to austerity policy the losses would be manifold.

# Regional inequalities in Europe

## Introduction

There has long been concern about inequalities between European regions, whether they are increasing or decreasing, and the extent to which national government or EU intervention can help to reduce them (see Farole et al. 2011). Reducing regional inequality was one of the key means of promoting the ‘harmonious development’ within Europe envisioned in the EEC Treaty of 1957. This objective remains today, with the pursuit of ‘economic, social and territorial cohesion’ through ever closer regional, and national, harmonisation, as enshrined in the 2007 Lisbon Treaty.

However, deepening European integration has not always been matched with convergence in living standards between sub-national regions within Europe. Over the years a number of econometric studies have examined the development of regional inequalities in Europe, garnering mixed results, often dependent on the selection of methodology (Petraikos 2008: vii).

The expansion of the EU to include 12 new member states in Central and Eastern Europe appears to have increased EU-wide regional inequality dramatically, a situation comparable to that experienced after Greek, Spanish and Portuguese accession. The EU is now comprised of many diverse regions with diverse populations: some are highly urbanised, metropolitan, and geared to knowledge-intensive economic activity; others are rural, relatively undeveloped, and reliant on low-tech and even subsistence agriculture. Regional inequalities are often, therefore, actually more dramatic than inequalities between states. As many policies are delivered at a regional level, they are also important for service delivery.

Regional inequalities can be measured in many ways. In this chapter we map the extent of inequalities in population, demography, income and wealth, labour markets, and education and skills. In particular, we consider the impact of the 2008/09 recession on these trends and the implications of these changes for traditional regional policy.

### Topics

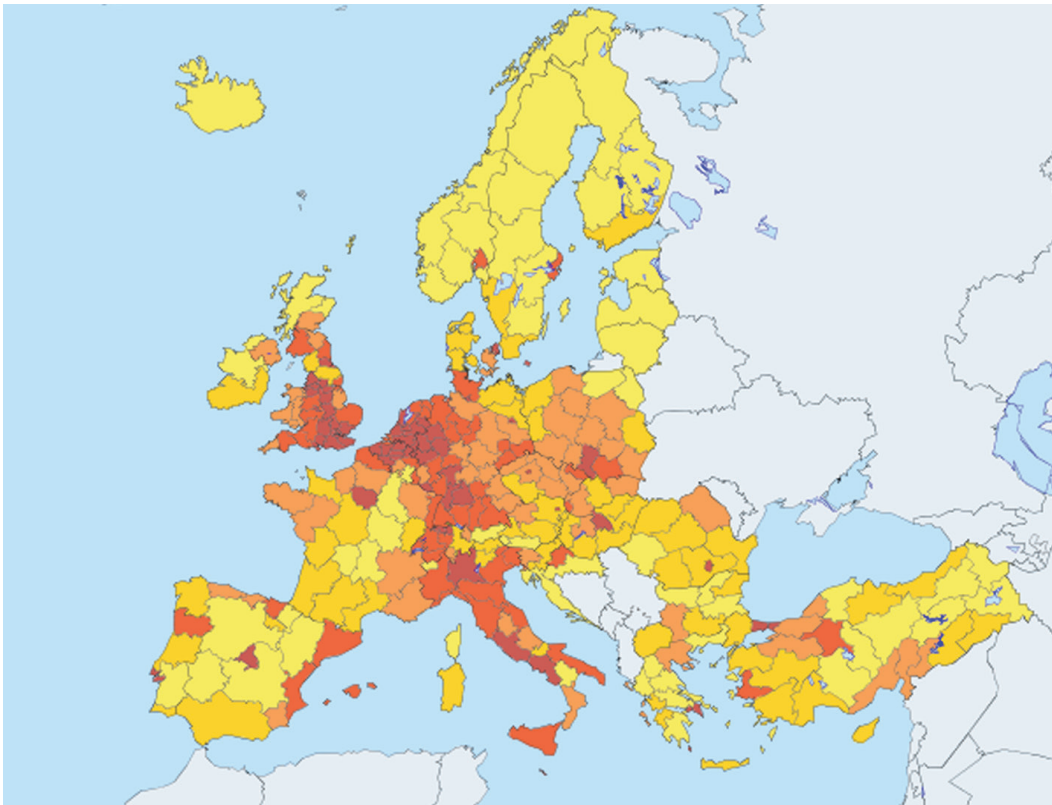
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> <i>Education and skills</i>	98
> <i>Conclusions</i>	99

## Regional demographic trends

Figure 7.1 Population density, by NUTS 2 regions (inhabitants per km<sup>2</sup>), 2008

Legend ■ 324.2 – 9493.4 ■ 2.7 – 62.0 ■ 324.2 – 9493.4 ■ 2.7 – 62.0 ■ 324.2 – 9493.4 ■ 2.7 – 62.0

Minimum value: 2.7 Maximum value: 9493.4



Source: Eurostat (2011q).

### Regional agglomeration: benefits and challenges

Demographic density matters for economic activity. Dense regions benefit from wide and deep labour markets, as well as access to specialised suppliers and customers, and these factors allow the exchange of knowledge between economic actors. Such 'agglomeration economies'

make urban regions more productive than less dense areas (Marshall 1890).

Figure 7.1 gives data on population density across Europe in 2008. Inner London and Brussels are the most densely populated regions with 9,500 and 6,500 people per square kilometre respectively. In contrast, Upper Norrland in Sweden has just 3.3 people per sq.km.

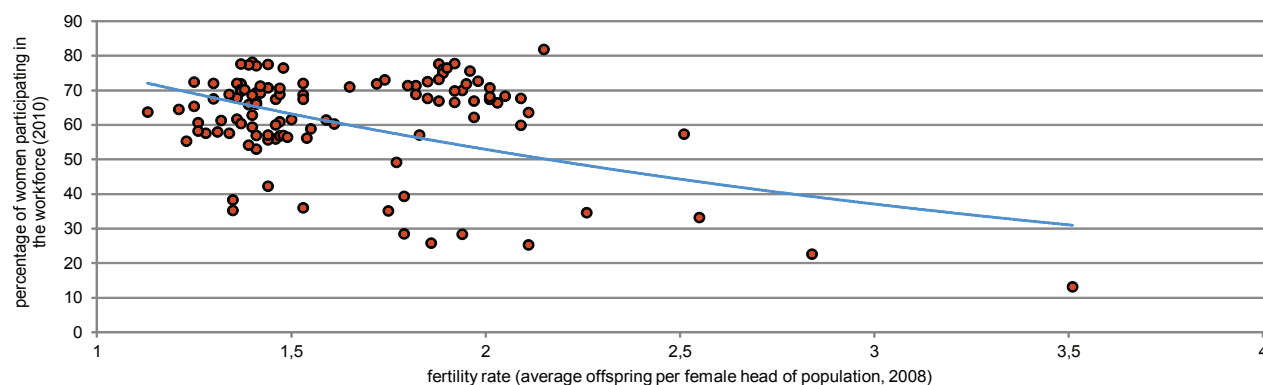
Low rates of internal migration in Europe mean population changes slowly, but there are some stark divides between rapidly growing regions and shrinking ones. The population of Luxembourg increased by 15 per cent between 2000 and 2010; by contrast, the population of

Severozapaden in Bulgaria decreased by 16 per cent over the same period. While migration decisions are made for many reasons, common reasons include quality of life and economic opportunity (Cheshire and Magrini 2006).

The increasing concentration of European populations in urban centres has implications for infrastructure planning and environmental policy, with growing strain on road and rail services and adding to the 'hidden cost' of doing business. The density of urban populations also places strain on supply chains, pushing up the cost of urban living relative to elsewhere.

## Demographic trends

Figure 7.2 Percentage female participation in the workforce by fertility rate (NUTS 1)



Data source: Eurostat (2011m).

### Falling fertility should be a concern for policymakers

Previous research has shown an inverse relationship between female labour force status and fertility (Bloom et al. 2007). Figure 7.2 illustrates both the wide regional variation in female participation in the labour market between European NUTS-1 regions and the correlation with regional fertility rates.

There are regions where very few females are economically active. The Turkish region of Güneydoğu Anadolu Bölgesi, in Turkey, has the lowest female labour participation rate in the countries we are considering here, at just 13 per cent, and an extremely high fertility rate equal to 3.5 children for every female head of population. However, many European regions, representing areas of high economic development, have high female participation rates but fertility rates below the so-called 'replacement rate' of 2.1 required to stabilise populations. This phenomenon is driving wider demographic and economic change.

In last year's publication, it was pointed out that many countries' 'economic dependency' ratios will worsen in the coming decades (ETUC and ETUI 2011: 47). An economic dependency ratio expresses the number of individuals in a population who are economically inactive relative to those in work. This is intended to provide a rough measure of how many individuals are theoretically dependent on wealth transfers from the working population for their day-to-day material needs. One 'economic dependency' calculator model developed by Josef Wöss and Erik Türk suggests that the EU27 economic dependency ratio could climb as high as 87 per cent by 2050 (1.1 economically active persons for every non-active person) (Wöss and Türk 2011).

One of the key factors in future economic dependency ratios is the relationship between women joining the workforce, fertility rates and demographic change. At the same time as rising female participation improves short-run economic dependency ratios, falling fertility rates accelerate demographic change as fewer births lead to fewer working adults in the future.

It may be easier for policymakers to encourage women into work than to encourage working mothers to have more children. Over the past few decades improvements in working rights, such as statutory maternity and paternity leave, have made it easier for working mothers

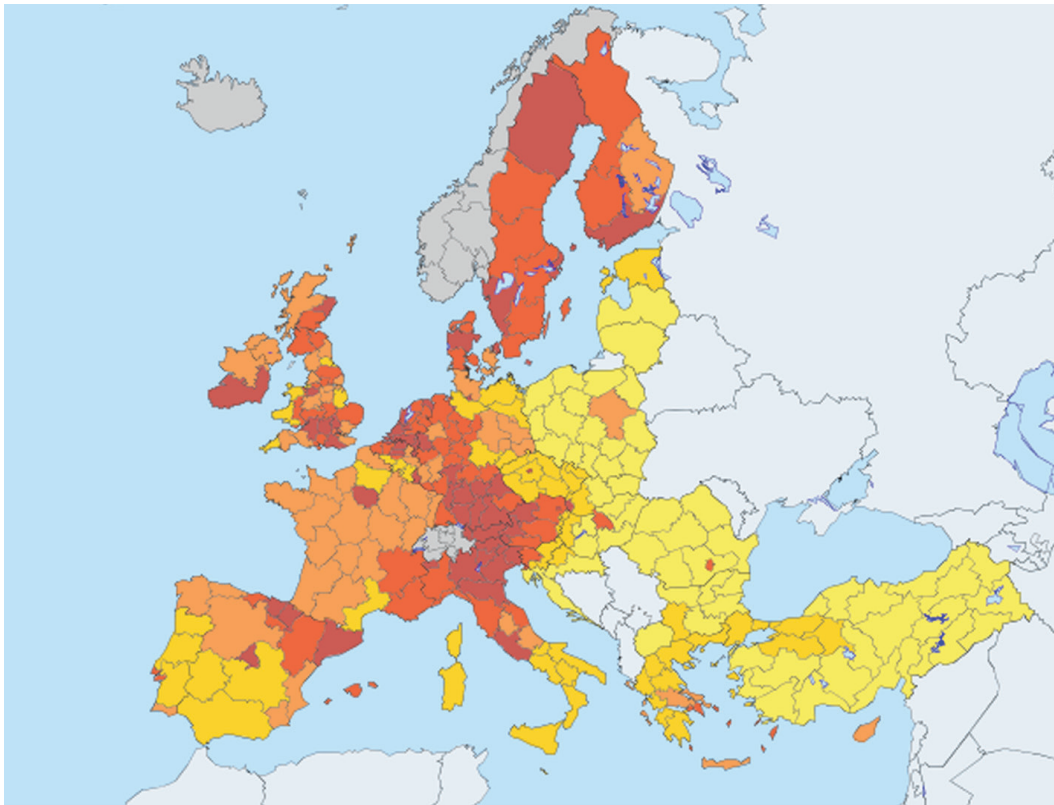
and fathers to raise young children. If we are to see the economic and demographic gaps between regions closing, it is likely that European governments will have to devote more resources to making pregnancy and child-rearing compatible with working lives.

## Income, wealth and lifestyle inequalities

Figure 7.3 Regional gross domestic product (PPS per inhabitant in % of the EU27 average), by NUTS 2 regions, 2008

**Legend**    16.0 – 61.0    61.0 – 84.0    84.0 – 100.0    100.0 – 116.0    116.0 – 343.0    N/A

Minimum value: 16.0    Maximum value: 343.0



Source: Eurostat (2011q).

### A question mark over regional income inequalities

Regional inequalities tend to follow a pro-cyclical pattern. Developed regions grow faster in periods of expansion and more slowly in periods of recession. However, since the 2008/09 recession this relationship has been less clear. Some regions are stagnating relative to others, both within

and between member states, whilst others have benefited from an influx of educated labour.

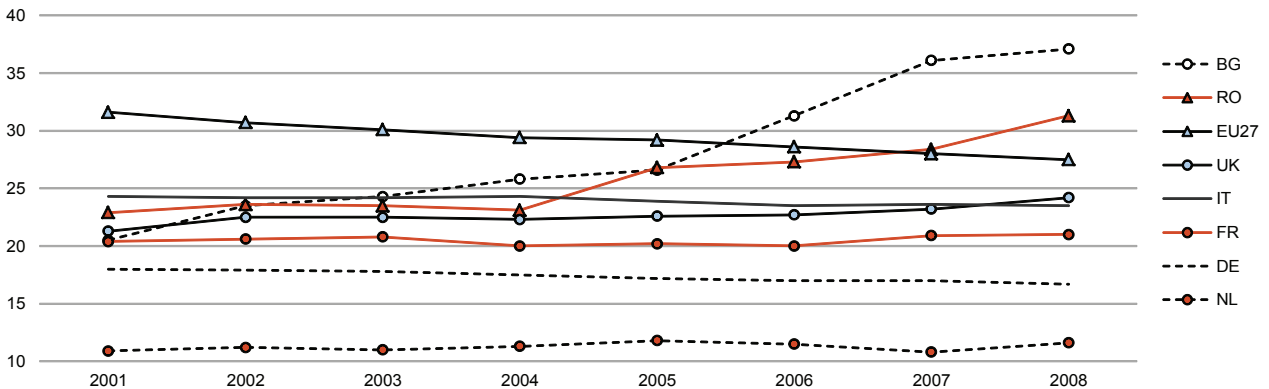
There are pronounced differences in regional GDP per capita. The leading regions in the ranking of NUTS-2 regional GDP per inhabitant in 2008 were Inner London in the United Kingdom (343% of the average), the Grand Duchy of Luxembourg (279%) and Brussels in Belgium (216%) (Figure 7.3).

