

# Benchmarking Working Europe 2018

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# **Benchmarking Working Europe** **2018**

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# Foreword

The past few years have seen a recovery in output growth in the European Union (EU), with recent forecasts predicting the highest growth rates since 2010: 2.4% in 2017 and 2.3% in 2018, for both the EU28 and the euro area. While this relative upswing in the economy is having a positive impact on employment rates and investment, it is far from being enough to make up for the nearly 10 years of no or slow growth, nor are all EU28 countries benefiting equally. Certain fundamental variables give reason to be cautious when it comes to policy decisions. Unemployment remains high in many countries, and wage growth and inflation have stayed relatively weak, suggesting that deep scars in the labour market have yet to be healed. The prediction that we may already be approaching the peak of growth in the business cycle while there is still labour market 'slack' suggests that measures to keep on supporting demand should be reinforced rather than rolled back. In addition, big uncertainties remain in the international environment, with possible moves towards protectionism in the US and the risk of great disruption when the UK formally leaves the EU in March 2019.

The more lenient macroeconomic environment should be fully utilised to implement a suitable policy mix that includes: a fully fledged investment strategy for the future, with a genuine focus on research and development; a real pay rise; a halt in the deregulatory processes; allowing fiscal policy to come fully into its own; tackling the growing inequalities in the labour market; consolidating and enhancing social protection; and last but not least committing to a Europe characterised by high social standards, including in the field of health and safety.

The European institutions have launched several processes that aim to shape the future of Europe, including, among others, the Proclamation on the European Pillar of Social Rights, as well as related legislative initiatives and a 'Social Fairness Package', and the Communication on the deepening of the European Monetary Union. These documents will form the basis for establishing the future direction of Europe, and, as has been said on several occasions, social concerns will be at the heart of these reflections. Fundamental decisions are to be taken over the coming year as to the depth of future European integration, and this process will be complemented by the upcoming discussion in May 2018 on the multiannual financial framework. The budgetary decisions that will be made then will frame how ambitious the European Union can and will be, and will set the tone for how serious the European institutions and the Member States are about ensuring that upwards social convergence is the DNA of the European project. As the analysis of *Benchmarking Working Europe 2018* reveals, upwards social convergence cannot be taken for granted, and market forces are doing nothing to ensure its occurrence; rather the contrary in fact. Southern European countries are diverging from the rest of the European Union on many counts, while the 'catching-up' process in central and eastern Europe (CEE) towards the social standards of the western and northern regions has undeniably slowed down. It is therefore of vital importance that Europe lay the foundations for a sustainable and fair society and that governance, policy processes and budgets make this a possibility for all members of the European Union.

The key priorities are to ensure a sustainable economic growth for the creation of quality jobs and better working conditions, a relaunch of the European social model based on stronger labour rights and social protection for all, and to develop more democratic values that place workers and citizens at the heart of Europe.

With this year's chosen focus – 'on the path towards convergence?' – the new edition of *Benchmarking Working Europe* sets out to assess and analyse the state of working Europe with the aid of a multi-level and multi-dimensional set of indicators. This 2018 edition is thus intended as one contribution to an assessment of what the current policy stance has achieved, or above all – as will emerge from a reading of the following chapters – what it has *not* achieved. In its consideration of the divergences currently developing across the EU, this publication will set out an assessment of possible policies that need to be put in place for Europe to generate higher living standards for all based on fair integration and upwards social convergence.

All five chapters of this report conclude on a note of serious concern and call for a new set of policies that can put the European Union back on a sustainable track.

While the macroeconomic indicators point to a slight increase in output growth, the average GDP per capita growth remained negative for eight countries between 2008 and 2016, and close to zero for yet another seven countries during the same period. The past two years' increase in output growth should therefore be assessed against this long period of stagnation and negative GDP growth. While divergence in real GDP per capita was on a downward trend between 2005 and 2012 throughout the entire EU28, this has since gone into reverse. The wide gap in real GDP per capita between the east and the west does seem to be closing slowly, but the divide between the north and the south persists, and in the EU15 southern countries it is widening.

Meanwhile, private consumption remains barely above its pre-crisis level and overall EU28 investment is still below its 2008 level, although with clear signs of divergence: the level of investment in lower-income and crisis-struck countries is lower compared to the pre-crisis years, while it is higher in higher-income countries. The European-led investment plan and structural funds are currently not able to correct this very worrying trend. The above-mentioned problems, as well as the policies that have led to them, have received verbal recognition, but this has only resulted in half-hearted and conditional responses: somewhat more flexibility has been allowed in the Stability and Growth Pact, and the European Commission has cautiously argued for a modest positive fiscal stance across the euro area; the ECB has pursued its policy of quantitative easing; and EC President Jean-Claude Juncker's investment plan, which had a slow start in 2015, is finally taking off. However, not all Member States adhere to the idea of a modest positive fiscal stance, and are instead stubbornly wedded to the idea that budget surpluses will lead to reduced public debt, despite the strong evidence from around the world that suggests it is renewed growth and additional fiscal revenue that helps to reduce debt levels.

The most worrying observation, though, is that while some of the higher-income countries seem to be leaving the crisis period behind, the performance of southern European countries, in particular, is below average, while on many indicators the eastern European countries are no longer converging at their previous speed.

Real wage developments in 2017 displayed a less dynamic and more diversified picture than in 2016. CEE countries pursued their catching-up process with a stronger real wage growth than in the rest of the EU, although this progress has slowed down somewhat since the onset of the crisis. In addition, the 2016 trend of real wages outstripping productivity has been reversed in many countries. This is resulting in a slowdown or even reversal of the longer-term wage convergence between the EU's western European core countries and CEE and southern European countries. This reversal and slowdown in wage convergence can mainly be attributed to the negative effect of the flawed 'one-size-fits-all' EU crisis management approach based on austerity, deregulation of the labour market and downwards wage flexibility and moderation. In general, the long-term development of real wages in the post-crisis period (2010-2017) has lagged behind that of the pre-crisis period (2000-2009), leaving nine EU countries with real wage levels below what they were in 2010.

Minimum wage growth continued to outstrip average real wage growth in 2017, indicating that wages at the bottom of the scale grew faster than average wages and, moreover, grew faster in Member States where the minimum wage level is lower. However,

despite this growth, the minimum wage in most countries remains too low for even a full-time worker to sustain a decent living standard.

These results in real wage growth seem somewhat disappointing considering that growth has picked up, labour markets are tightening in some countries, and the European institutions are calling for a stronger wage growth in order to sustain the economic upswing. However, the fact that real wages are not increasing in line with productivity and that workers are not getting their fair share should in fact come as no surprise. This is a result of the past years of fiscal constraint, lack of investment, deregulation of the labour market and the destruction of institutions that ensured a solidaristic wage policy. In order for Europe to get back onto a sustainable growth path that ensures upwards convergence, a shift towards expansionary policies is needed which would raise demand through a reliance on higher public and private investment, higher public spending and higher pay levels, and would be based on a solidaristic wage policy. This would constitute a radical shift not only in rhetoric but also in action.

The uneven economic recovery is also reflected in the labour market indicators. While headline figures will tell us that a higher proportion of the working age population was in employment in 2017 than at the outbreak of the crisis and that unemployment is decreasing, a closer look at more detailed indicators reveals quite a different story. Many of these improvements are being driven by demographic processes rather than improved labour market performance. In 2017, the number of jobs finally reached the same level as in 2008, but the volume of work is still far below.

Furthermore, a look at the quality of jobs created and the real demand for labour shows that the situation has mostly deteriorated and that convergence between social groups has been achieved mainly due to worsening conditions for those who were in a better position before the crisis. The number of workers that are in atypical employment against their preferences is at an alarmingly high level, and underemployment is double the unemployment rate. Convergence between countries, meanwhile, can be seen mainly in the trend towards more precarious and atypical forms of work, but not in the improvement of working standards. A particularly worrying development has been the growing distance between the most struggling countries and the better performers. Income inequalities that shot up at the peak of the crisis have persisted at a relatively high level and have also been displaying a divergent trend since 2013, while there are no signs that the increase in employment has been able to reduce these rates, nor the in-work poverty rate. Considering the ongoing changes in work patterns, technology, migration and international competition, European labour markets can be expected to continue to face such challenges as precariousness, depressed labour demand, and the weakened ability of social protection systems to ensure adequate living standards for all.

Social protection systems seem to be struggling in the current period, with only very small increases in spending per capita since 2010 despite the growing levels of need, and a divergent trend between the southern Member States and the rest of the European Union. Moreover, the effectiveness of social protection systems in the EU has generally been diminishing since 2011 and, in addition, displaying a downwards convergence towards that of the euro area. Social protection seems to be following the general macroeconomic trend of there being a slight improvement but clearly not for all countries, resulting in divergence between southern and northern Europe. The small gains made prior to 2008 thus seem to be evaporating.

Social dialogue and workers' participation are ways of regulating and ensuring a democratic process at various levels. The European level has delivered rights to information, consultation and participation for workers across the European Union. However, many of these rights are difficult to exercise for various legal and practical reasons, and the time has come to take these challenges seriously and ensure that workers' rights are not being undermined by company mobility and bad implementation of the European directives. Evidence-based policymaking should be the foundation for assessing how to ensure that workers are represented, informed and consulted in the context of ever-stronger economic integration of companies in the European Union. 'Collective voice' contributes to the sustainability of the workplace as well as of society, as workers with access to this form of representation demonstrate greater enthusiasm and involvement in their work. Furthermore, the Employee Participation Index (EPI) correlates strongly with the Gini coefficient as regards the measurement of inequality, indicating that the better the quality of collective voice, the lower the income inequality in the economy.

The findings reported here point to a lack of engagement with some of the fundamental issues that need to be tackled in order to get Europe back on to a sustainable path that will lead to an upwards harmonisation of standards and outcomes. The policy options chosen over the past 10 years have weakened the chances of the economic upswing being sustainable and its ability to benefit all citizens and workers in the European Union. Inequalities remain high, wage growth is not taking off despite the indications that it should, and job quality is decreasing, breaking with the kinds of trends identified during former economic upswings. Furthermore, the southern European countries are finding it difficult to get back onto a path towards sustainable convergence. This cannot form a viable basis for the future of European integration, nor can it form a foundation upon which to engage with the tremendous challenges currently facing the economy, the environment, the labour market and social protection systems. The conclusions of this report draw attention to numerous deeply disturbing trends and call for a genuine reassessment of the direction currently being followed in both EU and national policymaking.

GDP growth is back, but under the current conditions it is not benefiting the citizens of Europe to the extent that it should, and the foundations upon which this recovery is built are fragile. Although the European Pillar of Social Rights is a step in the right direction, it is far from being enough. Political commitment to investment, wage increases and quality jobs needs to be backed up by real actions and not just paid lip service. To ensure a stable future for Europe, the EU needs to put in place a genuine and strong investment policy, to commit to social justice, to admit that labour market deregulation has gone too far and that reregulation is needed, and to tackle the lack of workers' voice and the consequent suppression of democracy in the workplace.

*Benchmarking Working Europe* first appeared in 2001. By providing a genuine benchmarking exercise applied to the world of labour and social affairs and grounded in effective labour and social rights, this annual publication represents a contribution to the monitoring of the European Union. It aims at establishing what progress, or lack thereof, has taken place in selected areas of importance to the trade unions and of significance for a social Europe.

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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# Growth returns but will have to be sustained in order to heal scars and reverse re-emerging divergence

## Introduction

The most recent European Commission forecasts have been consistently suggesting that there is evidence of a recovery in output growth across Europe. The European Commission's Winter Forecast from February (European Commission 2018) showed a higher than previously estimated output growth rate for 2017, at 2.4% for both the EU28 and the euro area, predicted to ease to 2.3% in 2018 and 2.0% in 2019. These figures compare favourably to those of the US and Japan and are the highest seen in Europe since 2010.

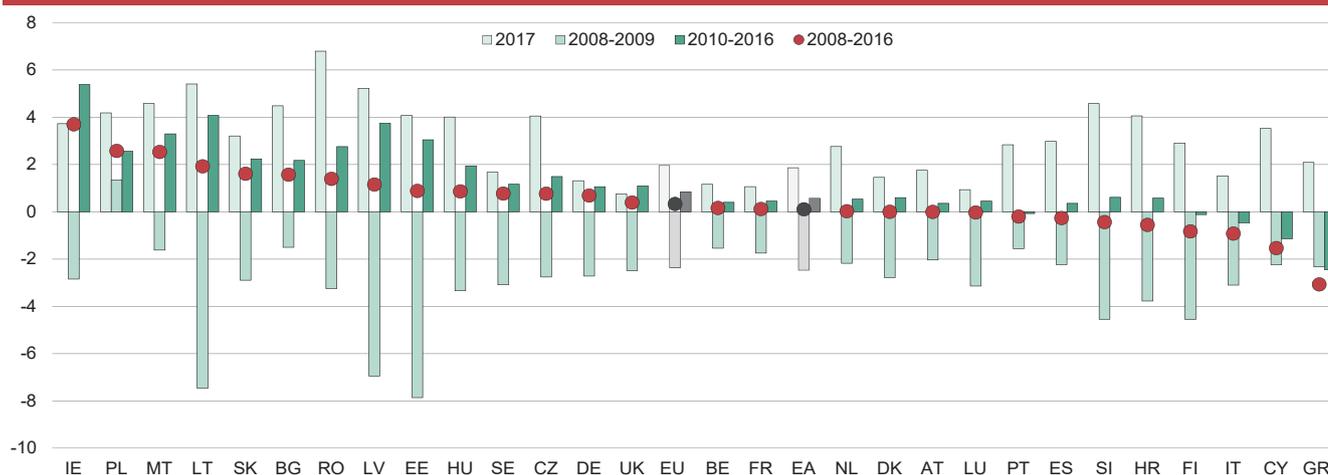
While this is certainly good news, a closer look at certain fundamental variables gives reason to be cautious when it comes to policy decisions. Wage growth and inflation have remained relatively weak, suggesting that deep scars in the labour market have yet to be healed. The prediction that we may be already approaching the peak of growth in the business cycle while there is still labour market 'slack' suggests that measures to keep on supporting demand should be reinforced rather than rolled back. In addition, big uncertainties still remain in the international environment, with possible moves towards protectionism in the US and the risk of great disruption when the UK formally leaves the EU in March 2019. Both developments could harm exports from the EU.

## Topics

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## Economic developments: real GDP per capita growth

Figure 1.1 Average annual growth rate (%) in real GDP per capita (EU Member States) (2008-2009, 2010-2016, 2017 and 2008-2016)



Source: Own calculations using AMECO data (RVGDP series).

### Growth returns after long period of stagnation

Figure 1.1 shows the average annual real GDP per capita growth rates in the EU Member States between 2008 and 2017 and various sub-periods thereof. In 2017, all Member States demonstrated positive growth. Eleven Member States from central and eastern Europe and Malta experienced the strongest growth rates, between 4% and 6.8%. Southern Member States which received financial support during the crisis and Ireland, but also Slovakia, Finland and the Netherlands all grew at rates above the EU average in 2017, between 2.1% and 3.7%.

As seen in Figure 1.1, this recovery comes in the aftermath of a period of stagnating, if not receding, GDP per capita for most of the 2008-2017 period. Eight Member States – Greece, Cyprus, Italy, Finland, Croatia, Slovenia, Portugal and Spain – had negative average annual real GDP per capita growth rates between 2008 and 2016. In another seven countries – Luxembourg, Austria, Denmark, the Netherlands, France, Belgium and the UK – real GDP per capita stagnated, with annual average growth rates between 0% and 0.4%.

The 2008-2009 financial crisis sent all Member States bar Poland into negative GDP per capita growth, in most cases even below 2%, a threshold signalling exceptionally critical circumstances in the context of the EU's fiscal rules. However, what seems to have determined the extent of stagnation/recession during the 2008-2016 period was the evolution of GDP per capita between 2010 and 2016. The year 2010 marked a shift from a coordinated fiscal stimulus across Europe to a coordinated consolidation of government budget deficits as all Member States bar Sweden and Estonia entered excessive deficit procedures, under the corrective arm of the Stability and Growth Pact, while some southern countries followed harsh economic adjustment programmes of fiscal austerity and internal devaluation in exchange for financial support to their governments or banks. Similar programmes had already been implemented in Ireland and Latvia at an earlier stage. What the evolution of real GDP per capita growth rates, shown in Figure 1.1, suggests is that the effects of post-2010 policy responses were more important in determining growth during the 2008-2016 period than the effects of the early financial crisis itself.

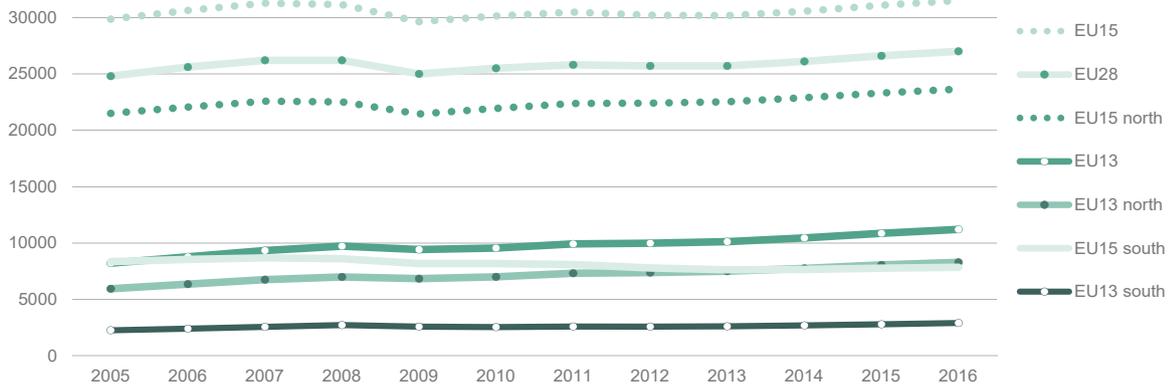
Overall, the majority of the Member States that joined the EU after 2004 (EU13) fared better during the 2008-2017 period than the rest, a fact that could be explained by several factors, such as the

operation of 'catching up' mechanisms, the fact that many of them were not eurozone members and were therefore less prone to the systemic failures of the latter, and crucial differences in the priorities of the economic adjustment programmes that some of them had to follow during the early crisis years, most notably the decisive tackling of problems in their banking sectors.

The extent to which real GDP per capita growth reflects the improvement in living standards enjoyed by the population as a whole depends not just on how well the tax-benefit system redistributes from the richer to the poorer (for more on which see Chapter 3) but also, in the era of multinational corporations, on the extent to which the resources produced within a country are reinvested domestically, distributed towards its labour or instead exported as profits to wherever the managements of multinational companies see fit. Considering that the economies of several of the EU13 Member States have been relying on multinational corporations paying substantially lower wages compared to the international price of the products produced (Galgóczy 2017), the figures above may be overestimating the extent to which the actual living standards of their populations have been improving.

# Economic developments: disparities in real GDP per capita

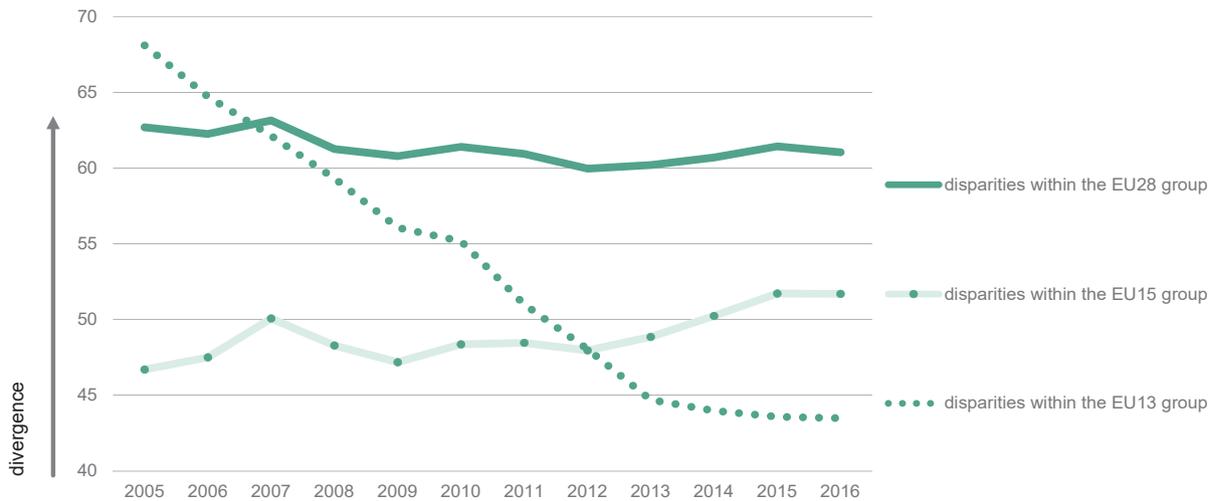
**Figure 1.2 Evolution of real GDP per capita (euros: in thousands) in the EU28, EU15 (total, north and south) and EU13 (total, north and south)**



Source: Own calculations using Eurostat data (nama\_10\_pc and nama\_10\_pe series).

Note: EU15=BE, DK, DE, IE, GR, ES, FR, IT, LU, NL, AT, PT, FI, SE, UK; EU15 north=BE, DK, DE, IE, FR, LU, NL, AT, FI, SE, UK; EU15 south=GR, ES, IT, PT; EU13=BG, CZ, EE, HR, CY, LV, LT, HU, MT, RO, SI, SK; EU13 north=CZ, EE, LV, LT, HU, SI, SK; EU13 south=BG, HR, CY, MT, RO, SI.

**Figure 1.3 Disparities (coefficient of variation, %) in real GDP per capita within the EU28, EU15 and EU13 groups (2005-2016)**



Source: Own calculations of population weighted averages using Eurostat data (nama\_10\_pc and nama\_10\_pe series).

## Divergence between north and south

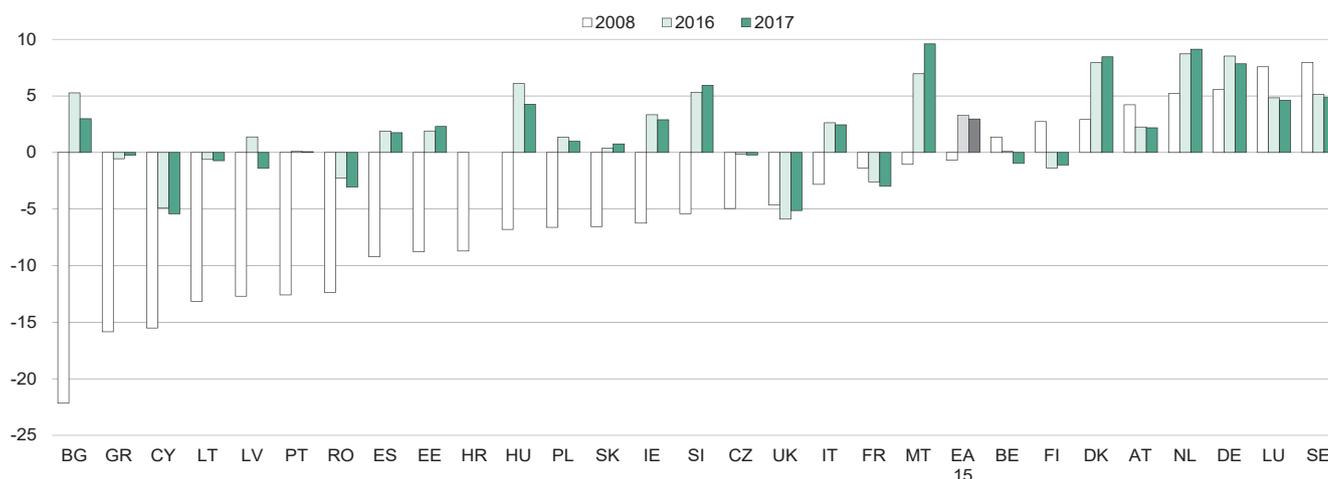
Figure 1.2 shows the evolution of real GDP per capita population-weighted averages by large groups of countries, namely the EU28, the EU15 and the EU13 (the 'new' Member States), and the sub-groups

within these groups. We see that the average GDP per capita for the EU13 as a whole has been increasing continuously since 2010 despite the stagnation in 2008-2009 and grew faster every year than that of the EU15 in the period 2005-2016, including the crisis years. Interestingly, there are divisions within both the EU15 and the EU13 groups, between their northern and southern members. In both groups, the southern member sub-groups have fared much worse than their northern counterparts, both in levels and in growth rates.