Figures for these three regions, however, are artificially inflated by commuters who do not reside within their boundaries; net commuter inflows push up production to a level that could not

be achieved by the resident active population on its own. GDP per inhabitant appears higher in these regions and lower in regions with commuter outflows.

## Income, wealth and lifestyle inequalities

Figure 7.4 Regional Dispersion of GDP at NUTS 2 Level (selected countries)



Data source: Eurostat (2011g).

### There are wide disparities in regional incomes

Despite some reservations and particularities concerning regional inequalities in GDP per capita mentioned in the previous section, geographical patterns are relatively clear. There is a concentrated area of affluence starting from southern England and stretching through continental Europe to central Italy and northern Spain. Regions in Scandinavia also tend to be affluent.

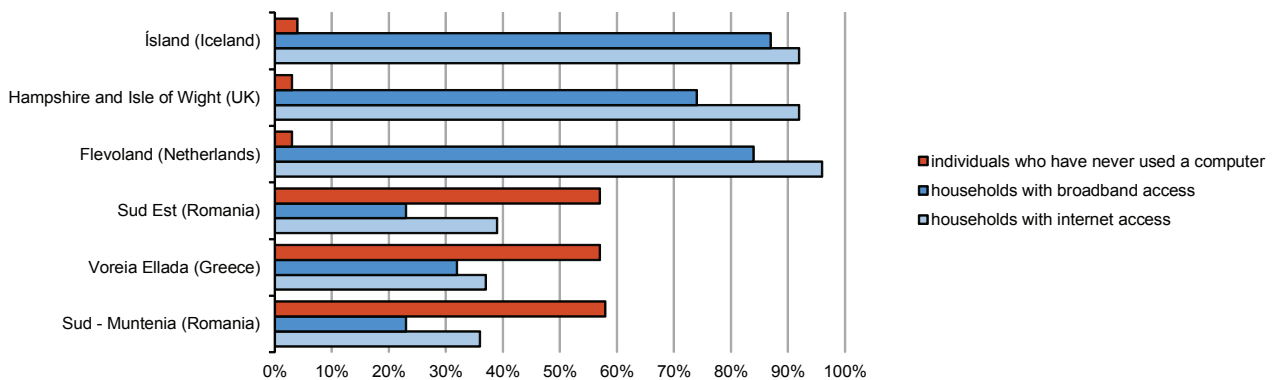
All of the 'weakest' 20 European NUTS-2 regions, as measured by GDP per capita as a percentage of the EU average, are in states that joined in the post-2004 wave of expansion; Hungary and Poland, which joined in 2004, have respectively four and five regions in the bottom 20, whilst Bulgaria and Romania, who joined in 2007, have five and six.

Figure 7.4 illustrates regional GDP dispersion, i.e. the deviation of regional GDP from the national average, where a higher number denotes greater inequality. This measure was falling at European level up until 2008. Though there are no figures yet available for after this period, it could reasonably be expected

that this trend will have slowed, or even reversed, as weaker regions stagnated and European governments embarked on implementation of widespread austerity packages.

## Income, wealth and lifestyle inequalities

Figure 7.5 Regional disparities in household and individual access to IT



Data source: Eurostat (2010a).

### Closing the divide in a digital age

The term ‘digital divide’ describes the gap between those who have ready access to the information and communications technology (ICT) and those who do not. The term includes not only access but also the relevant skills needed to participate in the ‘information society’.

Ensuring comprehensive availability and take-up of fast internet is one of the building blocks of the Digital Agenda for Europe (DAE), part of the Europe 2020 strategy (European Commission 2010). The DAE aims to make basic broadband networks available to all EU citizens by 2013.

Embedding the use of information technology is important for a number of reasons. Employers are increasingly looking for those with expertise in using IT software, and many employees now use the internet and other ICTs in their day-to-day work activities. Widespread familiarity with ICT is also crucial in fostering the ‘innovation union’ envisaged in the Europe 2020 strategy.

National differences in network coverage are by far the most important factor in regional differences. The national variations in household access

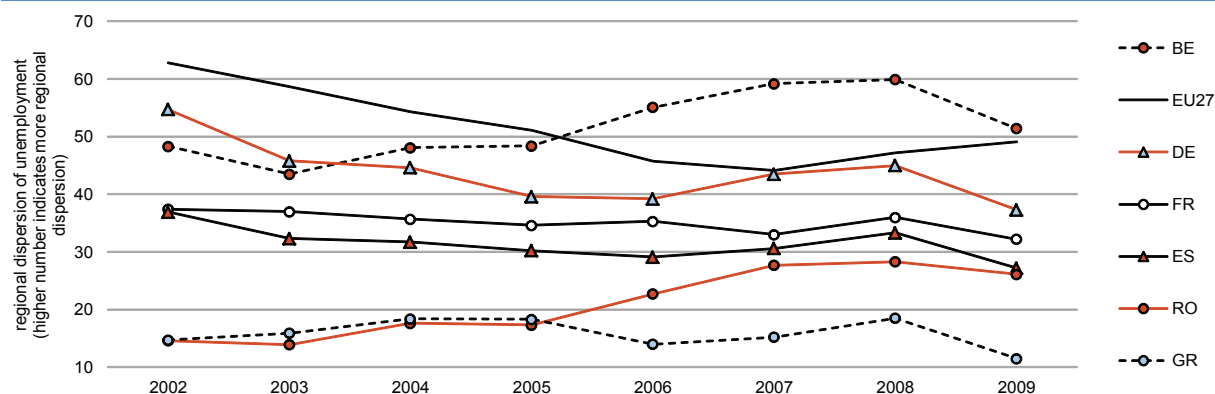
to broadband internet in 2010 are considerable (Figure 7.5). They range from 33% in Bulgaria to 91% in the Netherlands for household internet connections, and from 23% in Romania to 83% in Norway and Sweden for broadband access.

Access to technology is, of course, highly correlated with higher incomes and wealth. The average annual income per inhabitant in Flevoland (in 2008) was around EUR 22,000, compared to around EUR 3,000 in Muntenia (Eurostat 2008). Underlying these differences will be complex regional factors, including industrial structure, level of urbanisation and the age structure of the population.

The DAE cites further government and private investment in fixed-line internet coverage as a key European priority. While improving fixed-line access should remain a priority for the EC and its member states, devoting too much attention to fixed-line expansion may not actually be the most efficient use of resources when compared with the falling cost of high-speed 3G and even 4G internet access.

## Labour market and employment

Figure 7.6 Regional dispersion of unemployment (NUTS 2 by country)



Data source: Eurostat (2011n).

### A conflicting story at national and EU level

Regional inequalities in unemployment levels, by some measures, were falling at the EU level up until 2008. However, the financial crisis and ensuing global recession have pushed up unemployment in many European countries (see Chapter 2) and contributed to a change in trend for EU-wide regional dispersion. This is in spite of falls in the measure of unemployment dispersion in many developed EU countries during 2009 and 2010, which has been caused by unemployment in high-performing areas rising disproportionately to converge with low-employment areas.

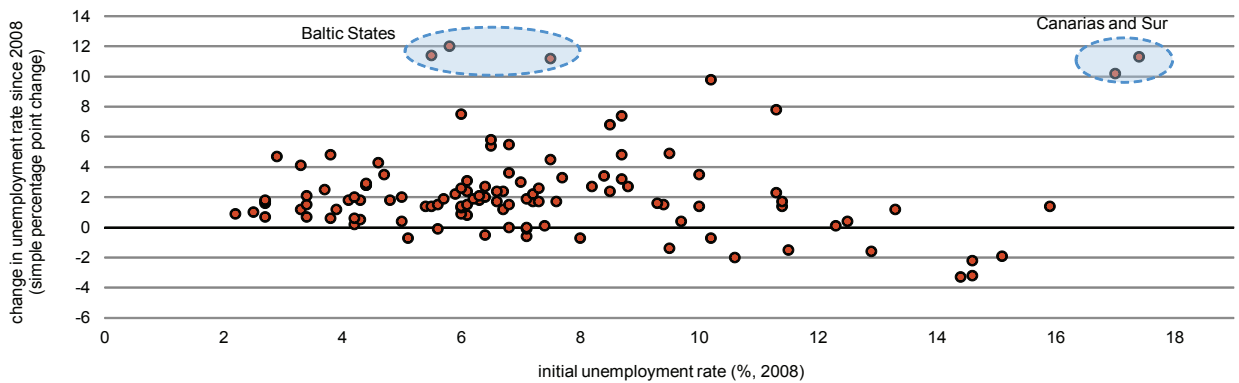
For example, unemployment rates in Comunidad Foral de Navarra, which, at 4.8%, were the lowest in Spain in 2007, have risen to 11.8% -- a proportional rise of 146%. By contrast, Spain's region of highest unemployment in 2007, Extremadura, has seen a slightly more modest rise of 75%. In many parts of Europe, high employment regions have moved towards low employment ones, rather than visa versa (compare similar developments on country level in Chapter 2).

As this trend has brought regions within distressed countries closer to high unemployment rates, it has served to increase EU-wide dispersion as regions that were converging on similarly low rates of unemployment in the pre-crisis years have fallen behind their more fortunate peers in less-affected countries. For example, the ratio of unemployment between North Holland (inclusive of Amsterdam) and Comunidad de Madrid has risen from 2.17 in 2007, to 3.83 in 2010, indicating greater inequality.

Issues surrounding post-recession employment levels are considered in more detail in Figure 7.7.

## Labour market and employment

Figure 7.7 Change in unemployment rate since 2008 versus starting rate (NUTS 1)



Data source: Eurostat (2011a).

### Exceptions and outliers – what can we learn?

Some expected that the European regions with the most entrenched unemployment problems prior to the 2008 financial crisis would see the greatest rise in unemployment in the wake of the crisis (see Lee 2009). However, as mentioned on the previous page, this has not always been true, with some low-unemployment regions, particularly in Spain and Greece, converging towards the economy-wide higher average rate of unemployment.

Some regions do fit the expected pattern: the southern region of Spain (covering Andalusia, Murcia, Ceuta and Melilla) and the Spanish Canary Islands both had very poor initial unemployment rates at the beginning of 2008, and subsequently suffered some of the worst further deterioration in employment. The region of Åland, a small group of islands in the Baltic Sea that is legally part of Finland, had very low initial unemployment (2.2%), and saw only a small rise of 0.9% between 2008 and 2010 (Figure 7.7).

However, there are major exceptions to the rule. The three Baltic states (which are also treated as NUTS 1 regions) are

outliers, in that they entered 2008 with moderate unemployment rates but suffered very large proportional increases in unemployment during 2009/10. Estonia's unemployment rate rose from 5.5% to 16.9% in this period, while that of Lithuania increased the most of all, from 5.8% to 17.8%. This deterioration is probably due to the huge outflows of FDI from the Baltic states during the financial crisis, following a period of high foreign investment in these 'tiger' economies.

Another group of outliers are those regions that had relatively high unemployment rates in 2008, but whose situation improved between 2009 and 2010. A total of eight of the nine regions where unemployment was above 9% in 2008, but has since fallen, were in Germany.

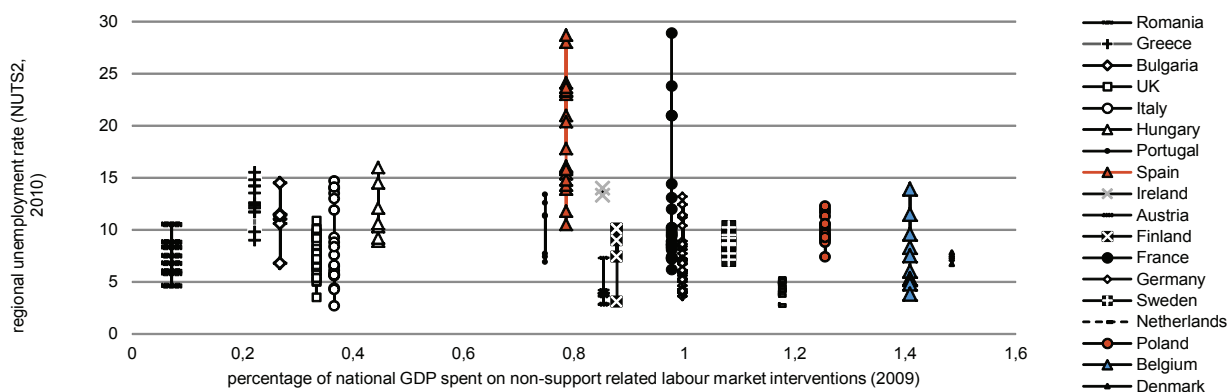
German regions accounted for a total of 11 out of the 15 NUTS-1 regions where the unemployment situation has improved since 2008, marking Germany as an exceptional case in Europe at present.

Germany's resilience in the face of the economic crisis has been built on the strengths of its *Mittelstand*, small manufacturing firms that often have a history of location in a certain town or area, with strong links to local education institutions and government agencies. Germany has also benefitted from its membership of the eurozone: despite the currency's protracted problems, its low trading value relative to the old German

Deutsche Mark has helped German exports soar, helping to reduce its dispersion of regional unemployment.

## Labour market and employment

Figure 7.8 GDP spend on non-support related labour market interventions versus regional differences in levels of unemployment (NUTS 2)



Data source: Eurostat (2011c).

### Labour market interventions reduced unemployment

Governments differ in the amount of national resources they expend on intervening in their labour markets. There are different types of labour market policy (LMP), and Eurostat breaks these down into three broad categories, as enumerated below.

The first, labour market 'support', accounts for around 64% of current EU-wide LMP spending and refers to interventions that provide financial assistance, directly or indirectly, to individuals for labour market reasons (e.g. out-of-work benefits, redundancy pay). This component of LMP has risen sharply since 2008 as unemployment has increased across the continent.

The second type of LMP, labour market 'services', and the third, labour market 'measures', are distinct from direct financial support for the unemployed in that they comprise spending on job-search related services or specific interventions that change an individual's labour market status. These

might include state-funded training or work placements, or encouraging people to take up certain forms of employment such as national apprenticeship schemes. Across the EU27, around 0.8% of GDP was spent on these interventions in 2009, up from 0.65% in 2008. While this increase in spending was welcome, even more finance for such interventions was required.

Figure 7.8 illustrates the percentage of national GDP spent on these two latter types of intervention in 2009, thus eliminating the extra public spending that has resulted from increased overall joblessness. This can therefore be seen as a 'purer' measure of government activism in promoting specific labour market policies, discounting 'automatic' welfare unemployment.

The spread of each country's regions along the y-axis illustrates the success or otherwise of labour market interventions in reducing regional variations in unemployment. A closely bunched set of points denotes lower levels of regional inequality in unemployment rates.

There is no clear relationship between spending on labour market interventions and lower regional employment inequality. Indeed, relatively interventionist countries like France and Spain both have a considerable spread between their best and worst performing regions, as well as high national average

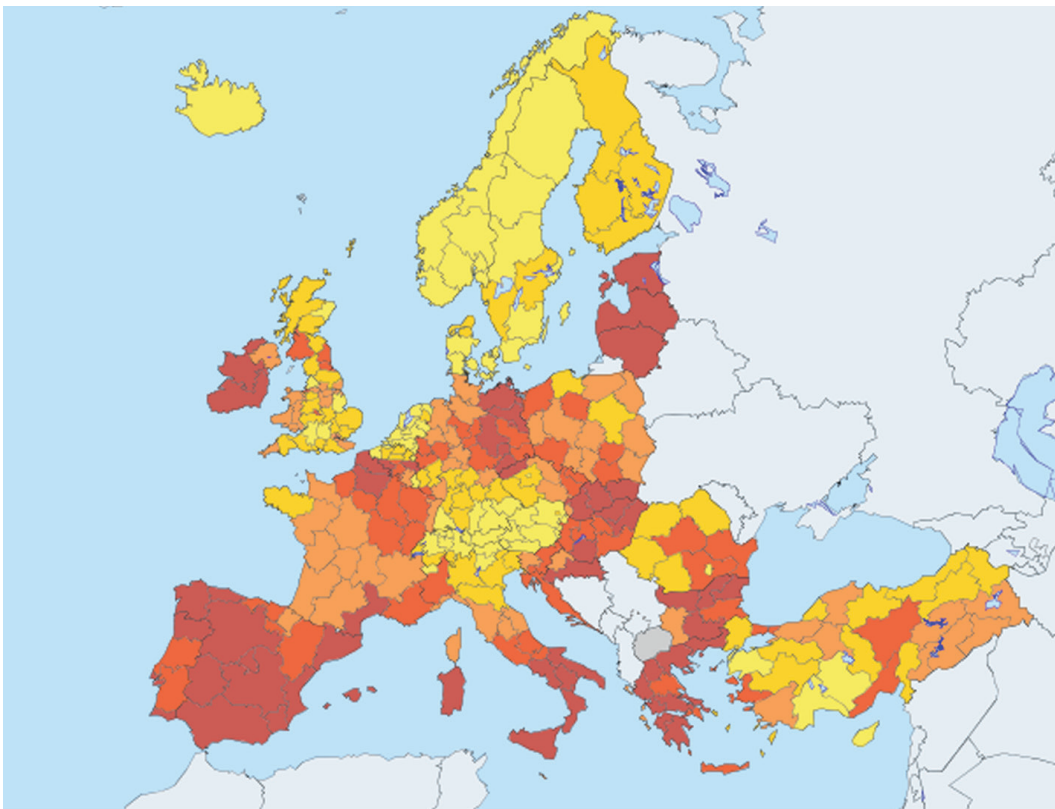
unemployment rates of respectively 9.8% and 20.1%.

There does, however, appear to be a correlation between high levels of interventionism and lower average rates of unemployment; the average national unemployment rate of the top four spending countries (Denmark, Belgium, Poland and the Netherlands) is 7.9%, compared to an average of 9.5% in the bottom four spending countries (Romania, Greece, Bulgaria and the UK). A more active labour market policy, through both increased job-search-related labour market services and specific government interventions in the labour market may then help to reduce overall unemployment levels, although such an approach will not necessarily reduce regional disparities.

## Labour market and employment

Figure 7.9 Share of long-term unemployment (12 months and more), by NUTS 2 regions, 2010

Legend ■ 16.0 – 61.0 ■ 61.0 – 84.0 ■ 84.0 – 100.0 ■ 100.0 – 116.0 ■ 116.0 – 343.0 ■ N/A  
Minimum value: 16.0 Maximum value: 343.0



Source: Eurostat (2011q).

### More long-term thinking needed

The numbers of long-term unemployed people (those unemployed for 12 months or longer) have increased since 2008 as increasing numbers in certain regions have been searching for work for 12 months or more. Evidence suggests that, once individuals have been out of work for an extended period of time, it is much more difficult for them to find work, as various factors such

as skills atrophy and loss of self-confidence impede their search (Tominey and Gregg 2005).

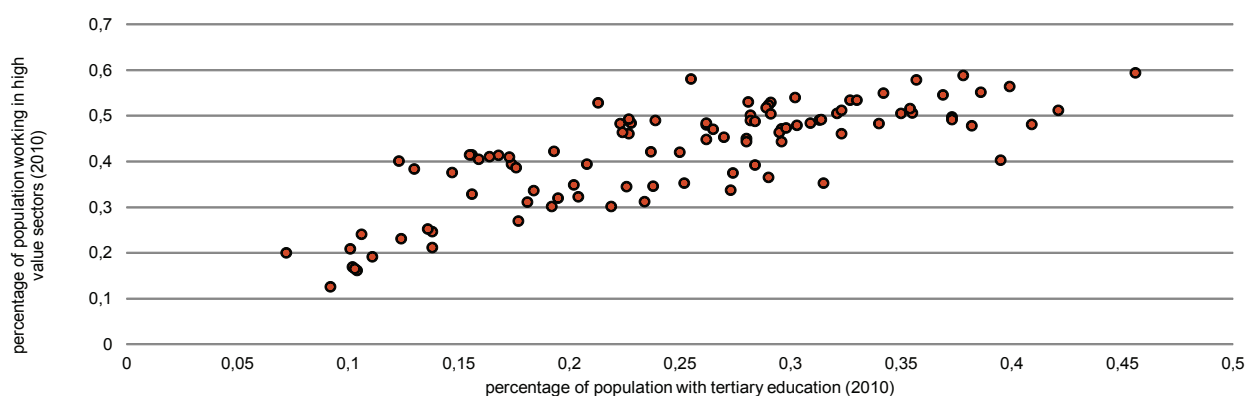
Since 2008 long-term unemployment has often risen proportionally faster than overall levels of unemployment, with many regions seeing rises of between 100 and 500% (Figure 7.9). Lithuania has indeed seen a fivefold increase from 1.23% to 7.38%. In the Spanish regions of Valencia and Murcia the rate is 8.7% and 9.8% respectively (both having risen almost 400% since 2008). This trend is not limited to regions in so-called 'peripheral' countries; in Belgium, both the Brussels and Hainaut

regions have seen long-term unemployment rise to above 8%.

Youth exposure to long-term unemployment is of particular concern; youngsters who have long spells of joblessness are likely to suffer greater permanent damage to their long-term career prospects (see also Chapters 2 and 3). In many regions of Spain, Greece and Italy there are severe problems with youth unemployment which have the potential to impact on countries' economies for years to come. While these countries have experienced economic difficulties, they have, at the same time, labour markets with built-in restrictions on young people's pathways to work.

## Education and skills

Figure 7.10 Relationship between tertiary education and high-value employment



Data source: Eurostat (2010a). Employment in 'high-value sectors' is here defined as employment in knowledge-intensive industries and high/medium-high technology manufacturing.

## Education matters

A better educated workforce tends to be engaged in higher-value activities. Figure 7.10 illustrates the relationship between the proportion of regional population with tertiary education, and employment in high-value sectors. High-value sectors are here defined as knowledge-intensive services and high/medium-high technology manufacturing.

Whichever way the direction of causality runs, it is clear that some regions are more successful than others at attracting and retaining educated individuals and high-quality employers.

This is true even within countries. In London, for instance, almost 46% of the working population has tertiary education, and this is reflected in Europe's highest rate of employment in high-value sectors – almost 60%. In contrast, the northern British region of Yorkshire and the Humber has a much lower proportion with tertiary education, around 30%, and only 47% of the workforce is employed in high-value activities.

Having a local world-class university or higher education institute can benefit a region enormously in terms of attracting high-quality employers. Large firms in areas like high-tech manufacturing, engineering and pharmaceuticals

often have strong links with the academic community and may develop ties with local university departments, leading to regional clusters of high-value firms around key universities, acting as a magnet for other firms. This is the case in areas like the Cambridge 'Silicon Fenn' cluster in the UK (compare also ETUC and ETUI 2011: 70 ff.).

European regions that lack higher education institutions, or whose institutions are not competing on an international level, may find that their brightest and best workers move elsewhere for their education, and may not return. Governments have a large role to play in championing their higher education sector, as it is seen both as a generator of local value, and also as a growing export sector. Yet selective migration – as the highly educated move to education and fail to return – may also exacerbate regional inequalities. We consider this issue in the conclusions.

## Conclusions

### Growing inequalities require responses

As this chapter has shown, there are pronounced regional disparities across many socio-economic indicators. But should we expect regional disparities to rise or fall? Given the increasing knowledge intensity of the economy, and the importance of dense locations for knowledge-based industries, disparities may be likely to increase. Productive regions, and the cities within them, will develop self-reinforcing growth. In periods of economic strain (as at present) weaker regions may fall further behind as an over-reliance on public sector employment makes them vulnerable to spending cuts. Especially, rural and less developed European regions may find that they lose their most important resource, namely, people, without whom it will be far more difficult to close the development gap.

How can policymakers address these problems? Regional policy will be one answer; directing resources towards distressed geographic regions can help to improve living conditions and prevent further increases in regional inequality. Policies building on local 'anchor institutions' such as universities or large companies can be one such strategy (The Work Foundation 2010). Europe's governments also need to act to prevent the long-term unemployed from becoming a lifelong drain on national resources. Although a lack of private demand, combined with the scaling back of current government spending, has worsened prospects for the younger generation, a major part of the investment that is required is in improving the education and skills of workforces around Europe (Chapter 3) so that they are equipped for higher value work (Figure 7.10).

Yet it is important to think beyond regional policy. Regional disparities reflect differences between people, not just places, insofar as they are actually the result of the different distribution of

people over space. 'Place' effects, such as the impact of agglomeration on productivity of firms, coupled with 'person' effects, that is the characteristics of individuals and where they are located, are the two major components of geographic inequality. Evidence strongly suggests that 'person' effects dominate (Gibbons et al. 2011). The underlying problem for most lagging European regions is a lack of workforce skills needed to attract investment and set up a virtuous circle of development. Because of this, some of the best policies to address regional inequality may focus on people, not places.

# Do unions and worker representation bodies make for more or less inequality?

## Introduction

According to the conventional wisdom, trade unions (and worker representation institutions) are inherently opposed to equality insofar as unions seek benefits for their members alone, thus placing non-unionised workers at a disadvantage and contributing to greater inequality within the working class (the insider-outsider theory; Lindbeck and Snower 1989, 2002; Doiron 1995). This chapter – challenging these stereotypes, in line with the literature showing that trade unions in fact contribute to a *better* income distribution, and thus to a more equitable and socially sustainable integration (Hayter 2002; Hayter and Weinberg 2011) – sets out to conduct a critical discussion of this complex issue. As different forms of inequality rise in Europe to an unprecedented extent, even in traditionally low-inequality countries (OECD 2011a: 22), it is clear that this adverse situation must be fought using a range of tools, at all levels and by all actors. While trade unions, via collective bargaining, participate in ensuring fairer pay (see Chapter 4), they have a role to play in other aspects also, since inequality is not one-dimensional, i.e. solely earnings-based. The mapping of European Social Dialogue (ESD) agreements demonstrates that, insofar as it influences legislative framework conditions through the channels of national and European social dialogue, trade union involvement in fighting inequality encompasses the workforce as a whole. The trade unions' positive contribution notwithstanding, their role in pursuit of more equal societies (Hayter 2002) is being gradually undermined. The downplaying of trade union and worker representation institutions in policy-making appears on the European (less competences under the Europe 2020 Strategy as compared to the Lisbon Strategy, see ETUC and ETUI 2011: 84 ff.) as well as on the national level (see collective labour law reforms section).

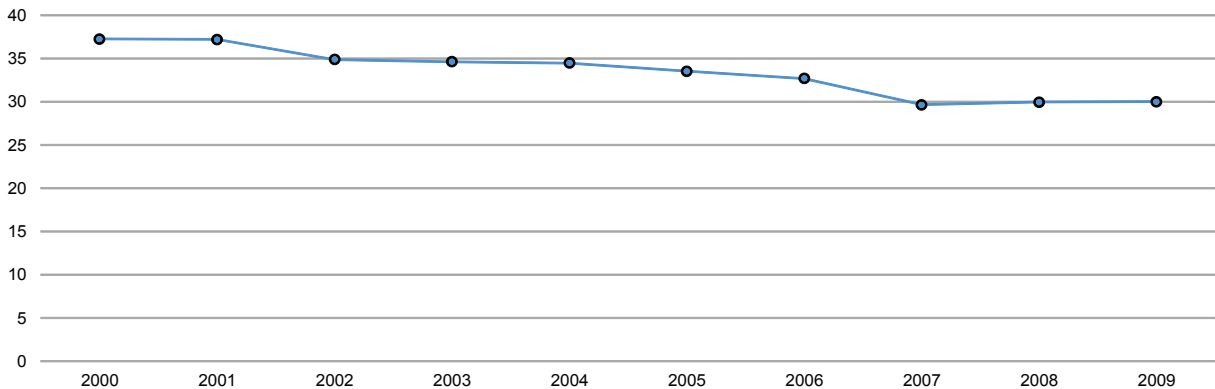
At the same time inequality is a matter also for workers' representatives on the company level. While the devising of pay policies remains the preserve of corporate managers, to address areas such as gender- or ethnicity-based inequalities does lie within workers' reach. They rise to this challenge via instruments both traditional – European and SE Works Councils – and new, for example, International Company Agreements. Yet these efforts fall far short of what is needed and are further obstructed by incoherent implementation of the information and consultation *acquis*.

## Topics

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## Trade unions and inequality

Figure 8.1 Trade union density in EU27 (simple average), 2000-2009



Source: Visser (2011).