Figure 1.3 shows measures of disparity in real GDP per capita for the EU28, the EU15 and the EU13. We can see that within the entire EU28, divergence began to increase after 2012. There was an impressive and continuous convergence within the EU13 group throughout the 2005-2016 period, while divergence increased within the EU15 group. We therefore observe that while the still wide gap between east and west seems to be closing, a gap between north and south persists, and in the case of the EU15 southern countries it is continuing to widen.

## Macroeconomic performance: current accounts

Figure 1.4 Current account balances with the rest of the world (percentage of national GDP in current prices) for EU Member States and the Euro area (2008, 2016, 2017)



Source: AMECO database (UBCA series).

### An unbalanced rebalancing

The building pressure on large current account deficits – that is, the increasing inability of certain Member States to carry on financing them by borrowing at affordable interest rates from the private sector – triggered a crisis in some Member States as early as 2008, and in others from 2010 onwards. Figure 1.4 shows the current account balances of EU Member States and of the euro area as a share of their GDP in 2008 and then again in 2016 and 2017. In 2008 there were several Member States with large current account deficits: Bulgaria, Greece, Cyprus, Lithuania, Latvia, Portugal, Romania and Spain all had deficits of about 10% of GDP and above. At the other end of the spectrum the current accounts of several Member States in the north-west region of the EU and in Scandinavia were either balanced or in surplus. The euro area went from having a virtually balanced external account to developing a sizeable current account surplus of around 3% by 2016-2017.

As the figure shows, the burden of adjustment of these current account imbalances fell predominantly on the shoulders of Member States with deficits,

which in most cases reduced them substantially or even turned them into surpluses. On the other hand, Member States with current account surpluses in 2008 (Belgium, Finland, Denmark, Austria, the Netherlands, Germany, Luxembourg and Sweden) underwent much smaller adjustments, if any. Finland, Belgium and Austria moved towards smaller deficits or surpluses. Denmark, the Netherlands and Germany increased their surpluses to reach substantial levels (close to 10% of GDP), while Luxembourg and Sweden reduced their surpluses while keeping them fairly high. The UK's current account deficit in 2016 and 2017 was not much different than in 2008, although its size had fluctuated in the intervening period. The weaker value of the pound from 2016 seemed to have a rebalancing effect on the trade balance. On the other hand, the deficits in primary income and current transfers expanded between 2016 and 2017.

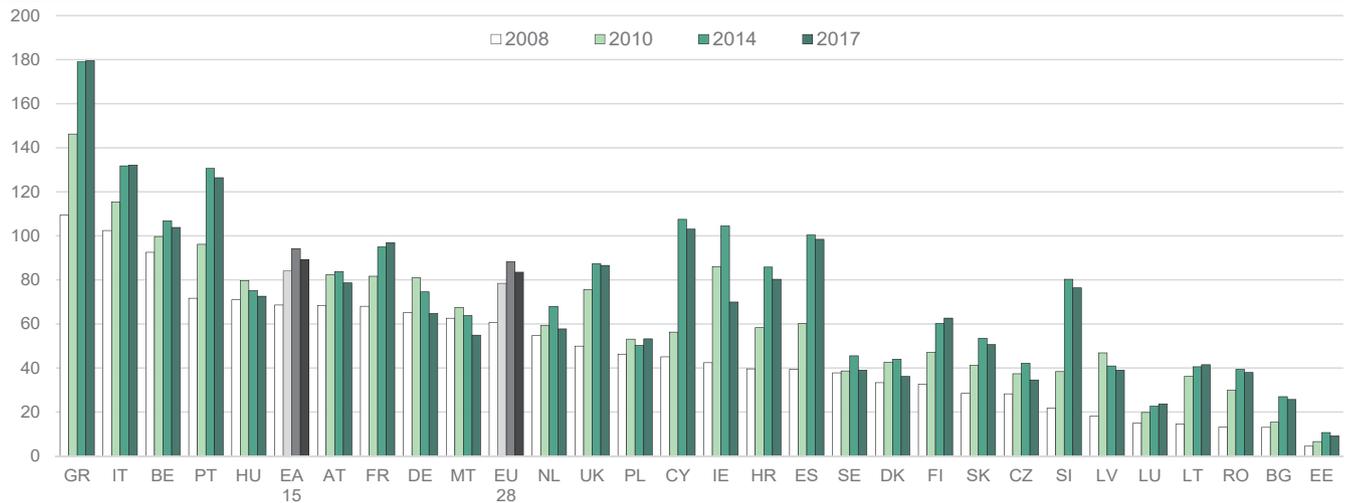
The rebalancing of current account deficits has been a much more painful exercise for those Member States who could not (euro area members) or would not (Latvia) devalue their nominal exchange rate in order to stimulate their exports and curb their imports. In many cases, financial support had to be provided to Member States by the EU and the IMF, accompanied by economic adjustment conditionality. In

this context, measures were taken aimed at producing an 'internal devaluation', with the objective of squeezing the growth of unit labour costs. To that end, public spending cuts and labour market deregulation measures were pursued, which achieved the rebalancing of current account deficits by suppressing imports rather than expanding exports (see Myant et al 2016, ETUC and ETUI 2017).

This 'unbalanced rebalancing' of current accounts across Europe has generated a shortfall in domestic demand, especially in the euro area, which went from having a virtually balanced current account to a persistent surplus of around 3% of GDP, reflecting among other things the persistent shortfall in investment in the area and causing concerns about global financial stability.

## Macroeconomic performance: public debt

Figure 1.5 Gross public debt (percentage of GDP) in the EU, euro area and Member States (2008, 2010, 2014, 2017)



Source: AMECO database (UDGG series).

### Persistently higher public debt

Figure 1.5 shows the evolution of the gross public debt/GDP ratio since 2008 when the economic crisis began. No Member State avoided an increase in their public debt/GDP ratios between 2008 and 2010. In 2017 the average in the EU stood at 83% whereas in the euro area it was 89%, both well above the 60% of GDP stipulated by the EU's fiscal rules. By far the biggest increases since 2008 took place in the Member States which received financial support (Greece, Portugal, Cyprus, Ireland, Spain, Latvia, Romania) but also in Slovenia. The initial debt levels varied widely. Figure 1.4 also shows that the reversal of the increases in the public debt/GDP ratio has been in most cases very slow, especially in those cases (with the exception of Ireland) that saw the most dramatic increases. The fact that the recovery has been weak in many Member States explains to a significant extent this sluggish reversal.

High public debt/GDP ratios may reduce the available space for governments to deal with future crises by borrowing money (for example, should a bank need to be recapitalised, a pension fund supported to continue paying

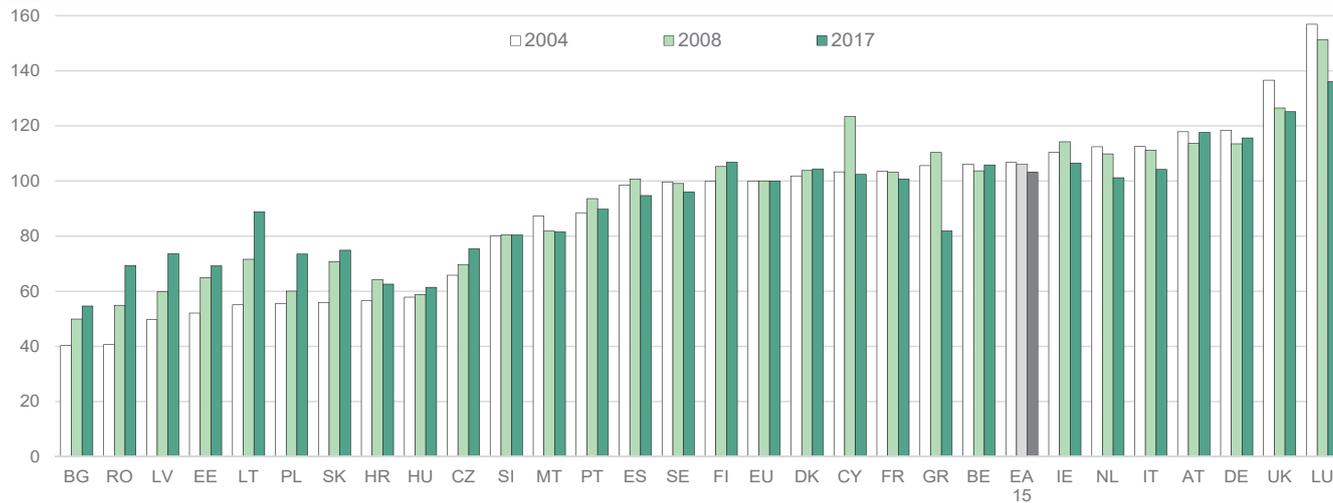
benefits to recipients, or the victims of a national disaster compensated) (Obstfeld 2013). The environment of economic stagnation (with its effects on the balance sheets of banks) and historically low interest rates, together with an ageing population, suggest that the risk of such crises occurring in the not-so-distant future is far from negligible. Also, insofar as high public debt/GDP ratios imply a relatively higher need to roll over debt (that is, borrow to replace expired government bonds), any sudden increase in borrowing interest rates in the financial markets may increase the interest payment burden of a highly indebted government or even result in a liquidity crisis. Still, and contrary to what is often considered as popular wisdom (Reinhart and Rogoff 2010), there is no robust evidence of a negative effect of a specific public debt/GDP ratio on output growth (see Panizza and Presbitero 2013 for a review). Instead, there seems to be quite a lot of evidence on the adverse effects that pursuing fiscal austerity has on growth, especially when an economy is already weak.

Recent research on the ways in which public debt/GDP ratios were reversed between 1800 and 2014 suggests that economic growth is the most benign way of doing so but that it was only used in just over half of the cases they studied (Reinhart et al. 2015). Therefore, under the current circumstances of prolonged

stagnation in many parts of Europe and weak recovery of a by now chronically deficient public investment rate, a route of promoting debt consolidation by fiscal expansion rather than austerity is likely to be more effective.

## Developments in domestic demand

Figure 1.6 Private final consumption expenditure per head of population relative to the EU (EU=100) (2004, 2008, 2017)



Source: AMECO database (HCPHPR).