### Fighting inequality: a quintessential trade union task

Equity and equality issues being an essential dimension of employment relations (Strachan et al. 2011), unions have, in the course of their history, gradually learned – admittedly not without encountering difficulties, even still today, within their own ranks – how to tackle instances of inequality and discrimination. The discrimination in question, often based on ethnicity or gender, frequently combines with other forms of inequality more directly linked to the labour market, such as differences in education, experience and skills. At the European level, national unions and the ETUC have had a role to play in regulating ‘non-standard’ forms of employment (part-time work (1997) and fixed-time work (1999) and leave schemes (parental leave (1996, 2009)) via directives and frameworks of actions on the life-long development of competencies and qualifications (2002) and gender equality (2005), as well as, most recently, the framework agreement on the inclusive

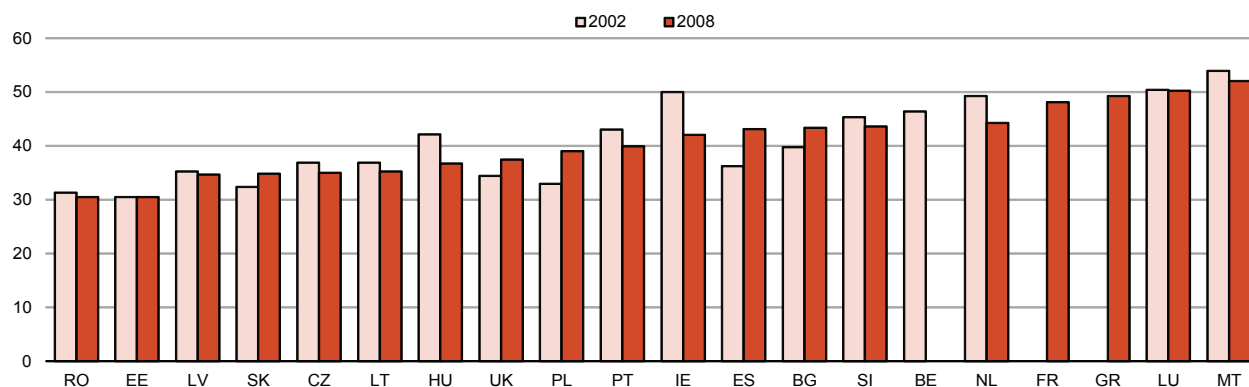
labour market (2010). Trade unions have always also naturally sought to combat or mitigate forms of inequality stemming directly from the labour market, particularly in terms of wage inequality, by standardising pay and working conditions, mainly via collective bargaining and the effort to influence legislation. Alongside legalisation, benefits resulting from sectoral collective agreements generally, in the EU, affect both unionised and non-unionised workers since such collective agreements are, in most countries, binding upon all employers in a certain sector.

However, in the standard (and neoliberal) economic view, very often based on the prevalent model of business unionism in the English-speaking world (which turns a blind eye to any other, broader form of trade unionism), there has never been any real belief that trade unions have contributed to a more equal distribution of wages. On the contrary, there is an obstinate conviction that unions are extorting monopoly rents in the form of higher wages from non-unionised workers, which increases wage inequality between unionised and non-unionised workers and generates allocative inefficiencies, i.e. a reduction of employment and a lowering of labour market efficiency (cf. Friedman 1962). The current, less ‘encompassing’ membership composition of most

Figure 8.1). Today, various unions have a strong membership concentration in their traditional sectors of unionization, i.e. manufacturing industry and, particularly, the public sector (Scheuer 2011), which is associated with the so-called ‘insiders’, in contrast with the so-called labour market ‘outsiders’ (Lindbeck and Snower 2002). A considerable number of these ‘outsiders’ are workers employed on ‘non-standard’ contracts, often entailing the danger of precariousness (or vulnerability), and who, in spite of the often repeated claim that they strongly need union representation to improve their wage and working conditions, are in actual fact less likely to belong to trade unions (Vandaele and Leschke 2010). Alongside the fact that they are likely to be employed in small workplaces, several other reasons account for the underrepresentation of lower-paid workers, including the fact that they probably face stronger liquidity constraints and might well be disillusioned with trade unions given the unions’ low bargaining capacity in the low-paid sectors and, hence, lesser ability to improve wage and working conditions (Checchi et al. 2010).

## Trade unions and inequality

Figure 8.2 Monthly minimum wage as % of average monthly earnings in industry and services, 2002-2008\*



\*EE, SK 2008=2006, FR, NL 2008=2007  
Source: Eurostat (2011k).

### Rising inequality: a threat to unions

Despite accusations that the trade unions exploit their ‘insider power’, numerous empirical studies have, over time and across advanced capitalist countries, repeatedly found that unions have an equalising effect and thus reduce overall wage inequality (for an overview, see e.g. Baccaro 2008; Hayter and Weinberg 2011). Although the empirical findings are robust, some reservations should be made. First of all, countries of Central and Eastern Europe are seldom included in the research, most of which focuses predominantly on the English-speaking world and, to a lesser extent, Western Europe. Secondly, the distributional impact of unions on gender pay differences is less pronounced, despite their efforts to combat this form of discrimination (Card et al. 2007). Thirdly, wage compression is achieved in different ways, substantially depending on the bargaining framework (Wallerstein 1999): whereas, in countries with low collective bargaining coverage, the local union influence and union coverage is important, union membership becomes less relevant in countries with high collective bargaining coverage since

collective agreements are administratively extended beyond the union-organised sector (Visser and Checchi 2009).

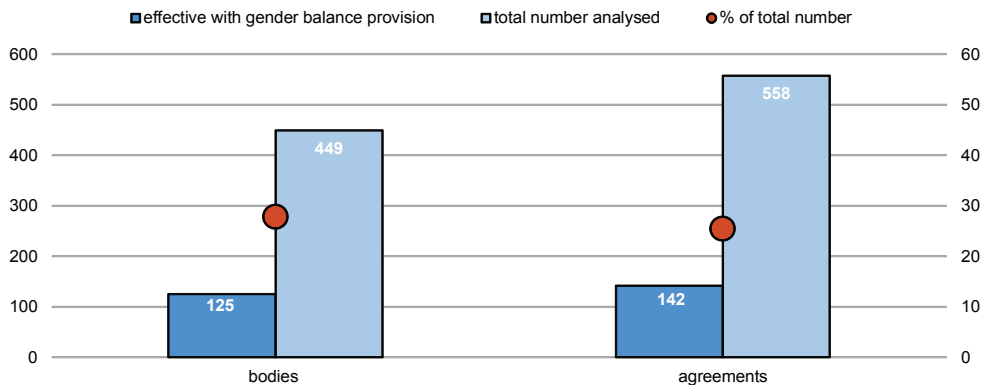
Where country differences are concerned, countries with high collective bargaining coverage tend to have a greater degree of wage compression since pay differences between companies and economic sectors can be reduced by extending collective agreements to non-unionised workers (see Chapter 4). In addition, minimum wage legislation (see Figure 8.2 for data) also contributes to limiting wage inequality at the bottom of the earnings distribution (OECD 2011a: 120). Yet unions, while observing intra-country changes over time, have been unable to prevent the increasing variance in wages, indicating that labour market institutions have become less effective in compressing wage distribution. The general trend towards wage inequality is especially pronounced in the countries of Central and Eastern Europe (Baccaro 2008) and in countries with limited union or collective bargaining coverage.

What is more, the increasing wage inequality might have, in combination with the current union membership composition, itself contributed to a further de-unionisation (Checchi et al. 2010). Given the fact that unions primarily represent workers in the middle of the earnings distribution – hence the underrepresentation of low and high earnings in the unions – a further rise

in earnings inequality might entail a further fall in union membership since low-paid workers might perceive union action as increasingly ineffective and highly paid workers might be less inclined to unionise or to retain their union membership since they might well be less in sympathy with the egalitarian policies of unions. Nevertheless, in reaction to the membership decrease and the underrepresentation of low-paid workers, unions have become once again more aware of the need to actively ‘organise the unorganised’, i.e. those groups of workers not directly represented by unions (Pedersini 2010), although incentives to this end depend on employer and state strategies, the institutional context for collective bargaining and, last but not least, unions’ own structures, cultures, traditions and strategic action (Frege and Kelly 2003). In other words, organising the unorganised is a preliminary but important step to regaining more encompassing unions and obtaining greater leverage whereby to tackle inequality.

## Inequality and worker representation

Figure 8.3 EWCs and SE works councils competent to deal with aspects of inequality (number of agreements)



Source: European Trade Union Institute, EWC database, February 2012.

### Equality issues too rarely on the agenda, too rarely applied in practice

Though inequality on the company level can manifest itself in many forms, it seems that the efforts of transnational workers' representative bodies have so far been predominantly focused on gender inequalities and equal opportunities for women and men (the ETUI database of EWCs contains info on this aspect alone). This is in line with the philosophy and goals of the Europe 2020 strategy in which 'gender equality continues to be a core element (...), because equality between women and men has proven to be a sustainable solution to old and new challenges' (European Commission 2010e: 7).

In this regard 130 EWC and SE agreements (i.e. 23% of the total of 558 agreements analysed) officially recognise the right of the EWC to deal with equal opportunities issues (Figure 8.3). The importance of equality for employees was reported to be even greater in a survey conducted in 2005 (Waddington 2005) when 44.5% of EWC member respondents stated that the agreement under which

they operated included provisions on this topic. It must be stressed that these figures reflect only the formal contractual recognition of such a competence on the part of the European workers' representatives, whereas inequality might well be an item appearing on the agenda of a greater number of EWCs based on the evolution of information and consultation practices in the light of a tacit understanding with the management.

Since EWCs are information and consultation bodies that arguably are not entitled to conduct collective bargaining, hard-core issues relating to the pay gap between men and women would seem to be beyond their reach (even though at least 20 out of the 577 in fact do have this competence). There are, however, other aspects of inequality between the sexes that can be dealt with by workers' representatives in EWCs. These aspects cover issues such as facilities for combining work and family life, extending women's participation in decision-making bodies (see European Commission 2010e: 49-50) and providing equal opportunities for career and professional development. These issues have been the subject of 7 transnational company agreements co-signed by EWCs and collected in the European Commission's Database (European Commission 2011f).

Much progress remains to be achieved also with regard to gender balance in the composition of EWCs. Though

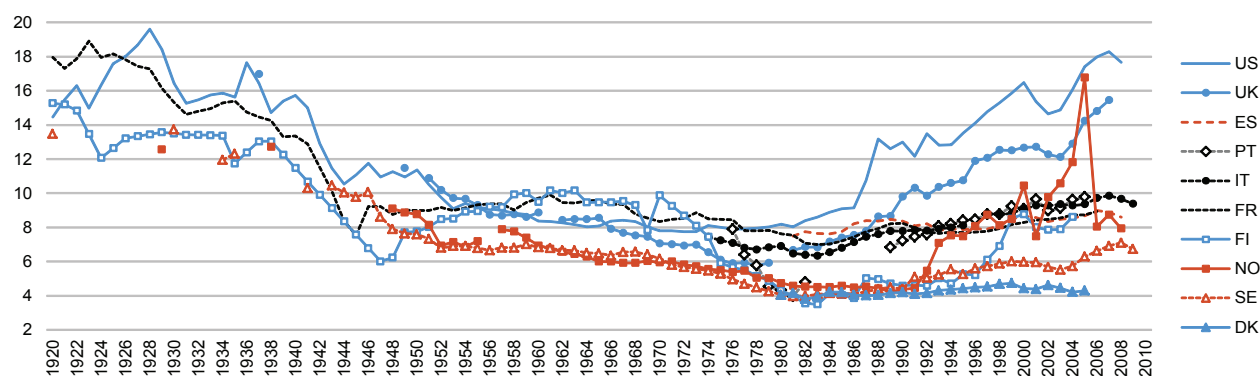
no official data on the men-to-women ratio in EWCs is available, it is reportedly a predominantly male environment (Monaco and Sechi 2007). Jeremy Waddington's 2005 survey was conducted on a sample of EWC members consisting of 84% men and only 16% women, indicating the existence of a strong imbalance in EWC composition. Furthermore, only 25 of the 577 EWC agreements so far analysed include provisions classified as favourable to supporting a gender balance among men and women. However, according to the aforementioned survey, at least 21% of EWC members express a willingness to undergo more training on gender equality issues.

Overall, it can be concluded that neither do the EWCs commonly deal with gender equality issues nor are they combating to a sufficient degree the inequality that exists within their own ranks. Gender imbalance, as an important aspect of inequality, does not seem to represent a top priority on EWC and SE works council agendas. There would thus seem to be a significant need for both training and awareness-raising as well as for promoting women candidates in EWC and SE elections.

It remains to be seen whether, after implementation of the new recast directive 2009/38/EC, improvement will take place in the situation with regard to the above-mentioned issues (as well as to the consistent implementation of EWC rights across the EU; see below in this chapter).

## Worker participation and corporate governance

Figure 8.4 Income share of top 1%



Source: Vitols's own calculations from 'The World Top Incomes Database' (<http://g-mond.parisschoolofeconomics.eu/topincomes/>)

### Worker participation can help reduce income inequality by moderating demands at the 'top' end

A key factor in explaining rising inequality is the increasing share of income and wealth claimed by the few persons at the top of the income distribution. This trend has been especially strong in the English-speaking countries, for example in the US and UK where the share of income accounted for by the top 1% of the population has more than doubled since the mid-1970s (OECD 2011b).

A major contributory factor in this respect is the massive increase in the remuneration received by the top managers of the largest companies. Corporate governance policies have increasingly oriented management remuneration to the stock market, thereby unhitching management pay from the norms applicable to the rest of the workforce. The

crisis would appear to have had no more than a temporary effect in slowing these increases for, after a pause in 2008, the median total compensation of chief executive officers (CEOs) at the largest 50 European listed companies increased in both 2009 and 2010 by between 3 and 4 per cent (Vitols forthcoming).

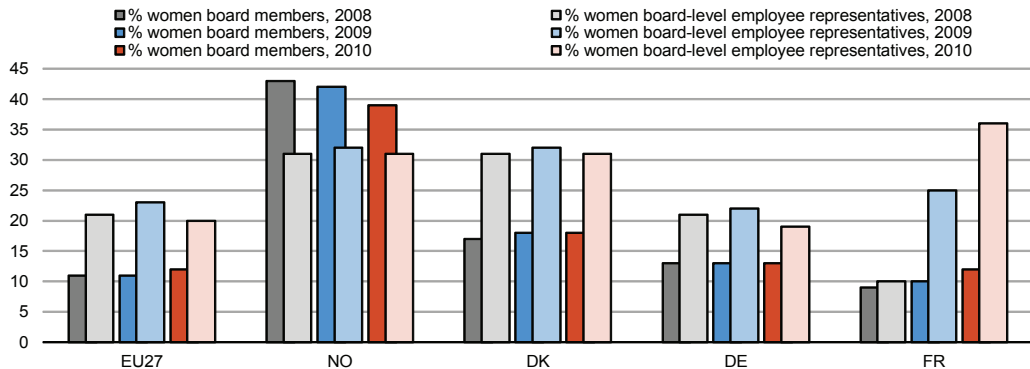
Research shows that a number of institutions and policies can help moderate the upward spiral of remuneration (van Essen et al. 2012). One relevant practice here is the inclusion of employee representatives on company boards. Since these boards are, as a rule, responsible for determining remuneration policies for the top-management level, employee representatives have a potential voice regarding executive pay. On the whole, companies with board-level employee representation pay their CEO less, and also use less stock-based compensation, than companies of similar size and type of activity that lack such representation. Other factors that can moderate remuneration are two-tiered boards and the presence of a large shareholder (Vitols 2010).

Although additional factors such as taxation policies also play a role, it is striking that the top 1% share in incomes is lowest in countries with strong worker participation rights. The analysis in this respect is based on all European countries for which detailed historical data on income distribution is available through

the World Top Incomes Database (<http://g-mond.parisschoolofeconomics.eu/topincomes/>). Using the ETUI's European Participation Index (EPI available at <http://worker-participation.eu/About-WP/European-Participation-Index-EPI>), it is possible to show that the share of income taken by the highest earners is lower in countries scoring high on this index (i.e. with strong worker participation rights in company boards, at the establishment level, and through collective bargaining). According to the EPI, Denmark, Sweden, Norway and Finland have particularly high EPI scores – and these same countries also have the lowest income shares for the top 1%. Countries scoring lower on the EPI (France, Italy, Portugal, Spain and the UK) had much higher shares going to the top 1%. While no causal relationship can be proven, it does seem that there is a link between worker involvement and managerial pay levels. Such analysis indicates that worker representation can influence the distribution of income at not only the bottom but also the top of the earnings ladder. As such, the strengthening of worker participation could have a beneficial 'sandwich' effect in reducing income inequality by compressing both ends of the distribution.

## Worker participation and corporate governance

Figure 8.5 Women representation on boards



Data source: European Commission database on women and men in decision-making (February 2012).

### Worker participation: a way to gender equality and balanced boards

Better corporate governance helps to enhance companies' competitiveness and sustainability in view of achieving Europe 2020 growth targets (European Commission 2011c). In particular, more diverse and gender-balanced boardrooms are acknowledged as a remedy for poor, short-term and risk-oriented decision-making. Contribution of board-level employee representatives [BLEReps] to such diversity has so far been disregarded, despite its significant input in terms of both gender equality and mix of appropriate skills and outlooks.

European initiatives aimed at increasing female participation in boardrooms have recently flourished, inspired by the rise in national binding gender quotas for female directors which followed the Norwegian precedent (e.g. in France, Belgium, Italy and the Netherlands last year, Visser 2011). The European Parliament adopted a resolution upholding

Commissioner Viviane Reding's call for 'Women on the board pledge for Europe' which invites listed companies to voluntarily commit to achieving the level of 30% of women board members by 2015 and of 40% by 2020. The EP resolution further specified that binding regulation has to be proposed by the Commission if no significant progress is assessed (European Parliament 2011). The Commission plans to conduct this assessment in March 2012 (European Commission 2011b). It is expected to be negative, given that, according to the Commission's database, only 12% of board members in the EU27 in 2010 were women. Figure 8.5 shows that introduction of quotas had a significant impact on feminisation of boards in listed companies (Norway), while women in countries without quota legislation in 2010 (Germany, France) or legislation restricted to the sole public sector (Denmark) made no significant progress in this respect. Above all, Figure 8.5 demonstrates that the feminisation of BLEReps is, with the exception of Norway, much higher than feminisation of the board member population overall. Although this data must be considered with caution as they lack representativeness (being limited to the 588 largest European listed companies in 2010 which include, e.g. only 30 German companies), they reveal a trend that is irrefutable. Actual figures are indeed likely to be much higher, as 31% of European BLEReps were said to be

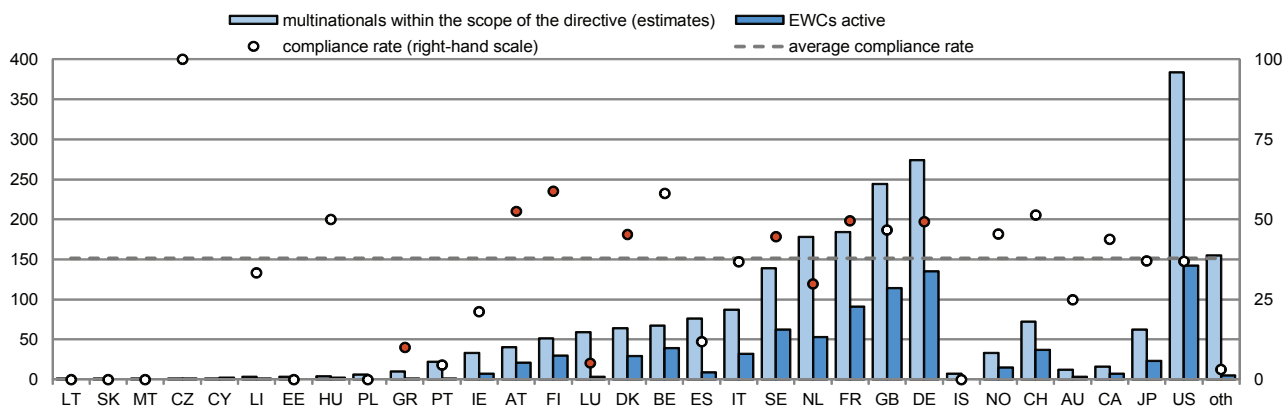
women in 2008 (European Professional Women's Network 2008: 21), and 21.6% of French BLEReps were women in 2007 (Conchon 2009: 109). Without BLEReps, the presence of women on boards would be drastically lower as 73% of female directors are BLEReps in Germany, 55% in Denmark and 50% in Austria (Heidrick & Struggles 2011: 40).

BLEReps contribute to board diversity not only through greater gender equality but also thanks to their specific skills and profiles, insofar as 'diversified expertise is considered the key to efficient board work' (European Commission 2011c: 6). They enrich board decision-making with their in-depth knowledge of the company's organisation, processes and occupations, and help foster a long-term development by taking care of the overarching company interest in both its social and economic dimensions (Conchon and Waddington 2011).

Gender equality and BLEReps should not be viewed as a mere instrument to better company performance, not least because the correlation is still unclear as to both women (Huse et al. 2009: 582) and employee board-level representation (Conchon 2011: 17). Both are basic democratic principles as anchored in the EU Charter of fundamental rights and deserve respect per se, in the interest of an equal society.

## Inequality and the legal framework for worker involvement

Figure 8.6 Multinational companies covered by the EWC directive and rate of compliance per country



oth: other countries: AE, BH, HK, IL, IN, KR, KW, KZ, MX, MY, NZ, RU, SG, TR, TW, ZA.

Source: Jagodzinski and Pas 2010. Data source: European Trade Union Institute (2011a), EWC database, April 2010.

### Are fundamental worker participation rights conditional?

The question of inequality with regard to employee representation runs deeper than the mere matter of the representatives' competence to deal with instances of inequality. The issue at stake is whether it is fair to uphold a fundamental right to transnational information and consultation *only* in European-scale undertakings of a particular size (1000 employees in EEA) as measured by workforce (Directives 94/45/EC and 2009/38/EC). Furthermore, the application of these rights is to some extent voluntary (e.g. the EWC directive), in other words, dependent upon the parties' will or strength to drive for a representation body. Consequently, it is estimated that in only 38% of companies eligible to set up an EWC has such a representation structure actually been established (Figure 8.6) Jagodzinski and Pas 2011; ETUI database of EWCs, ewcdb.eu). While it is obvious that social dialogue cannot be imposed on parties uninterested in it, excessively flexible provisions based

on the existence of lax default solutions result in an even smaller scope of application of the fundamental rights.

An additional problem is the existence of often substantial divergences of quality implementation on the national level. In the view of the European Commission (2000), such differences are necessary to accommodate varying traditions in national systems of industrial relations; in fact, however, if the national implementation acts are intended to transpose fundamental rights and guarantees, then the content of these rights (e.g. EWC competences, resources available to employee representatives) and guarantees (access to courts, sanctions for infringement) should be at least aligned and made compatible across the Member States, if not actually uniform so as to offer common standards. Currently this is far from being the case with, for instance, sanctions that range between a minimum equivalent to 7 euros in Poland and a maximum of 100 000 GBP in the UK (Jagodzinski forthcoming). Such levels of inequality in legal base for laws that should be universal can lead to regime shopping, i.e. actions deliberately aimed at exploiting inequalities in the law and thus further reinforcing the inherent inequality in access to fundamental rights, hence giving rise to social dumping (e.g. the practice of establishing shelf SEs in the Czech Republic without any requirement that they have a workforce or business activity).

These fundamental questions raise great challenges for both policy- and law-makers, as well as for trade unions. The former are challenged to reconsider the appropriateness of the legislative instruments used for realisation of the fundamental right to information and consultation; the latter, if thresholds and rules for setting up transnational information and consultation bodies were to be changed, would be confronted with the need to support and coordinate the establishment of many more workers' representation bodies than is currently the case. The various existing constraints on both these groups of actors should not, however, be invoked to sustain forever the status quo and the inequalities stemming from it.

## **Inequality and the legal framework for worker involvement**

### **Equal access to information and consultation in the member states?**

Directive 2002/14/EC was passed in the EU to enable workers at the national level to defend their jobs through an effective, standing and regular procedure for information and consultation on recent and probable developments in the activities of an undertaking, on its financial and economic situation, on the evolution of employment and, in particular, on any decision likely to entail major changes in the organisation of labour. However, the minimalistic implementation measures in the member states generate serious inequality among workers in the EU in terms of their ability to exercise their rights to information and consultation.

Interestingly, the financial and economic crisis did not reveal formerly 'hidden problems' in respect of the implementation of Directive 2002/14/EC. Rather, it shed new light on already existing and well-known problems that can be grouped under four headings:

- 1) incorrect implementation;
- 2) avoidance of the Directive's provisions;
- 3) uncertainty about key definitions and concepts;
- 4) enforcement difficulties.

Indeed, the quality of domestic implementation measures remains weak, in particular in respect of the timing and content of the information delivered and the consultation carried out, which are usually not compatible with any view to 'reaching an agreement', insofar as, in most cases, managerial decisions have been already taken when the procedure for information and consultation of the workers is launched.

Implementation gaps have been identified concerning practical arrangements, while loopholes have been revealed also with regard to the protection of workers' representatives exercising their rights.

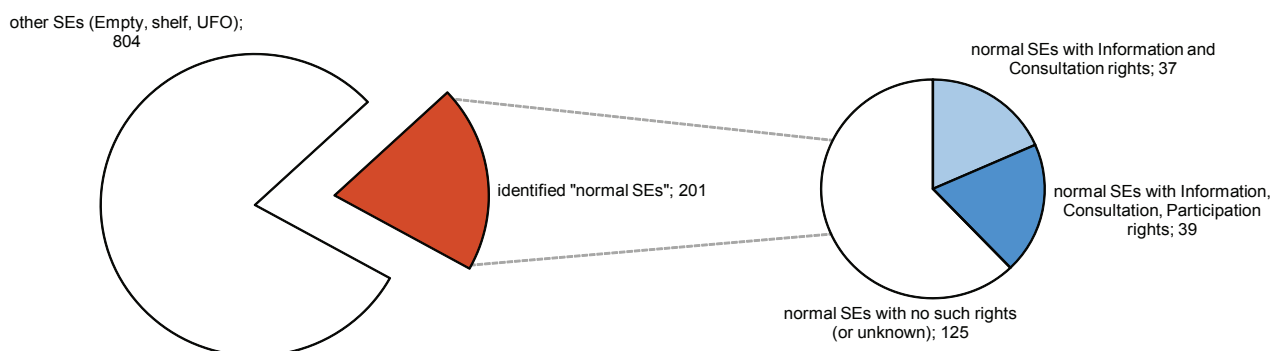
Furthermore, in some EU member states, the limited coverage of the collective agreements transposing the Directive signifies non-application of the provisions by those employers not bound by a collective agreement. By the same token, the question arises of whether the principle of freedom of association is respected when employees fall under the provisions even though they are not trade union members – for there are indeed cases where collective agreements deviate from statutory provisions to the detriment of workers. The scope of application of the provisions on information and consultation in respect of the threshold is also open to question insofar as it may entail exclusion of whole categories of workers, such as fixed-term employees, or lead to instances of artificially splitting undertakings so as to avoid meeting the threshold for application of statutory and/or collectively agreed provisions. Furthermore, the lack of the necessary institutional framework and a deficient 'culture' of social dialogue give rise to difficulties in defining which category of representatives – namely, trade unions or workers' representatives, in particular in countries with a dual channel of representation – should enjoy information and consultation rights. Additionally, a trigger mechanism (the explicit demand by a certain percentage of the workforce), which is not foreseen by the directive 2002/14/EC, has been introduced in certain member states, preventing the right to information and consultation from being automatic and placing additional constraints on its exercise. There exist doubts, what is more, as to whether certain domestic provisions on confidentiality are in conformity with the Directive. Enforcement is still an issue, as the right of information and consultation is sometimes perceived as an individual right, while enforcement mechanisms appear not to offer the appropriate protection to workers.

Clearly, the domestic implementation measures of the general framework for informing and consulting employees – as laid down in the European Framework Directive – are not such as to guarantee adequate exercise of this fundamental right by the workers and their

representatives and lead, what is more, to unacceptable forms of inequality among workers in the EU. Such inequality stems from abuse by the member states of the principle of subsidiarity which allows them a great deal of room for manoeuvre in transposing EU directives.

## Inequality and the legal framework for worker involvement

Figure 8.7 Worker involvement in the European Company (SE)



Data source: ETUI (2011b).

### Equal access to European information, consultation and participation rights must be ensured

The right to information and consultation at the workplace represents a basic right enshrined in the EU Charter of Fundamental Rights. Numerous EU Directives refer and give concrete substance to this fundamental right. Directive 2001/86/EC on worker involvement in the European Company (Societas Europaea, SE) is of particular relevance in this respect, for it lays down a specific procedure to ensure that transnational information and consultation rights – and where applicable also participation rights at board level – are guaranteed in this genuinely European form of corporate entity.