### Convergence in private consumption per head

Figure 1.6 shows the evolution of private final consumption expenditure per head of population relative to the EU average level in three different years (2004, 2008 and 2017). Private final consumption refers to the expenditure of households and non-profit institutions on goods and services and excludes benefits in kind financed by the government and supplied to households. Insofar as private final consumption depends largely on disposable incomes, its comparison with the evolution of GDP per head provides an (imperfect) indication of how much of the produced output has been used by domestic households (as opposed, for example, to foreign capital owners operating multinational companies in a country) to improve their current living standards. That the value for private final consumption expenditure per head of population in the EU is equal to 100 for all three years examined in the figure does not mean that its level was the same in all three years. In fact, it was higher

in 2008 than it was in 2004, and higher again in 2017.

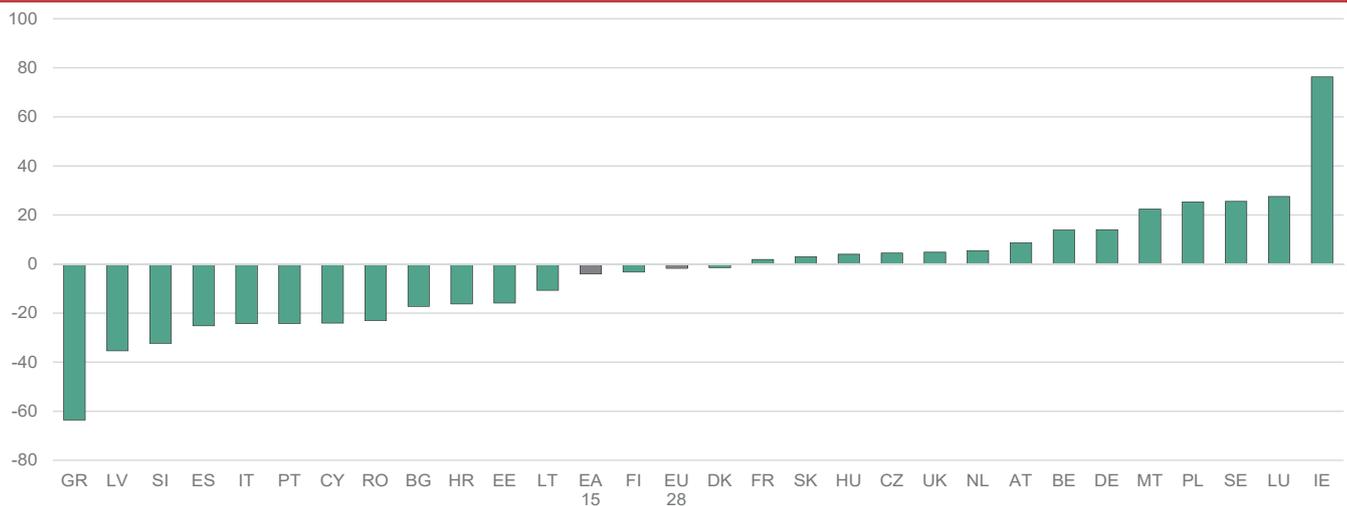
In Figure 1.6, the distribution of Member States to the right and left of the EU base (100) broadly follows a division between older Member States and their newer and poorer counterparts, although the composition of total consumption and its distribution between private and government final consumption also matters for the ranking of countries presented in the figure. Government final consumption includes social transfers in kind that the government finances and which are offered as goods and services to households. Thus, rich Member States such as Sweden and Finland appear to have a private final consumption per head roughly equal to or somewhat lower than the EU average because private final consumption in Sweden and Finland accounts for about two thirds of total consumption, while in the EU it accounts for about three quarters of total consumption.

We also see that in the majority of new Member States, except for Malta, Slovenia and recently Croatia, private final consumption expenditure per head of population was higher relative to the EU average in 2008 than in 2004 and higher again in 2017. In this respect, we can identify some convergence with the older Member States, although some part of this is due not only to the new Member States growing faster but also to growth

slowing down in the older Member States due to the crisis.

## Developments in domestic demand

Figure 1.7 Gross fixed capital formation (2007-2017) (percentage change, 2010 prices)



Source: Calculated from AMECO database.

### Unclear results from investment support

Figure 1.7 shows that fixed capital investment in the EU as a whole in 2017 was still 1.8% below the peak level of 2007. Recovery has left 12 Member States still more than 10% below their pre-crisis levels and all of these have per capita GDP levels below the EU average. Investment is therefore currently promoting divergence rather than convergence.

A revival of investment would seem essential to convergence, providing an immediate stimulus to demand in countries still in depression. All countries also have demonstrable needs for investment to cope with future challenges in transport and communications, education and research, climate change, energy, environment, and the ageing of populations.

In 2013 the ETUC presented a proposal for an investment plan (ETUC 2013) that would increase investment by the equivalent of 2% of GDP every year over a ten-year period. A more modest plan from European Commission President Jean-Claude Juncker for an investment of 2.4% of EU GDP over three years is set to be extended to the end of 2020. The crucial

element is a financial guarantee through the so-called European Fund for Strategic Investment (EFSI), billed as enabling the European Investment Bank (EIB) to raise finance on commercial markets and increase lending, supporting in the first phase of the plan an investment of €315bn. This target is likely to be reached, but only with the help of contributions from other public bodies, while claims of a significant economic impact are not justified.

In practice, the guarantee has supported typical EIB projects, some of which have been extensions of past projects with no evidence of additionality compared with past investment (EIB 2016a; Rubio et al. 2016). The net effect of EFSI has been to enable the EIB to maintain credits at €71bn per annum, slightly below its 2014 and 2015 levels (EIB 2016b). It has done nothing new to close the perceived investment gap. Nor has there been a consistent bias towards promoting investment in countries where it has fallen the most. Romania, Bulgaria and Croatia remain grossly underrepresented, relative to their populations, with very small levels of credit promised. Exceptionally, Greece has benefited from substantial guarantees for small business support such that it accounts for 6.2% of promised EU funding (bearing in mind that Greece has only 2.1% of the EU population).

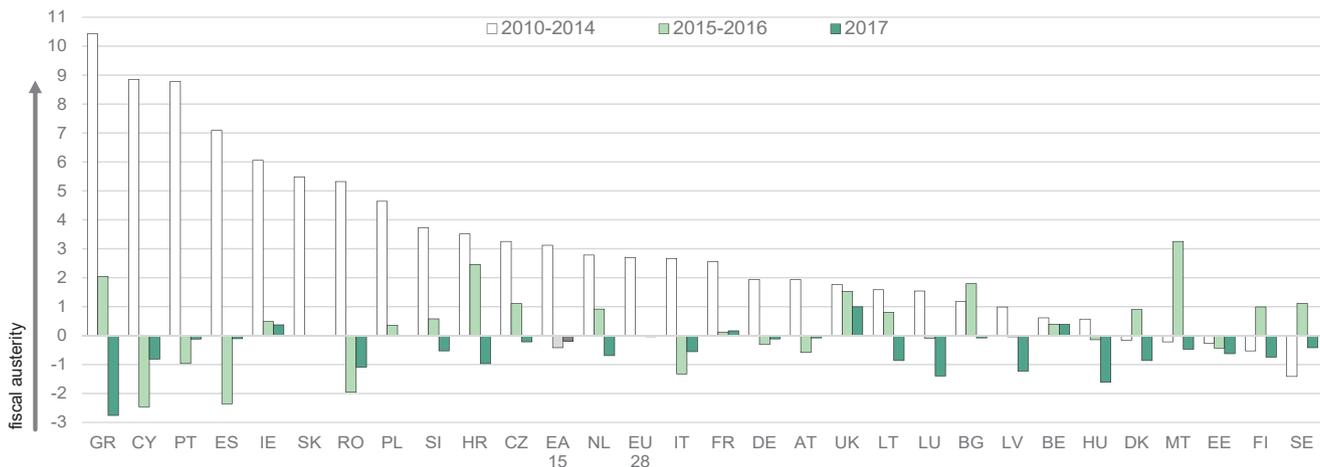
The European Structural and Investment Funds (ESIF) remain the main, but less well-publicised, EU instrument for

reducing regional disparities and promoting economic, social and territorial cohesion. The spending planned for 2014-2020 will account for almost 0.36% of likely total GDP. Unlike the EU's investment plan, the bias towards lower-income countries is clear and deliberate, with the largest stimuluses likely to be in Croatia, Hungary and Poland (2.8%, 3.0% and 2.8% of GDP respectively). Romania and Bulgaria, the two lowest-income countries, continue to receive slightly less (2.55% and 2.2% of GDP) than the above-mentioned countries.

These transfers have been crucial for supporting continued investment in transport (covering 40% of public capital expenditure in the twelve new Member States) and supporting more than half of total government capital investment in Hungary, Lithuania, Slovakia and Latvia (European Commission 2016a: 18). They therefore promote some degree of convergence. However, European Commission evaluations have pointed to a number of weaknesses. Projects tend to be directed from above and justified by spending money rather than achieving changes in business behaviour. Research spending has gone into constructing research facilities rather than undertaking research or disseminating innovations. The long-term impact in promoting convergence therefore also remains unclear.

## Macroeconomic policy developments: fiscal policy

Figure 1.8 Cumulative change in government structural budget balances excluding interest (pp) (EU Member States, EU and euro area) (2010-2014, 2015-2016, 2017)



Source: Own calculations using AMECO database (UBLGBPS series).

### A softening fiscal stance

Figure 1.8 shows the evolution of individual Member States' and aggregate (EU and euro area) underlying fiscal policy stances. This is calculated as the change (in percentage points of potential GDP) in the government budget balance once the effects of automatic stabilisers and interest payments on the government budget balance are excluded. Roughly speaking, automatic stabilisers include tax revenues levied upon incomes and expenditure, and unemployment benefits. To put it simply, the structural balance excluding interest shows the balance between a government's discretionary expenditure and revenues. A positive change is equivalent to consolidation (that is, revenues exceeding expenditure), whereas a negative change signals an expansion (expenditure being greater than revenues).

Following a period of fiscal austerity in 2010-2014, fiscal stances turned more neutral in 2015-2016 in most Member States, with a few exceptions, notably Malta, Bulgaria, the UK, Croatia, Finland, Sweden and Greece. Expansionary stances were seen in Cyprus, Spain, Romania, and Italy. In 2017, the fiscal

stance (measured in the way explained above) was neutral on average in both the EU and the euro area, with several Member States – notably Greece, Luxembourg, Lithuania, Latvia, Hungary and Denmark – having expansionary stances.

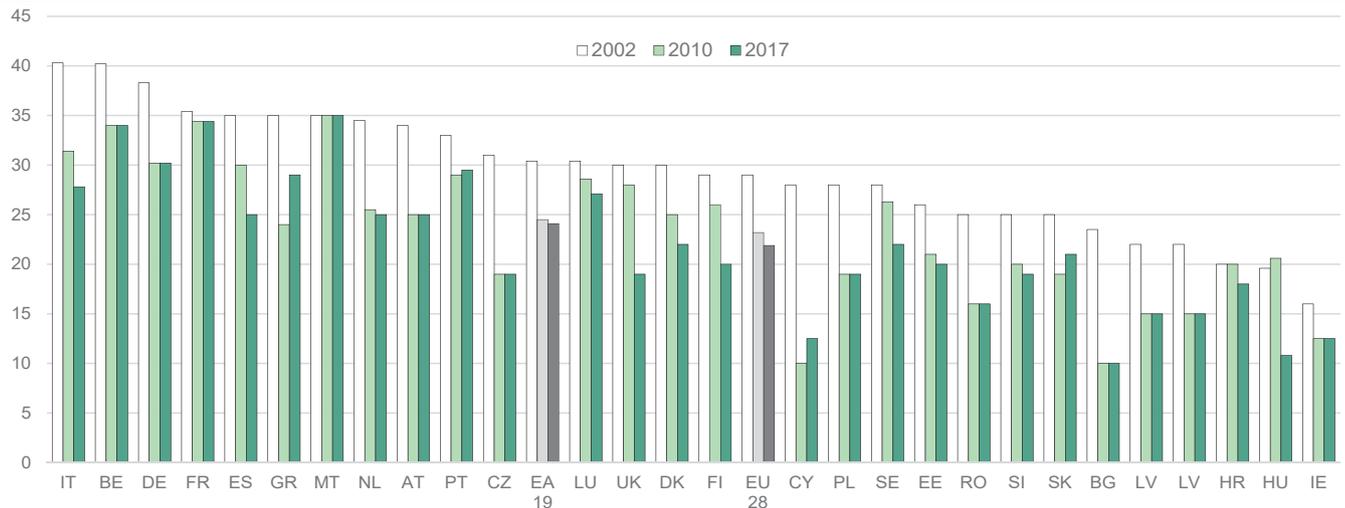
In its latest economic policy recommendations for the euro area (European Commission 2017d), the European Commission proposed a broadly 'neutral' fiscal stance for the area as a whole. According to the Commission (2017a), in proposing this they sought to find a balance between two considerations which would lead to opposing recommendations. The first is that the currently accelerating output growth rate indicates that now would be the right time to consolidate budget deficits. On the other hand, the weak recovery with high labour market slack (for more on which see Chapter 2) and continuously weak wage growth warrants a more expansionary fiscal policy. While in principle these are both valid considerations, the risks from continued labour market slack and the extent of the scars that the crisis has left behind in terms of unemployment, low volume of work and lagging investment rates cast doubt on whether the two considerations should be given equal weight in determining a fiscal policy stance.

What is of paramount importance is that fiscal policies in the euro area and the EU more broadly expand, especially

in those Member States hardest hit by the crisis, so that together with the expansionary policies of central banks they create a policy mix that restarts growth.

## Macroeconomic policy developments: taxation

Figure 1.9 Top statutory income tax rates (including surcharges), EU28, EA19 and Member States (2002, 2010, 2017)



Source: Data from European Commission, 2018, Taxation trends in the European Union, table 4.

### Continued downward pressures on corporate income taxes

The liberalisation of international capital movements since the mid-1980s has generated pressures on national tax systems regarding the taxation of corporations and capital, sparking a global debate about a so-called 'race to the bottom' in corporate taxation. These pressures concern the tax rates imposed on corporate income but also, and perhaps even more importantly, the legislation governing the obligations of companies to declare their revenues and profits in a particular country. In the latter case, pressures have intensified due to the rise of multinational and, more recently, internet companies.

While there has been a visible decline in corporate tax rates since the 1980s (European Commission 2017d), often matched with an increase in personal and/or labour income taxes, they still vary widely across Europe, reflecting the fact that capital mobility

is but one of the factors influencing corporate-tax-rate policy decisions and that predictions of economic models of a convergence of corporate tax rates to zero may have been based on unrealistic assumptions. Figure 1.9 shows the evolution of top statutory corporate income tax rates (European Commission 2017: 34). The average rate declined in both the EU28 (by 24%) and EA19 (by 21%) between 2002 and 2017, although in the euro area there were small increases in 2009 and again in 2013. While there has been wide variation in this rate between Member States, the range (that is, the difference between the highest and lowest rate in the group of countries examined) remained almost the same between 2002 and 2017. However, the evidence suggests that within this range, top corporate income tax rates diverged in the EU28 between 2002 and 2017.

Recent research (Troeger 2013) suggests that factors such as country size, the financing of the welfare state, and the proportion of mobile capital in the overall capital tax base matter for the extent to which capital mobility will result in lower corporate tax rates, inevitably creating more pressures for some countries, especially smaller and less economically developed ones. In the case of Europe, this can hinder upwards convergence in social standards if Member States with lower social standards are also more hard-pressed in finding the revenues for

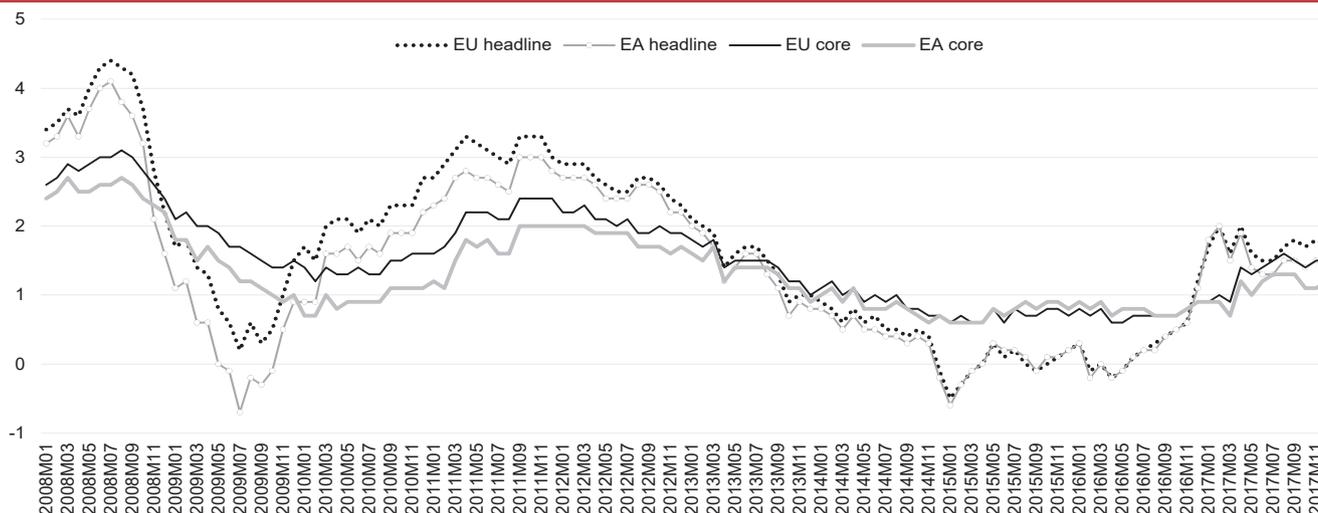
financing the development of their social safety nets.

As taxation is a policy competence which is jealously guarded by Member States, the EU has not managed to take any further action to ease competition on corporate tax rates. However, the Commission has been using state aid rules to justify investigating tax rulings of Member States that have been helpful to particular companies. Since 2016, it has challenged deals giving favourable tax treatment to Apple in Ireland, Starbucks in the Netherlands, Fiat and Amazon in Luxembourg, and Ikea in the Netherlands.

In 2016 the Commission revived the proposal for a Common Consolidated Corporate Tax Base (CCCTB). It includes common tax rules for large multinationals and allocates their taxable profits by formula, based on the labour, assets and sales in each Member State. The proposal would tackle most transfer pricing abuse. It would still leave room for tax shifting through the exploitation of differences in accounting rules, although these could be addressed in a subsequent step. Moreover, the proposal would not stop tax competition through tax rates. In any case, it is unclear if political support can be found among Member States due to opposition from countries wishing to benefit from the status quo.

## Macroeconomic policy developments: monetary policy

Figure 1.10 Monthly headline and core inflation rates: annual change (%) in the EU and euro area (2008M1-2017M12)



Source: Eurostat (prc\_hicp\_manr).

### Sluggish inflation

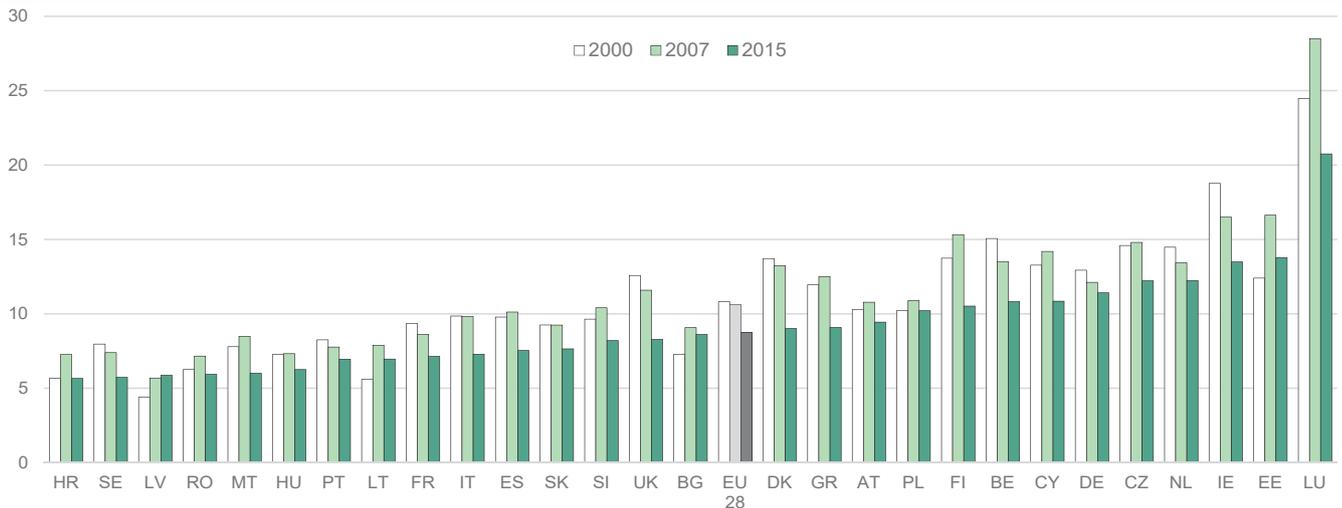
The year 2017 marked an acceleration of inflation for both the EU and the euro area, as Figure 1.10 shows above. The average EU and euro area headline inflation rate reached 2% early in the year, driven by higher energy prices. On the other hand, core inflation – the overall consumer price index excluding energy and seasonal food whose prices tend to be more volatile, and which thus reflects the underlying long-run inflation trend – remained close to 1% for the first part of the year. It later increased to 1.5%, still well below the 2% target of the European Central Bank and other central banks in the euro area (for example, the Bank of England). The inflation rate remained close to 1% in many euro area Member States, also edging close to the 2% target in Member States such as Germany, Belgium, Austria, Slovakia and the Baltic states. Developments in core inflation have been causing concern as they signal a weakness in inflation despite average output growth rates that have not been seen for over a decade in the euro area.

Since March 2016, the European Central Bank has maintained the interest rate of its main refinancing operations at 0% and the interest rate of its deposit

facility (that is, the interest rate that banks in the euro area receive for depositing money with the ECB) at -0.4%. The latter means in practice that banks would have to pay a penalty for keeping reserves with the central bank. Turning to the more 'unconventional' monetary policy tools, in October 2017, the ECB announced the tapering of its quantitative easing (QE) programme which had begun in 2015 with monthly purchases of bonds worth €60bn. Since last October, the amount of bonds the ECB buys every month has been halved to €30bn. The Bank also announced that it would be ready to continue asset purchases (quantitative easing) after September 2018 and even raise again the value of monthly bond purchases if necessary. At the same time, the ECB committed to keeping interest rates at their current low/negative levels to well beyond the end of the QE programme. These actions reflect the ongoing internal debate in the ECB on whether it is time to roll back these unconventional measures. On the one hand, advocates of ending QE cite the improved ECB forecasts on output growth in the euro area; on the other hand, there are concerns that this might risk stopping the recovery in its tracks given the weak reaction of core inflation and wages to higher output growth and employment.

## Green convergence: where a race to the bottom is actually beneficial

Figure 1.11 Greenhouse gas emissions per capita by Member State (tonnes per capita)



Source: EEA (2017).

### Visible convergence in emission levels

Implementing climate change mitigation policies remains a challenge for many Member States, but in order to meet long-term targets set by the EU (in line with the Kyoto Protocol and the COP 21), they need to do much further than what has been achieved in the past decades. Rich countries in general have to make greater efforts, while poorer, 'catching-up' countries cannot repeat the past high-pollution development patterns of the rich. As is well documented in the literature, poorer countries are cleaner due to their lower levels of consumption and production, but when they get richer and produce and consume more they also tend to pollute more (Stern 2007), until the moment that climate policies start to kick in. There is then a race between the effects of increased wealth in the country and the strength of climate policies to decouple growth from material and resource use and thus reduce pollution.