In order to ensure equal access to these rights, proper implementation of the Directive is essential. The SE Directive clearly provides that no SE may be set up unless a so-called special negotiating body has also been set up to negotiate

with the management on the future mechanisms for worker involvement in the SE. However, the current practice of SE founding gives rise to serious concerns and doubts in this respect.

In fact, some 70% of the 1005 SEs registered by December 2011 have been set up by way of a subsidiary (ETUI, 2011b). Such SEs start out, by their very nature, with zero employees. As the SE Directive regulates the initial founding situation only, there is no guarantee that the SE – once it starts to have employees – will 'remedy' the situation by holding negotiations on information, consultation and participation.

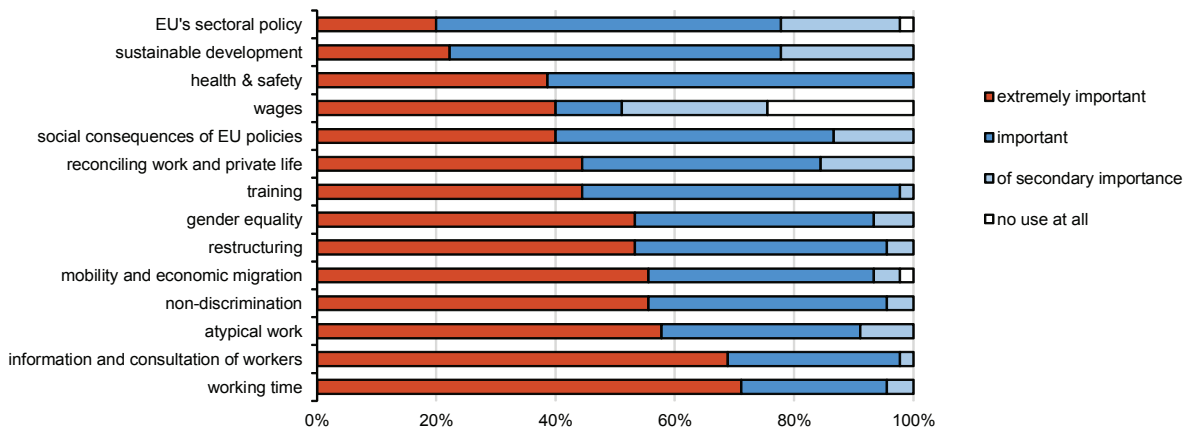
Moreover, we are witnessing today a widespread practice of setting up shell SEs, usually for subsequent sale to interested customers (Stollt and Kluge 2011). In the absence of a European registry, the ETUI, via its SEEurope project, has so far identified 201 SEs as being 'normal SEs' in the sense that they have *both* business activities *and* employees. In fact, only 76 of these are known to have implemented transnational information and consultation rights and 39 have, additionally, negotiated the right to representation on the SE's supervisory or administrative board (i.e. participation). This low figure points to serious deficits in the implementation of worker involvement in the SE, a situation all the more worrying in that the total number of SEs is already above 1000 (see Figure 8.7).

Likewise, the SE enables companies to de facto 'freeze' their current status with regard to the (non-) existence of participation rights. In most countries where national participation rights exist, employee thresholds for their introduction and/or scope can be found (Conchon 2011). The above-mentioned loophole in the construction of the SE legislation – regulating employee involvement for the initial founding phase only – has led to a situation in which national rights are threatened. Many SEs will 'grow' over time. If there were no participation rights in the beginning (because the national threshold was not yet reached) there probably never will be any such rights in the SE even if the workforce size subsequently comes to exceed the common national threshold. As a consequence, employees of such SEs suffer structural discrimination in comparison with colleagues working in a company based on national law.

The SE legislation is currently undergoing a review process (Cremers 2011). It remains to be seen whether a revised Directive will be adopted and whether it will address the chronic problems that have been not only highlighted by the ETUC (ETUC 2011) but also acknowledged by the Commission itself (European Commission 2008b, and 2011e). Worker involvement is certainly not a simple add-on or a burden to companies (ETUC and ETUI 2011) – it is a fundamental right to which equal access of workers must be ensured.

## Inequality and European Social Dialogue

Figure 8.8 What do you think are the most important subjects to be dealt with within the framework of the ESD?



Source: ETUC-OSE (2011), p.77.

### National and European deregulatory trends undermine European Social Dialogue *acquis*

Since the start of the European social dialogue at both interprofessional and sectoral level, the fight against inequality and discrimination in the broadest sense has indeed been a key issue tackled by the respective European social partners as is clearly indicated by a recent study, conducted by the European Social Observatory for the ETUC, that reflects on the state of play and prospects of the European social dialogue (see Figure 8.8). Of the 59 documents concluded within the European interprofessional social dialogue between 1985 and 2010 (excluding so-called follow-up reports), 8 dealt with issues such as gender equality (3), disability (3), racism (1) and youth (1). Quantitatively speaking, this seems somewhat meagre, but the figures are also misleading for the following reasons. Firstly, by adding the so-called follow-up

reports, the total would be increased by 10; secondly, one should also add the directives/(autonomous) agreements on fixed-term work, part-time work, telework and on inclusive labour markets which, though 'catalogued' under the heading 'working conditions' and 'employment', all have ensuring equality and preventing discrimination as one of their major concerns; and thirdly, one major attempt to negotiate a Directive/agreement on temporary agency workers failed, with equality protection having been one of the major stumbling blocks. Finally, it could also be argued that out of 7 Directive/(autonomous) agreements and 2 framework of actions, or i.e. the most important instruments of the European social dialogue from the standpoint of their binding status, only one – the agreement on work-related stress – deals less directly with the need to ensure equality and protect against discrimination (ETUC-OSE 2011, p. 52-55).

The figures contained in the same report on the issues dealt with by the European sectoral social dialogue seem less encouraging with a considerably lower number of documents concluded on the issue in question as well as documents with mostly a less binding status than directives or autonomous agreements. This could be defended by the fact that only since 1998 has the European sectoral social dialogue really got off the ground (and considerably increased the

number of sectors covered) and in most of those sectors the social partners have not yet really reached the stage of negotiating framework agreements (ETUC-OSE 2011 p. 56-60).

The above developments represent all in all quite a worthwhile contribution, although it is clear that since the economic crisis of 2008 the contribution clearly diminished in terms of both number and quality of texts.

## Developments of labour law on national level

Figure 8.9 Announced and/or adopted changes to IR/CB systems and certain aspects of labour law

	BE	BG	CY	CZ	EE	FI	FR	DE	GR	HU	IT	IE	LV	LT	LU	NL	PL	PT	RO	SK	SI	ES	SE	UK
Reform of Industrial relations and collective bargaining systems (incl. decentralisation of CB)		+			+	+	+		+	+	+	+				+	+	+	+	+		+		
Changes to Individual/Collective Dismissal rules	+		+	+	+				+	+	+		+	+				+	+	+		+		+
Changes to Organisation Of Working Time Legislation	+			+				+	+	+				+	+		+	+	+	+	+	+	+	+
Changes to Rules on Atypical Contracts (including creation of new Types of contract (+) in particular for youth (**))	+++	+++		++	+		++	+	+++	+++	+++		+	+	+++	+	+	+	+/+++	+	+	+/+++	+++	+

Source: ETUI own search

### Crisis: a pretext for deregulation

The economic crisis of 2007-2011 having already led to significantly less Social Dialogue texts being issued and to a deterioration in their quality, might, in addition, damage the role and contribution of the European social dialogue (ESD) in ensuring more equality, non-discrimination and social cohesion. Several recent reports indicate that in these times of crisis rights at work are under serious and constant threat throughout Europe (e.g. Tajzman et al. 2011, Clauwaert 2011). Nor is this the case only in countries hardest hit by the crisis and faced with drastic social reforms imposed by IMF, ECB and EU Troika (like Greece, Ireland and Portugal); it is happening also in other countries where governments invoke crisis as a pretext to introduce piecemeal deregulatory measures or even complete overhauls of labour codes designed to achieve the same deregulatory effect. In respect of any of several key issues covered by the European social dialogue, it is possible to cite numerous reforms in several countries regarding atypical contracts/work (fixed-term, part-time and temporary agency work) designed to make labour markets more flexible by introducing

legislation to extend the maximum length of fixed-term contracts or the permissible number of contract renewals. Even worse, and leading to even more inequality and less security, is the introduction in several countries, such as Greece, Spain or the Czech Republic, of so-called 'new types of contract', almost all of which are, of course, temporary in nature, with even less protection for the workers concerned than for those working under 'normal atypical contracts', and are often directed at specific groups – e.g. young people – already finding it difficult to enter, progress and remain on the labour market (see Chapter 2). Equally negative in character are measures that simply offer exemption for small businesses from (new) employment legislation for a certain period of time (e.g. UK). In addition, these drastic labour law reforms are invariably accompanied by equally intrusive and downwards reforms of social security and assistance protection as well as wages and wage-setting mechanisms, thereby increasing inequality and diminishing social cohesion even further. Finally, and this is possibly the most harmful factor in relation to the (European) social dialogue, is that these labour law reforms often go hand in hand with fundamental changes to industrial relations structures and processes by, for instance, decentralising collective bargaining as far as possible to the company level (e.g. Italy, Greece, Portugal, Spain,

Romania, etc.), allowing, via this lower-level bargaining, a worsening of provisions offered by higher-level collective agreements or even statutory legislation; or by simply abolishing (e.g. Hungary) or seriously curtailing the role and impact of tripartite social dialogue institutions (e.g. Romania) or denying traditions of social dialogue (Belgium). Such steps will also have serious consequences for the European social dialogue as there is a correlation between the impact and success of the ESD and that of the national social dialogue – yet another conclusion to be drawn from the joint European social partners' evaluation of the ESD and its instruments during 2011 (ETUC et al. 2011). Fortunately, at least on the trade union side, the ETUC-OSE study revealed also that almost 95% of the ETUC member unions having responded to the evaluation survey consider that the European social dialogue, whatever its shortcomings, remains very important and in need of strengthening. What is more, as Figure 8.8 shows, next to the two (surprising) top issues of working time and information and consultation as matters for European social dialogue, between 53% and 58% of respondents judged five other topics to be 'very important', namely, atypical work, non-discrimination, the integration of migrant workers, the social consequences of restructuring, and gender equality.

## Conclusions

### No fair society without trade unions and worker representation

Contrary to stereotypes, and to a neo-liberal bias against trade unions and worker representation institutions which amounts to the claim that their activities serve to exacerbate inequality, research findings prove just the opposite, namely that trade unions have an equalising effect on wage inequality (Baccaro 2008; Hayter and Weinbert 2011). The increased pressure and further growing inequality observed over the last decade generally (OECD 2008) as well as in the wake of the crisis in particular (OECD 2011a) confirms the need for strong trade unions. As demonstrated in this chapter, the latter foster high collective bargaining coverage and redistribution policies, thereby contributing to more equal societies by tackling diverging pay levels and status. At the same time, on the company level, worker participation and union action, e.g. at board level, contribute to narrowing the wage gap between the rank-and-file and the top 1% of the population. Organising precarious and non-standard workers and extending collective bargaining coverage would definitively be a step towards greater equality. And yet, current trends go in the opposite direction with deregulatory policies fostering the flexibilisation of national labour law without offering much in the way of security to considerable (and growing) ranks of the population vulnerable to various forms of inequality. Insofar as unions offer a road to more equitable and socially sustainable integration, not only do attempts to erode collective bargaining institutions (Hayter et al. 2011) represent the wanton destruction of existing assets, but they even run counter to official policy goals as defined under the Europe 2020 Strategy. This policy programme assigns no role to unions, ESD or worker information, consultation and participation bodies under

the ‘European platform against poverty’ flagship initiative (see also ETUC and ETUI 2011: 85 ff).

Besides wage disparity and imbalance, the fight for equality is an abiding feature of social dialogue and worker representation in struggling against any discrimination based on sex, age or disability. Almost half of EWC members reported inequality to be an issue on their agenda while the most recent European framework agreement relates to “inclusive labour markets” (2010). It is true that the existing legal frameworks for employee involvement on the company level do not highlight or offer special measures designed to step up efforts to redress inequality; nonetheless, such efforts should be agreed more often as a field of competence for worker representatives. Innovative tools in the form of Transnational Company Agreements and International Framework Agreements targeting all forms of inequality and discrimination would seem to open up a new set of opportunities for both worker representatives and unions. Last but not least, non-discrimination should also be tackled from the inside. While there is a greater proportion of women among board-level employee representatives, there is room for progress as regards the gender composition of EWCs. Without greater awareness of and attention to this problem on the part of both worker representatives and managements, little progress will be achievable.

A further contradiction emerges as a result of these trends, namely, the lack of congruence between formally acknowledged fundamental rights to information, consultation and participation in the company (European Charter of Fundamental Rights) and the inequality of their application in practice. Hasty and incomplete, displaying evident disregard for preambles, and seemingly designed to transpose the absolute minima of EU directives, national implementation acts create divergent national standards of rights that, by virtue of their recognised fundamental character, are meant to be universal and equally applicable to any human being in any member state. This fate has befallen all the European directives regarded as foundations of common

information, consultation and participation rights: the original EWC directive 94/45/EC; the directive complementing the European Company statute 2001/86/EC; the framework information and consultation directive 2002/14/EC; and the recently adopted EWC recast directive 2009/38/EC (the transposition of which has not yet been completed by all member states). The necessary adjustments, which should have been applied during the transposition process, have too often turned into omissions and amendments that run counter to the original spirit of these directives as defined in their preambles. In contrast with the otherwise rather limited role assigned to European social dialogue in the whole construction and policy agenda of EU2020 (see ETUC and ETUI 2011: 86–92), the EU 2020 Jobs and Skills Communication promises, among other things, a review of the part-time and fixed-term work directives (European Commission 2010c). The European Commission work programme 2012 thus appears ambitious. For 2013 it provides for two consultations of the European social partners, one of them on the review of the equal pay directive (European Commission 2011c: 28). Similarly, the new work programme 2012–2014 of the European social partners (under negotiation at the time of writing) is likely to entail initiatives in the area of reviews of existing instruments and on issues like equality. In the light of the context and developments described above, the European social partners, and in particular the union side, will have to remain extremely vigilant to ensure that their past contribution to ensuring equality is not undermined by unjustified deregulatory trends at both European and national level.