Per capita emissions (of greenhouse gases [GHG] or of CO<sub>2</sub>, its biggest component) are the best way to compare the climate footprint of countries. According to

the World Bank (2018), the US and Canada were among the top per capita CO<sub>2</sub> emitters in 2014 (16.5 and 15.1 tonnes respectively), while the EU28 emitted 6.5. In sub-Saharan Africa, meanwhile, CO<sub>2</sub> emissions per person were far lower, at just 0.8 tonnes. Figure 1.11 shows per capita, territorial-based GHG emissions by Member State for 2000, 2007 and 2015. It is clear that richer countries emit more, but their reductions are also bigger over time. Luxembourg tops the list with 20.7 tonnes of GHG emissions per capita in 2015 (down from 24.7 in 2000). The EU28 has reduced its per capita GHG emissions from 10.8 tonnes in 2000 to 8.75 tonnes by 2015. Poorer, 'catching-up' Member States with lower original GHG emissions were initially increasing their emissions but then also embarked on a lower emissions path.

The different speeds of emissions reduction have resulted in a visible downwards convergence, with the final target being (net) zero emissions in the last quarter of this century. While in 2000 the ratio between the highest (Luxembourg) and the lowest (Latvia) per capita GHG emissions in the EU was 5.5, in 2015 (between Luxembourg and Croatia) it was just 3.6; this convergence, however, masks a lot of diversity. Three factors are decisive for the performance of Member States: the economic development level and its change (growth), economic structure, and climate policy ambitions

and implementation. With its high per capita emissions Luxembourg is an outlier primarily because of its high GDP per capita. It is noteworthy that its transport sector makes up over half of its total emissions, a much higher share than the EU average (OECD 2015). Among rich countries Sweden has the lowest per capita (territorial) GHG emissions, and even if its consumption-based emissions (that take the embodied GHG emissions in net imports into account) are almost double than that, its good performance reflects climate policy achievements, considering its high growth rate and strong industrial base. Within the EU15, France, Italy, Spain and the UK have lower per capita GHG emission values than the EU28 average. France's favourable position is mostly due to its good climate policy record, while in the cases of Italy and Spain it is more due to slow growth and the effects of the crisis, and in the UK it is the economic structure that seems to be the determining factor. Both the UK and France have higher consumption-based emissions (by 30 and 40%). Among 'catching-up' CEE economies, Croatia, Latvia, Romania and Hungary have the lowest per capita GHG emissions, while Poland, Czechia and Estonia have the highest. In the former group, low GDP/capita levels are still the most decisive factor, while in the latter group the causes lie in high energy intensity and less ambitious climate policies.

## **Conclusions**

- Positive output growth rates have recently returned across the EU and are the strongest among Member States that suffered the greatest GDP per capita losses since 2008, as well as in many of the Member States that joined after 2004.
- Within the entire EU28, divergence in real GDP per head was on a downward trend between 2005 and 2012 but then began to increase. While the still wide gap in real GDP per head between east and west seems to be closing, a gap between north and south persists and in the case of the EU15 southern countries it is continuing to widen.
- The rebalancing of current accounts in Europe since 2008, with the burden falling mostly on Member States with deficits, points again to a persistently weak domestic demand, especially in the euro area, where internal devaluation policies have been pursued.
- Public debt as a share of GDP has been declining only slowly from previously high levels. Past experience has shown that the most effective way to overcome public debt problems is economic growth, which, under the current circumstances, would be likely to benefit from fiscal policy support.
- There has been some convergence in private final consumption expenditure per head between new and older Member States.
- Fixed investment remains low, having fallen the most in lower-income countries. Some EU policies have stimulated investment, albeit with unclear longer-term impacts, but the much-publicised Juncker Plan does not add anything to total investment levels. There is therefore a need for more serious funding, greater transparency over decision-making, and a better targeting of where investment is most needed.
- EU recommendations on fiscal policy have been cautious. A more expansionary fiscal policy stance is needed in Europe to help heal the economic and social scars of the crisis.
- There are continuing pressures on national governments to provide more favourable tax treatment for corporate income, not just in terms of tax rates but also with regard to the rules determining what is taxable income, especially with the rise of multinational and internet companies. The EU's idea for a common consolidated corporate tax base could greatly limit tax avoidance which is costly to public finances. However, it faces opposition and needs to be pursued with vigour.
- The inflation rate has been picking up although at a very sluggish rate, despite unprecedented monetary policy expansion measures, pointing to a continuing relative weakness in demand and the need for greater wage increases, investment and support from fiscal policies.
- There has been noticeable convergence in levels of greenhouse gas emissions, partly because of changes in economic structures and partly because of policy measures. Both of these factors vary between countries. However, considerably greater efforts will need to be made to reach the 2050 targets.

# Labour market and social developments

## Introduction

The EU has not managed to make any significant progress in terms of upward social convergence in living and working conditions in the last decade. Clearly, the economic crisis and the Great Recession have left a profound mark on European labour markets, setting us back by nearly a decade in terms of social progress and development. As it stands, the EU is far from reaching its employment and social policy targets formulated before and during the crisis, including the Europe 2020 objectives.

While the revived economic growth has brought high hopes and an improvement in leading labour market indicators, such as the employment rate, a closer look at the quality of jobs created and the real demand for labour, reveals that the situation has mostly deteriorated. Convergence between social groups has been achieved mainly due to worsening conditions for those who were in a better position before the crisis. Convergence between countries, meanwhile, can be seen mainly in the trend towards more precarious and atypical forms of work, but not in the improvement of working standards. A particularly worrying development has been the growing distance between the most struggling countries and the better performers.

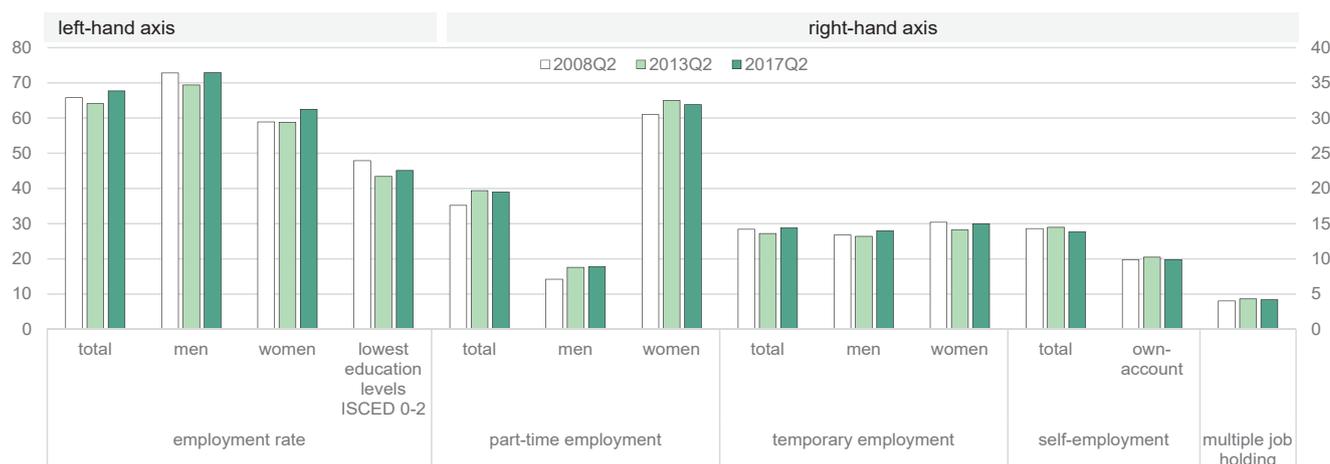
Considering the ongoing changes in work patterns, technology, migration and international competition, European labour markets can be expected to continue to face such challenges as precariousness, depressed labour demand, and the weakened ability of social protection systems to ensure adequate living standards for all.

### Topics

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## Overview of labour market developments

Figure 2.1 Developments in key employment indicators (EU28) (2008Q2, 2013Q2, 2017Q2)



Source: Eurostat [lfsq\_egan], [lfsq\_ergan], [lfsq\_eppga], [lfsq\_etpga], [lfsq\_ergaed], [lfsq\_esgaed], [lfsq\_e2ged].

Note: Employment rate is for the 15-64 age group.

### Job growth below expectations and concentrated in atypical work

When looking at labour market developments over the past decade in the EU, we can observe a strong imprint of the post-2008 economic crisis (Figure 2.1). In the EU28, there was a decline in the share of the working age population in employment, from 65.8% in 2008 to 64.1% in 2013 (comparisons of second quarters). By 2017, it reached 67.7%, thus placing the EU average still below the target of 70% that was set in Lisbon for the year 2010. The target set in the Europe2020 strategy also remains unattainable. The objective was to achieve a 75% employment rate among the population aged 20-64. In the second quarter of 2017, the employment rate in this age group stood at 72.3% (compared to 70.5% in 2008 and 68.4% in 2013).

The post-crisis decline in the employment rate was much more pronounced among men, while the rise in the 2013-2017 period was relatively even for both genders. In the EU28, in the second quarter of 2017, 72.9% of

men and 62.5% of women in the 15-64 age group were in paid work. Therefore, over the past nine years, the employment rate among men increased by a mere 0.1 pp, while among women it increased by a more substantial 3.6 pp. Furthermore, the decline in employment in the aftermath of the crisis was particularly pronounced for the group with the lowest education levels (pre-primary, primary and lower secondary education), further aggravating their weak position in the labour market.

In the period 2008 to 2017, we observe a substantial growth in part-time employment in the EU, from 17.6% in 2008 to 19.5% in 2017. This means that roughly every fifth worker in the EU has a part-time job. Interestingly, the part-time rate has been steadily increasing among men, reaching nearly 9% in 2017. Among women, the share of part-timers increased between 2008 and 2013, but saw a decline in the following years. Nevertheless, the overall growth of part-time work in the recent period has been a cause of concern because to a large extent it is due to an employer-driven strategy of cutting costs and optimising staffing levels, rather than the result of a work-life balance strategy pursued by workers. This is evidenced not only in the rising rates of involuntary part-time work (see Figure 2.11), but also in the substantial growth in the number of households where at least one person works part-time

but there are no dependent children (De Spiegelaere and Piasna 2017).

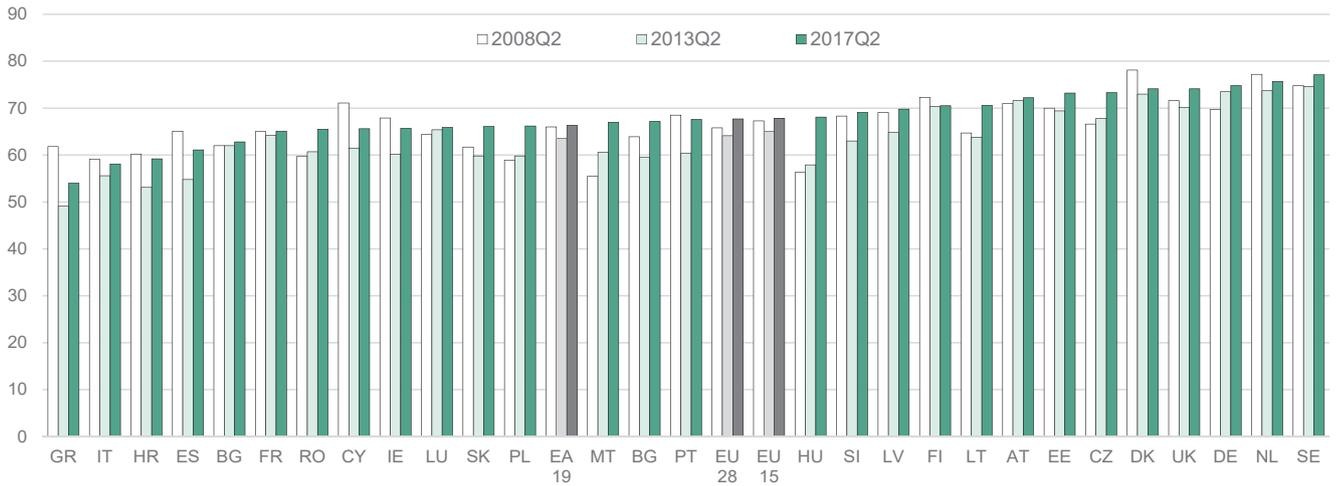
Temporary employment took a hard hit in the initial period of the post-2008 crisis, with temporary workers being the first in line for lay-offs. However, in the period of job growth between 2013 and 2017 we observe a return to European employers hiring on temporary contracts. The temporary employment rate thus increased from 13.6% in 2013 to 14.4% in 2017. This growth was more pronounced among women (from 14.1% to 15%) compared to men (from 13.2% to 14%), consequently preserving the gender gap in this form of non-standard work.

Nearly one in seven workers (13.8%) in the EU28 was self-employed in 2017. The dominant form of self-employment is own-account work, which was reported by every tenth (9.9%) person in paid work. While the total share of self-employed workers declined from 14.3% in 2008 to 13.8% in 2017, the incidence of self-employment without employees remained at the same level.

Finally, in 2017, 4.2% of EU28 workers (an equivalent of 9.3 million people) reported holding multiple jobs, which constitutes an important form of atypical employment in most economies. This was a slight increase from 2008, when 8.8 million people worked more than one job.

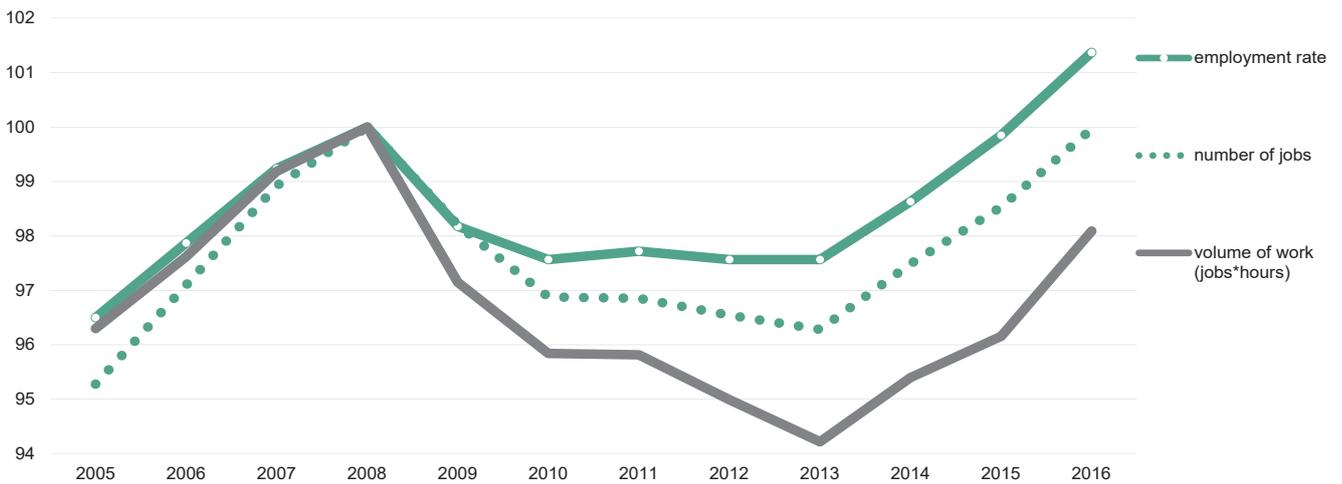
# Developments in employment

**Figure 2.2 Employment rates across EU countries (2008Q2, 2013Q2, 2017Q2)**



Source: Eurostat [lfsq\_ergaed].  
 Note: Data are for the 15-64 age group.

**Figure 2.3 Comparison of changes in employment rate, number of jobs and volume of work over 2005-2016 period (EU28) (2008=100)**



Source: Eurostat [lfsa\_ergan], [lfsa\_egan], [lfsa\_ewhais], own calculations.

## The lasting impact of the crisis

By 2017, the EU28 employment rate had caught up with its pre-crisis levels. However, the situation varied substantially across countries (Figure 2.2). In 10 EU countries, employment rates in 2017 remained below 2008 levels, by the widest margin in Greece

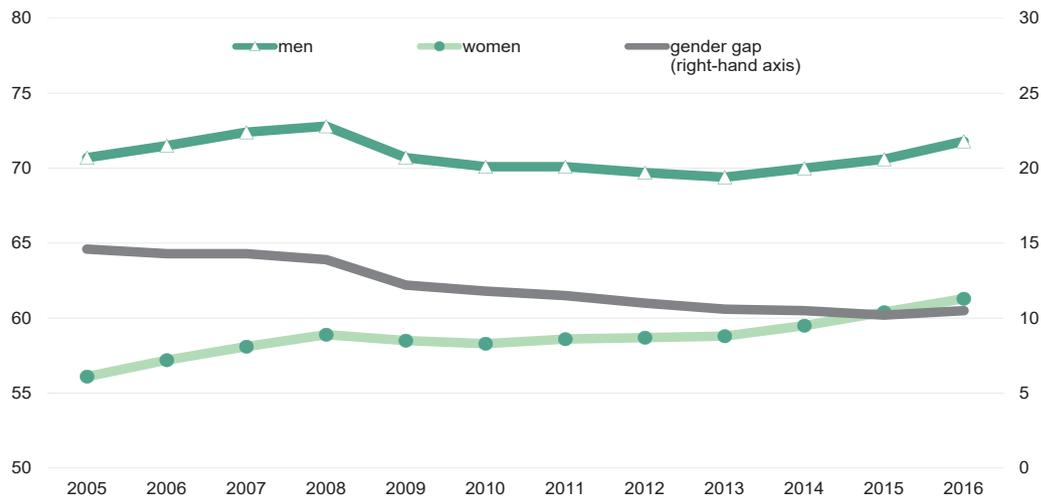
(-7.8pp), Cyprus, Spain and Denmark. The biggest improvement was noted in Hungary (+11.8pp) and Malta. A wide divergence in employment rates across EU countries largely persisted, with Sweden, the Netherlands, Germany and the UK having the highest population shares in work in 2017, while Greece, Italy, Croatia and Spain were at the bottom of the ranking.

The crisis brought about not only job shedding, but also a more pronounced decline in the total volume of work (measured by a total number

of paid working hours of all persons in employment; see Figure 2.3). In 2016, the volume of work remained 2pp below the 2008 levels. Moreover, if we measure the recovery by the number of jobs, not the share of people in work, a less optimistic picture is revealed. This difference is due to the decline in the size of the EU population.

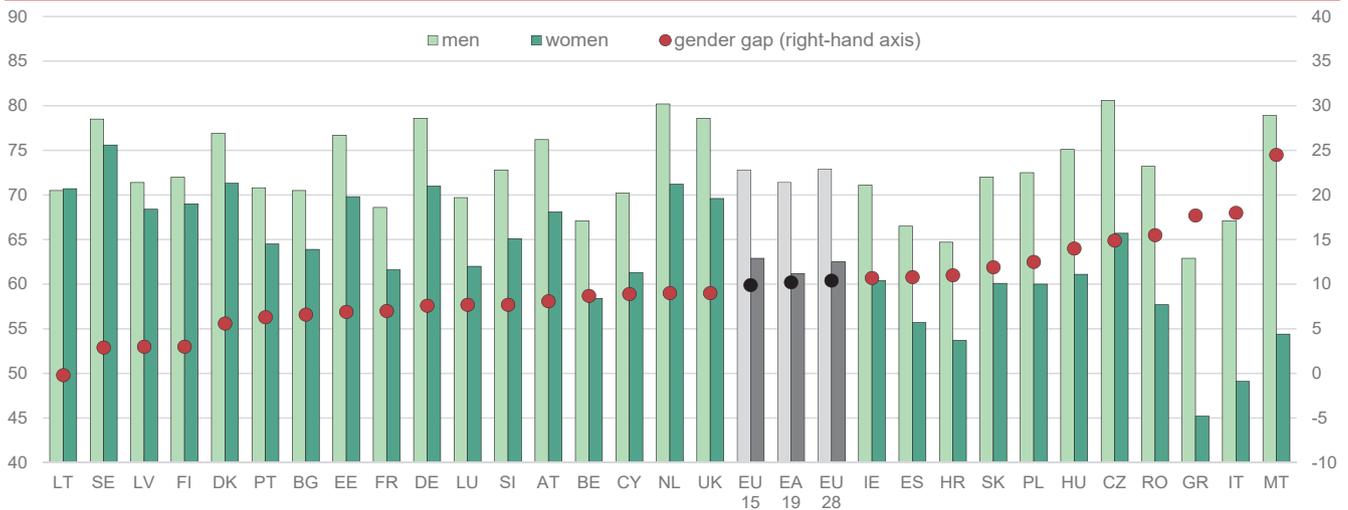
# Gender inequality in employment

Figure 2.4 Employment rate by gender, and gender employment gap (EU28) (2005-2016)



Source: Eurostat [lfsq\_ergan].

Figure 2.5 Employment rates by gender, and gender employment gap, by country (2017Q2)



Source: Eurostat [lfsq\_ergan].

## Female employment rate still an issue

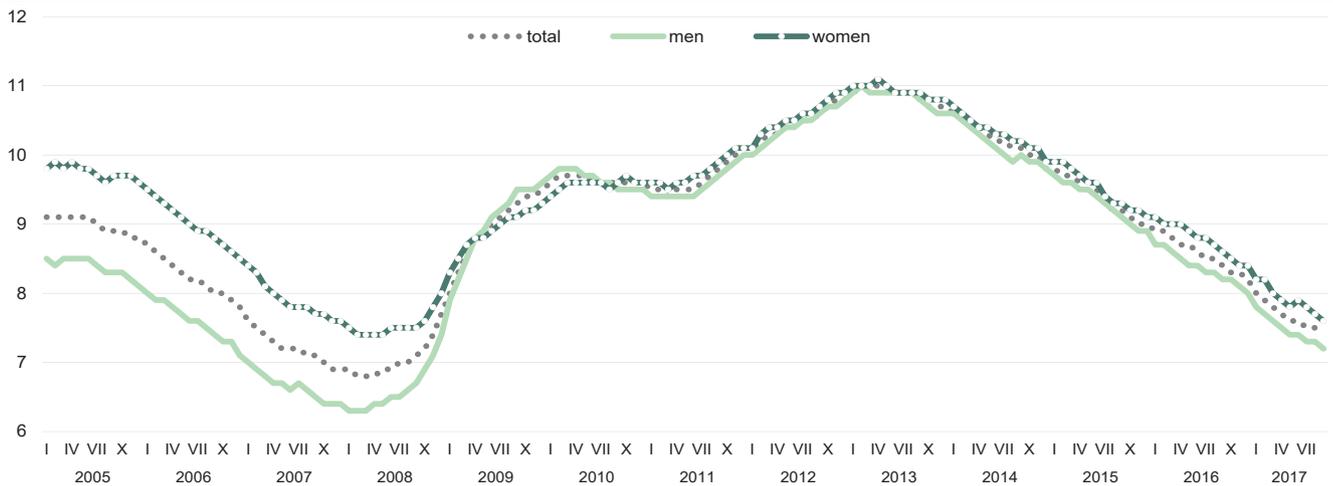
The gender employment gap tends to be the headline indicator used to assess gender equality in employment. The focus on the gap assumes that the narrowing of it is an irrefutably positive

development, indicating that women are catching up with men. Figure 2.4 shows that the reduction in the gender employment gap before the crisis was indeed mainly achieved by a faster growth in employment among women. After the onset of the crisis, however, the narrowing of the gap at the EU level was driven by the declining employment rate among men, which can hardly be regarded as a positive development. When job creation at the EU level resumed after 2013, the gender gap remained fairly stable. However, the EU average masks

a very different reality regarding the position of women in the labour market in individual Member States (Figure 2.5). The gender gap in 2017 was the widest in Malta (24.5pp), Italy (18pp) and Greece (17.7pp), while it was close to zero in Lithuania, and at around 3pp in Sweden, Latvia and Finland. Countries with the widest gender gap also have the lowest employment rates for women in the EU.