# Working conditions to blame for wide gaps in workplace health

## Introduction

Health gaps between Europe's workers are widening. Working conditions play a big part in the inequalities found between men and women, manual and non-manual workers, or young and older workers.

The physical hazards of work – be they toxic chemicals, unsuitable work equipment or noise and dust levels – spread the risks very unevenly. Work organization, moreover, includes a set of intangible factors like monotonous tasks, discretion over how to perform the job, the ability to pace one's own work and/or take breaks.

Workers' terms of employment also play into the factors already mentioned. A growing number of workers, especially young people, are in precarious jobs which may fall into specific legal categories, like agency or fixed-term contract work. Part-time jobs, meanwhile, are taken predominantly by women (see also Chapter 2), and this form of work tends to offer less discretion in terms of work organization, as well as poorer career prospects.

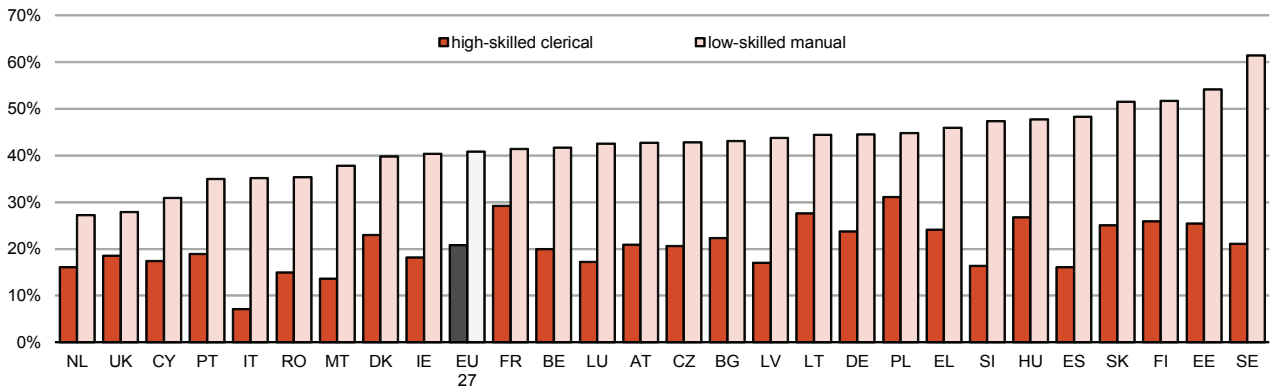
This section takes a condensed look at selected data from the fifth European Working Conditions Survey (EWCS) (2012) carried out by the European Foundation for Improvement of Living and Working Conditions. Rather than limit the examination of findings to a review of national averages which tend to smooth out inter-group differences, the choice has been made, in order to focus on the dimension of inequality in working conditions, to point up some salient differences between manual and non-manual workers, between different skill levels, and between men and women.

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## Physical factors in working conditions

Figure 9.1 Physical factors: 'Are you exposed at work to noise so loud that you have to raise your voice to talk to people?' Percentage of respondents answering 'Yes, at least a quarter of the time'



Source: European Foundation for the Improvement of Living and Working Conditions (2012).

### Traditional risks affect mostly blue-collar workers

The risk represented by excessively loud noise levels unsurprisingly shows the lowest-skilled workers to be most exposed. But the gaps are not the same in all countries. The widest gaps between low-skilled manual workers and highly-skilled non-manual employees (Figure 9.1) are found in Sweden (more than 40%), Spain (32%) and Slovenia (31%), while inequalities are less wide in the UK (9%) and the Netherlands (11%).

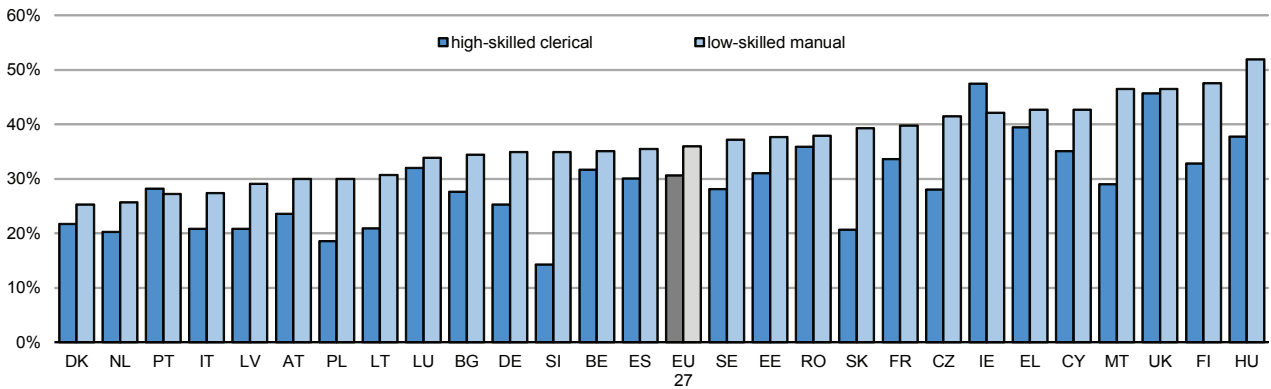
Generations-old traditional hazards are still putting the health and lives of many workers at risk: noise, vibration, working with dangerous chemicals, lifting people, painful positions, moving heavy loads, etc. This finding by the European Survey is borne out by many national surveys. While the impact of some of these risks – like workplace accidents – can be seen immediately, the implications of others are longer-term. The effects of hazardous chemicals on workers' health, for example, contribute to a highly unequal distribution of cancers in the population.

Physically dangerous exposures tend to increase with non-standard jobs and they more systematically affect young workers. There is a higher frequency of accidents at work among temporary agency workers. Working in very small companies tends also to increase the accident rate, mainly for fatal accidents which are better registered. From the point of view of working conditions, smaller is rarely better.

For all physical risk factors, the scores for male workers are higher than those obtained for women. This result is linked with gender segregation between occupations and sectors, and particularly with the strong male presence that is a feature of construction labour and manufacturing. A trend showing a reduction in risks with increasing age can be observed and this suggests that high exposures to physical risks result in the loss of employment: there is a probably a very strong 'healthy worker' selection effect in the 45-65 age group.

## Work intensity

Figure 9.2 Work intensity: percentage of workers exposed to more than three constraints



Source: European Foundation for the Improvement of Living and Working Conditions (2012).

Figure 9.3 Adverse health effects of work intensification

- Increased stress and associated psychological disorders (general fatigue, insomnia, depression, irritability, etc.).
- Psychosomatic problems which significantly exacerbate many physical disorders.
- A significant rise in a set of pathologies classed together as 'musculoskeletal disorders'.
- Work intensity is also a factor in work-related accidents. 'Rush' work does not always leave scope for coping with unforeseen circumstances.

## **Work intensity**

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### **The major change in 20 years: working more intensively**

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The intensification of work has been the major continuous trend during the twenty-year period covered by European Working Conditions Surveys. Work intensity can be linked to various factors concerning which the Working Conditions Survey sought to enquire: direct control by the boss; production-related pressure (industrial constraints from machinery use); commercial constraints from customers or users. Work intensity can also be induced by workplace division-of-labour arrangements (intensity determined by colleagues' work) or management methods (production targets or performance goals). Work organization is thus evolving towards a commingling of constraints. A growing share of workers – 36% of the lowest-skilled manual workers and 30% of the highest-skilled non-manual employees – is subject to more than three different constraints (see Figure 9.2). The gap between the two groups is particularly wide in Slovenia, Slovakia and Malta, but low or reversed in Ireland, the UK and Portugal.

A strong link emerges between work intensity and poor physical and psychological working conditions. The combination of these elements serves to define the overall workload. For instance, analysis of the working conditions of cleaners gives strong evidence about the combined impact of three different factors: work intensification resulting from competition between specialized subcontracted companies, physical constraints linked with uncomfortable postures, and the social invisibility of their work. Workload is a determining factor in workers' health (see Figure 9.3). It is also an aspect of work organization on which prevention policies are very half-hearted and generally ineffective.

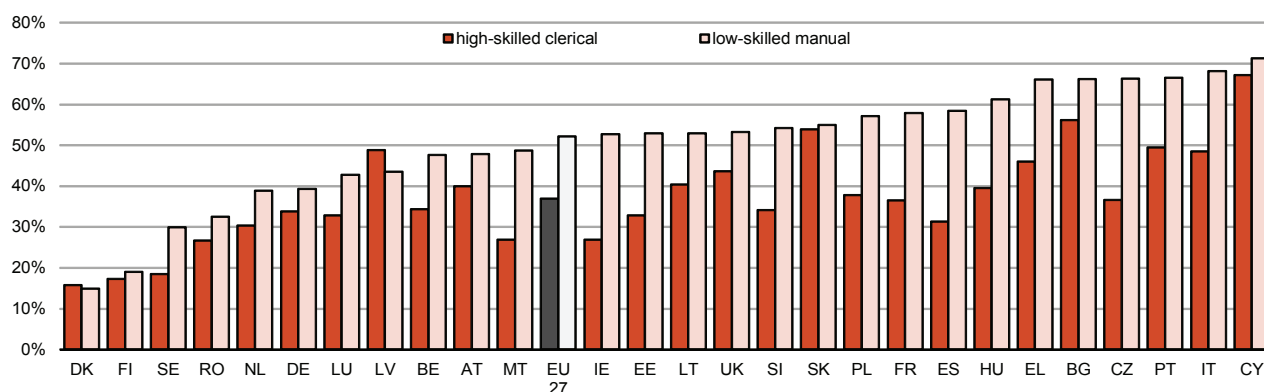
Workload is a very complex issue involving both physical and intellectual effort, as well as psychological and emotional involvement. It is very much bound up with the individual's control over how he or she performs tasks, with forms of cooperation between individuals and their colleagues, with support provided through training and information, with the suitability of work equipment for the job to be done, etc.

Generally, there has been a sharp rise in work intensification in recent years. Work intensity can also be a major factor in the exclusion of ageing workers in particular. For women who have difficulties in juggling gainful employment with unpaid domestic responsibilities, it may act to exclude them from paid work, or to segregate them in part-time work.

Monotonous and repetitive work tends to exacerbate the harmful effects of work intensification.

## Work organisation

Figure 9.4 Work organization: level of autonomy among teamworkers (according to composite index: 0 = complete autonomy; 100 = no autonomy)



Source: European Foundation for the Improvement of Living and Working Conditions (2012).

## Poor balance between workload and autonomy

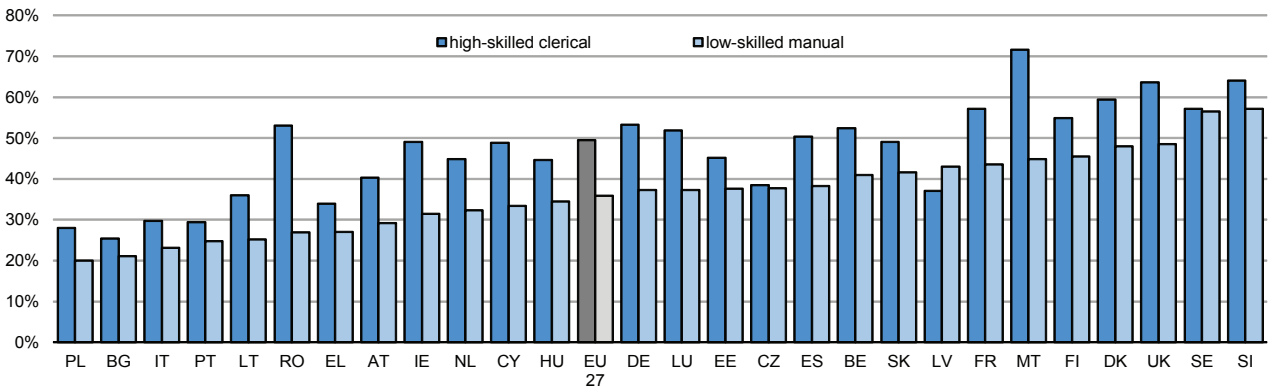
The EWCS measures workers' autonomy in terms of a composite index based on workers being able to divide up tasks and appoint a team leader (see Figure 9.4). This question, naturally, was addressed only to people who work in a team. A low level of autonomy was found among 52% of the lowest-skilled manual workers and 37% of the highest-skilled non-manual employees. The all-EU gap between these two categories is 15%, ranging from nearly 30% in the Czech Republic, 27% in Spain and 26% in Ireland to very low or reversed levels in Latvia, Denmark, Slovakia and Finland.

Different models have been proposed to understand the pathway via which work affects health. Such models effect a combination of the demands (linked with workload) and the level of job control or autonomy. Compensation for the negative effects of a heavy workload may be found in the existence of a strong degree of autonomy and/or social support. The only way to measure the overall impact on health is by cross-referencing two sets of criteria: one on

discretion or the degree of control over work, the psychological demands of work and support from colleagues; the other concerning the potential mismatch between effort and reward. These criteria have been shown to be relevant, complementary, and to some extent responsible for wide gaps between occupational categories in areas as diverse as cardiovascular disease mortality and musculoskeletal disorders.

## Presenteeism

Figure 9.5 Presenteeism: 'Over the past 12 months, did you work when you were sick?' Percentage of respondents answering 'Yes'



Source: European Foundation for the Improvement of Living and Working Conditions (2012).

## Presenteeism: a major threat for women

In 2010, the European survey asked an unprecedented question: 'Over the past 12 months, did you work when you were sick?'. The positive response rate is high: 40.3%, peaking at above 50% in Denmark, the UK and Malta. In this respect, the highest-skilled non-manual workers fare less well than manual workers. Only Latvia bucks the trend, and the gap is next to nil in Sweden and the Czech Republic.

Generally speaking, women are more often affected by this form of pressure than men (41% versus 37%). The gender gap is particularly pronounced (i.e. over 5%) in eight EU countries, namely, Belgium, Germany, Latvia, Lithuania, Hungary, Luxembourg, Slovenia and Slovakia.

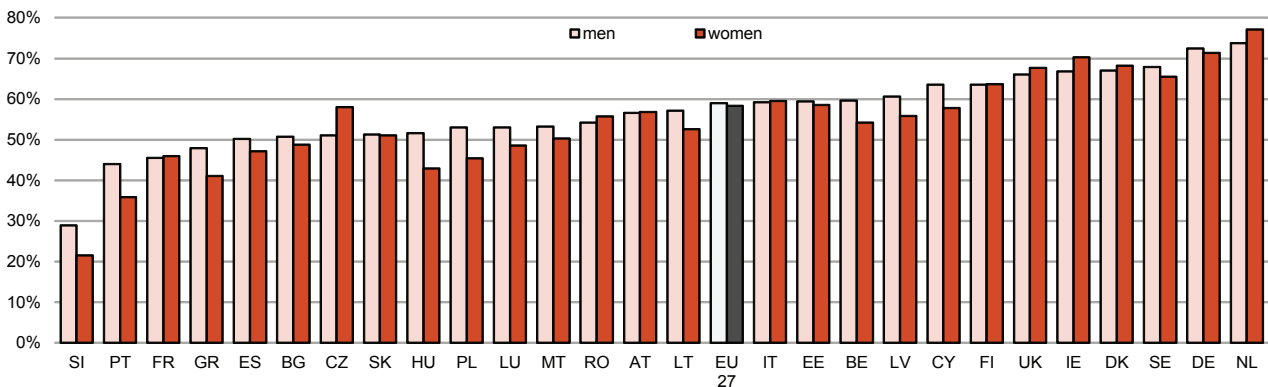
There is a traditional focus of working conditions research on absenteeism. Social security statistics provide systematic data. Presenteeism – turning up for work even when sick – has never been paid much attention in surveys of working conditions (questions about presenteeism were introduced only in the 2010

questionnaire, i.e. were absent in the surveys from 1995 to 2005). Presenteeism may stem from pressure of different kinds. In some cases, the social security system (see also Chapter 5) may work against sick workers by slashing their incomes and thus, in some countries, by forcing the workers to be present at work despite medical problems, as they cannot afford the risk of losing their pay or their jobs. Company policies may limit the amount of time off allowed for sickness and workers with perceived poor health may be more at risk in planned layoffs. Furthermore, the way work is managed may mean that co-workers are required to pick up the slack for a sick colleague, as is fairly common among hospital nurses.

Presenteeism is a predictive factor for future sick leave or for complete exclusion from the labour market. Exhaustion and presenteeism have been found to be reciprocal: when employees experience exhaustion, they mobilize compensation strategies but these ultimately serve only to increase their exhaustion.

## Sustainable work

Figure 9.6 Work sustainability: 'Do you think you will be able to do your current job when you are 60 years old?' Percentage of respondents answering 'Yes, I think so'



Source: European Foundation for the Improvement of Living and Working Conditions (2012).

## Will you hold out until you reach 60?

The effects of working and employment conditions build up over life. The Eurofound survey (EWCS 2010) measures perceptions of that impact with the question: 'Do you think you will be able to do your current job when you are 60 years old?' The answers suggest that the long-term health effects of work give far more cause for concern than its immediate impact (Figure 9.6).

Just under 60% of workers in the EU answered 'yes', but this average varies hugely depending on position on the job ladder. Most lowest-skilled manual workers do not see themselves still doing their jobs at the age of 60 – just 44% think they can hold out for that long. Matters are little better among the highest-skilled manual workers, only half of whom think they will be able to continue in the same job after hitting 60. For the lowest-skilled non-manual workers, the percentage is higher at 61% and up to 72% among the highest-skilled non-manual workers – an undeniably better situation for white-collar than blue collar workers – but still not perfect. The all-EU gap between the lowest-skilled manual workers and highest-skilled non-manual workers is 27.6%, but

tops 30% in Austria, the Czech Republic, Spain, France, Italy and Luxembourg.

Women who predominantly work in jobs and sectors where the immediate consequences of work are less visible and more important in the long run lose any working lifetime advantage over men. They are more tightly controlled at work: fewer women than men can take a break when they want, or have prospects for career advancement, and women more often have to bottle up their feelings at work than their male colleagues. While women have an advantage in the immediate impact of their employment conditions (due to their segregation in activities with less accidents or physical risks), they lose this advantage in the long term due to several factors such as less autonomy, much more unpaid work, more psychosocial risks, etc. Women, in other words, tend to be exploited both at work and in the family while men are more likely to be exploited at work only. This combination of factors helps explain why the percentage of women who think they can hold out working until the age of 60 is ultimately close to that of men. What lies behind this average? The gender gap is wider than 5% (to the detriment of women) in seven EU countries – Belgium, Greece, Cyprus, Hungary, Poland, Portugal and Slovenia – but more favourable to women in the Czech Republic, the Netherlands and Ireland (with a variation of at least 3% more positive responses than men).

## Conclusions

### Harmonization of working conditions: still a central challenge for EU policies

The upward harmonization of living and working conditions has loomed large on the agenda since the founding of the European Community. The Treaty of Rome reflected a naive belief that market forces would provide for this goal, by assuming that upwards harmonization would be achieved through two forms of development: on the one hand, the mere operation of the common market; on the other hand, the implementation of specific policies within the limits set at the time. By the 1970s, the cracks in this approach were beginning to show. New social policies were established within a Community framework, underpinned from 1986 by new legislative powers.

The exacerbation of social inequality by working conditions is not the result of the recent economic crisis – it was happening long before. We are in the presence here of a vicious circle whereby disparities in working conditions ultimately create inequalities in employment by undermining the labour market position of rising numbers of people. These inequalities in employment then have a backlash effect on working conditions: the pressure of unemployment and casualization of jobs create competition between workers which speeds up the decline in working conditions.

2012 is the European Year of Active Ageing. There are strong pressures to raise the retirement age and to reduce specific pre-retirement schemes. The point is that, if working conditions do not improve, these pressures will result in increased inequality. An extension of working life has different meanings depending on the rung on which you stand in the job ladder. For the least-favoured groups, the build-up through working life

of poor working conditions often makes it a physical impossibility to go on working. As matters stand at present, a nurse, a building worker, or a cleaner will find it difficult to keep both their job and their health beyond the age of 50 or 55. Adjustment schemes for older workers will not be enough, given the build-up of ill health throughout working life.

Without a significant improvement in working conditions and more control over these conditions by workers themselves, a raising of the retirement age is little better than a cynical ploy for cutting the pensions of those already on the lowest incomes. The pension reforms could well simply widen income gaps at the expense of older workers who, faced with the threat of poverty, may have no other choice than to slog on in a health-destroying job.

The European Commission's current policy underplays the scale of the problem. It is based on a belief in continuous improvement of working conditions, but is severely hobbled by the aim of lightening the burden of legislation on small businesses.

The project of a Social Europe cannot be separated from the commitment to a more cohesive and egalitarian society. When considering the quality of many aspects of social life (including very different issues like health, crime prevention, promotion of education, etc.), the more equal societies almost always do better.

There are many ways to reduce social inequalities. They can be addressed by specific policies dealing with a wide range of fields, and action against gender or ethnic discrimination, education and housing policies, minimum wages, consolidation of social security benefits, redistributive taxation all certainly constitute important tools. Nevertheless, a systematic reduction of social inequality requires a stronger synergy between these specific policies, a higher priority on the political agenda and an autonomous mobilization of collective actors. Collective rights are probably one of the crucial factors for the achievement of a continuous dynamic within society. Regarded from that perspective, the content of the Europe 2020 strategy falls woefully short.

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## **List of abbreviations**

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<b>BLEReps</b>	board-level employee representatives
<b>CEO</b>	Chief Executive Officer
<b>DAE</b>	Digital Agenda for Europe, a flagship initiative of the Europe 2020 strategy
<b>DMC</b>	domestic material consumption
<b>EEA</b>	European Economic Area
<b>EEA</b>	European Environmental Agency
<b>EPI</b>	Employee Participation Index
<b>EPL</b>	Employment Protection Legislation
<b>ESD</b>	European Social Dialogue
<b>ESL</b>	Early School Leavers
<b>ETUC</b>	European Trade Union Confederation
<b>ETUI</b>	European Trade Union Institute
<b>EU</b>	European Union
<b>EWC</b>	European Works Council(s)
<b>GDP</b>	gross domestic product
<b>GDP</b>	gross domestic product
<b>Ghg</b>	greenhouse gases
<b>HPCI</b>	harmonised consumer price index
<b>ICT</b>	the information and communications technology
<b>IPCC</b>	Intergovernmental Panel on Climate Change
<b>LFS</b>	European Labour Force Survey
<b>MEB</b>	multi-employer bargaining
<b>NEETs</b>	not in education, employment or training
<b>NMS</b>	New Member States
<b>NMS12</b>	New Member States that joined the EU since 2004
<b>NUTS</b>	Nomenclature of Territorial Units for Statistics
<b>SE</b>	European Company (Societas Europea)
<b>SPE</b>	European Private Company (Societas Privatea European)

# The Benchmarking Group

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## Chapter 2

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## Chapter 3

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For further information

[www.etuc.org](http://www.etuc.org)  
[www.etui.org](http://www.etui.org)  
[www.labourline.org](http://www.labourline.org)

## List of regions (NUTS1) codes

<b>BE1</b>	Région de Bruxelles-Capitale / Brussels Hoofdstedelijk Gewest	<b>GRZ</b>	Extra-Regio	<b>AT1</b>	Ostösterreich
<b>BE2</b>	Vlaams Gewest	<b>ES1</b>	Noroeste	<b>AT2</b>	Südösterreich
<b>BE3</b>	Région Wallonne	<b>ES2</b>	Noreste	<b>AT3</b>	Westösterreich
<b>BEZ</b>	Extra-Regio	<b>ES3</b>	Comunidad De Madrid	<b>ATZ</b>	Extra-Regio
<b>BG3</b>	Северна И Югоизточна България / Severna I Iztochna Bulgaria	<b>ES4</b>	Centro (E)	<b>PL1</b>	Region Centralny
<b>BG4</b>	Югозападна И Южна Централна България / Yugozapadna I Yuzhna Tsentralna Bulgaria	<b>ES5</b>	Este	<b>PL2</b>	Region Południowy
<b>BGZ</b>	Extra-Regio	<b>ES6</b>	Sur	<b>PL3</b>	Region Wschodni
<b>CZ0</b>	Česká Republika	<b>ES7</b>	Canarias	<b>PL4</b>	Region Północno-Zachodni
<b>CZZ</b>	Extra-Regio	<b>ESZ</b>	Extra-Regio	<b>PL5</b>	Region Południowo-Zachodni
<b>DK0</b>	Danmark	<b>FR1</b>	Île De France	<b>PL6</b>	Region Północny
<b>DKZ</b>	Extra-Regio	<b>FR2</b>	Bassin Parisien	<b>PLZ</b>	Extra-Regio
<b>DE1</b>	Baden-Württemberg	<b>FR3</b>	Nord - Pas-De-Calais	<b>PT1</b>	Continente
<b>DE2</b>	Bayern	<b>FR4</b>	Est	<b>PT2</b>	Região Autónoma Dos Açores
<b>DE3</b>	Berlin	<b>FR5</b>	Ouest	<b>PT3</b>	Região Autónoma Da Madeira
<b>DE4</b>	Brandenburg	<b>FR6</b>	Sud-Ouest	<b>PTZ</b>	Extra-Regio
<b>DE5</b>	Bremen	<b>FR7</b>	Centre-Est	<b>RO1</b>	Macroregiunea Unu
<b>DE6</b>	Hamburg	<b>FR8</b>	Méditerranée	<b>RO2</b>	Macroregiunea Doi
<b>DE7</b>	Hessen	<b>FR9</b>	Départements D'outre-Mer	<b>RO3</b>	Macroregiunea Trei
<b>DE8</b>	Mecklenburg-Vorpommern	<b>FRZ</b>	Extra-Regio	<b>RO4</b>	Macroregiunea Patru
<b>DE9</b>	Niedersachsen	<b>ITC</b>	Nord-Ovest	<b>ROZ</b>	Extra-Regio
<b>DEA</b>	Nordrhein-Westfalen	<b>ITD</b>	Nord-Est	<b>S10</b>	Slovenija
<b>DEB</b>	Rheinland-Pfalz	<b>ITE</b>	Centro (I)	<b>SIZ</b>	Extra-Regio
<b>DEC</b>	Saarland	<b>ITF</b>	Sud	<b>SK0</b>	Slovenská Republika
<b>DED</b>	Sachsen	<b>ITG</b>	Isole	<b>SKZ</b>	Extra-Regio
<b>DEE</b>	Sachsen-Anhalt	<b>ITZ</b>	Extra-Regio	<b>F11</b>	Manner-Suomi
<b>DEF</b>	Schleswig-Holstein	<b>CY0</b>	Κυπρος / Kibris	<b>F12</b>	Åland
<b>DEG</b>	Thüringen	<b>CYZ</b>	Extra-Regio	<b>FIZ</b>	Extra-Regio
<b>DEZ</b>	Extra-Regio	<b>LVO</b>	Latvija	<b>SE1</b>	Östra Sverige
<b>EEO</b>	Eesti	<b>LVZ</b>	Extra-Regio	<b>SE2</b>	Södra Sverige
<b>EEZ</b>	Extra-Regio	<b>LTO</b>	Lietuva	<b>SE3</b>	Norra Sverige
<b>IE0</b>	Ireland	<b>LTZ</b>	Extra-Regio	<b>SEZ</b>	Extra-Regio
<b>IEZ</b>	Extra-Regio	<b>LU0</b>	Luxembourg (Grand-Duché)	<b>UKC</b>	North East (England)
<b>GR1</b>	Βορεια Ελλάδα / Voreia Ellada	<b>LUZ</b>	Extra-Regio	<b>UKD</b>	North West (England)
<b>GR2</b>	Κεντρικη Ελλάδα / Kentriki Ellada	<b>HU1</b>	Közép-Magyarország	<b>UKE</b>	Yorkshire And The Humber
<b>GR3</b>	Αττικη / Attiki	<b>HU2</b>	Dunántúl	<b>UKF</b>	East Midlands (England)
<b>GR4</b>	Νησια Αιγαίου, Κρητη / Nisia Aigaiou, Kriti	<b>HU3</b>	Alföld És Észak	<b>UKG</b>	West Midlands (England)
		<b>HUZ</b>	Extra-Regio	<b>UKH</b>	East Of England
		<b>MT0</b>	Malta	<b>UKI</b>	London
		<b>MTZ</b>	Extra-Regio	<b>UKJ</b>	South East (England)
		<b>NL1</b>	Noord-Nederland	<b>UKK</b>	South West (England)
		<b>NL2</b>	Oost-Nederland	<b>UKL</b>	Wales
		<b>NL3</b>	West-Nederland	<b>UKM</b>	Scotland
		<b>NL4</b>	Zuid-Nederland	<b>UKN</b>	Northern Ireland
		<b>NLZ</b>	Extra-Regio	<b>UKZ</b>	Extra-Regio