## Developments in unemployment

**Figure 2.6 Unemployment rate by gender (EU28) (2005-2017)**



Source: Eurostat [une\_rt\_m].

Note: Data seasonally adjusted, for the 15-74 age group.

**Figure 2.7 Unemployment rate by country (2008Q2, 2013Q2, 2017Q2)**



Source: Eurostat [lfsq\_urgan].

Note: Data are for the 15-74 age group.

### Unemployment down in most of the EU

After the onset of the crisis, in the first half of 2008 the unemployment rate in the EU28 was at a level of 6.8%. It then peaked in 2010 (at 9.7%) and again in 2013 (at 11%) (Figure 2.6). Since 2013, it

has seen a steady decline, falling to 7.4% in September 2017. Before the crisis, the unemployment rate among women was persistently higher compared to men, by about 1.5pp. As unemployment increased more among men, the gender gap in unemployment rates completely closed during the crisis years. However, since unemployment rates started to fall in 2013, we can observe a return of the old pattern, with female unemployment once again at a higher level than that of men.

Between 2013 and 2017, the unemployment rate fell in all EU countries,

except in Austria and Finland (Figure 2.7). In 2017, the lowest unemployment rates were noted in Czechia (3%), Germany (3.8%) and Malta (4.1%). This contrasts with the still extremely high (despite a decline after 2013) unemployment levels in Greece (21.2%) and Spain (17.2%), followed by Italy, Croatia and Cyprus, all with unemployment rates above 10%.

## Developments in unemployment

**Figure 2.8 Labour market slack in EU Member States (2008Q2, 2013Q2 and 2017Q2) (percentage of actual and potential additional labour force)**



Source: Own calculations using Eurostat LFS data (lfsq\_ugan, lfsq\_sup\_age).

### Labour market slack remains high

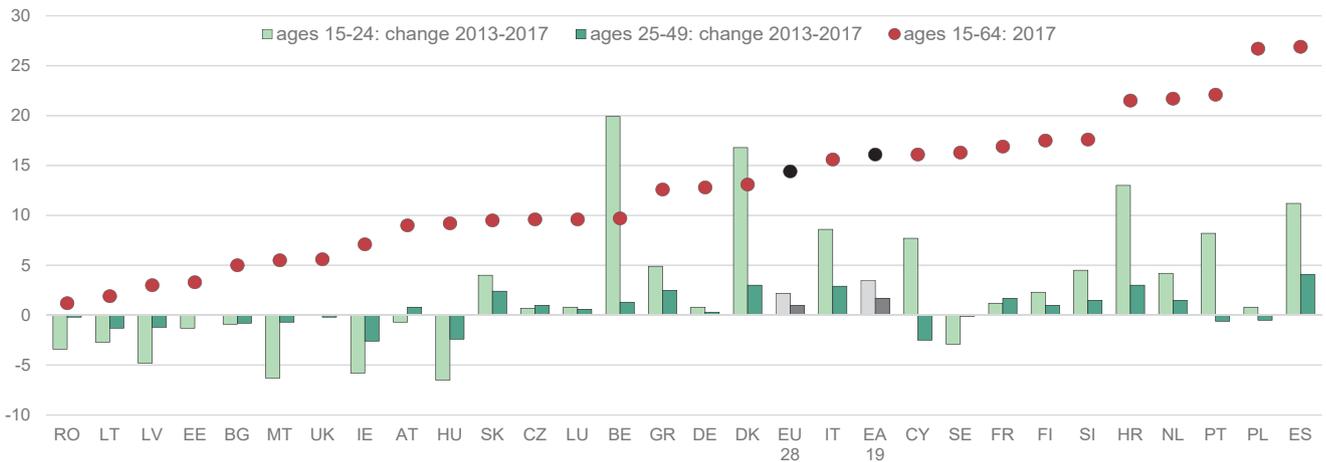
The underutilisation of labour, or what is often called 'labour market slack', has been greater in the context of the current recovery than what the classic unemployment rate measure would suggest. Figure 2.8 illustrates an extended measure of labour market slack, considering, in addition to the number of unemployed workers, the underemployed: that is, the number of part-time workers who would prefer to work full-time and are available to work more hours (see also the analysis under Figure 2.19 for another manifestation of underemployment) as well as those 'loosely attached to the labour market'. The latter group, referred to as the 'potential additional labour force', consists of two sub-groups: those seeking employment but who are not immediately available to start working and those immediately available to start working but not seeking employment (or 'discouraged workers'). Individuals in the potential additional labour force have characteristics that do not allow them to be classified as unemployed and thus be counted in the labour force, but are also more active than those classified

as the 'inactive' population. We calculate labour market slack as the sum of people falling under each of the above categories (underemployed, unemployed, and loosely attached to the labour market) expressed as a share of the extended labour force, which, in addition to those employed and unemployed, also includes those loosely attached to the labour market.

Labour market slack in the EU28 was 14% in 2008Q2, peaked at 19.3% in 2013Q2 and had declined to 16.6% by 2017Q2, which was still higher than in 2010 and double the unemployment rate in the same quarter. Figure 2.8 shows the labour market slack for EU Member States in the second quarters of 2008, 2013 and 2016. We see that large differences in labour market slack among Member States persist, with Greece, Spain, Italy, Cyprus, Finland and Croatia showing an underutilisation of 20% or more of their extended labour force in 2017Q2, while at the other end of the spectrum Malta and Czechia had a labour market slack of around only 5% in 2017Q2.

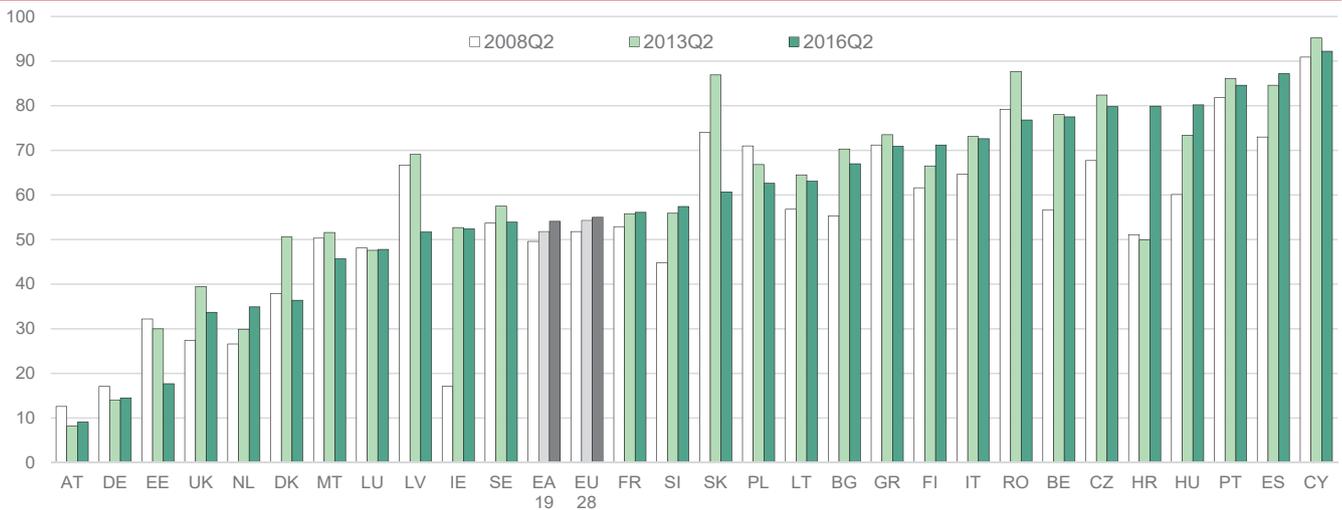
# Temporary employment

**Figure 2.9 Temporary employment rates: change in percentage points over 2013-2017 period, and rate in 2017, by country and by age (comparisons of second quarters)**



Source: Eurostat [lfsq\_etpga].

**Figure 2.10 Involuntary temporary employment rate, by country (2008Q2, 2013Q2, 2016Q2)**



Source: Eurostat [lfsa\_etgar].

## Temporary work on the rise

The use of temporary employment differs greatly across the EU. In Poland and Spain, more than a quarter of all workers had a contract of limited duration in 2017 (Figure 2.9). In Portugal, the Netherlands and Croatia, the temporary employment rate was well above 20%. On the other

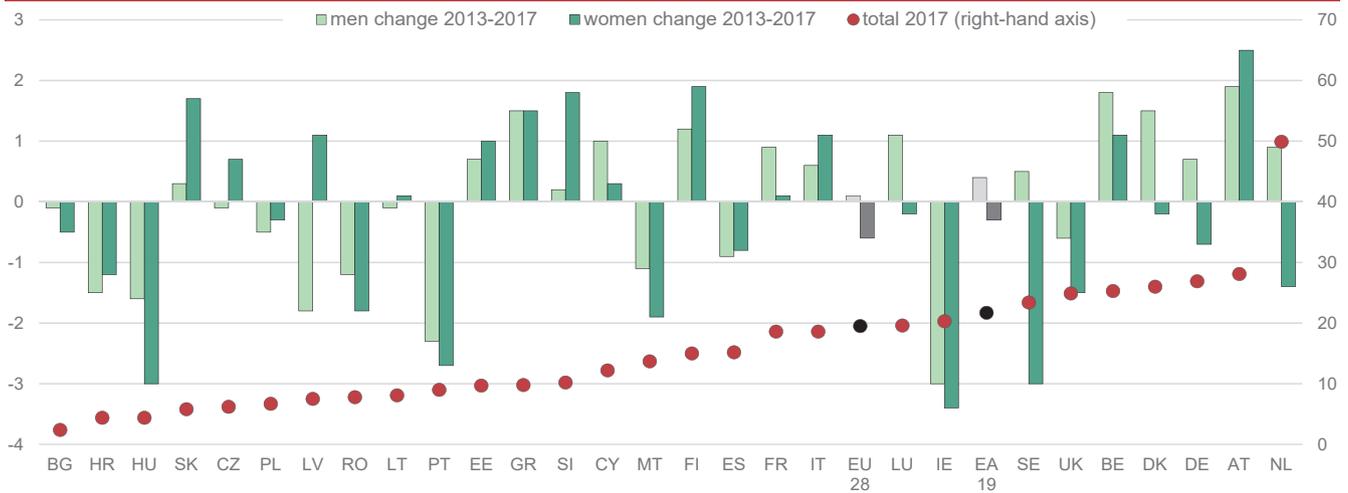
hand, there was scant use of fixed-term contracts in Romania and the Baltic States, all with rates below 5%. What most EU countries have in common, though, is an increase in the share of temporary work in recent years. Between 2013 and 2017, the increase was most pronounced among young people aged 15-24. This was particularly the case in Denmark, Croatia, Spain and Portugal. A tremendous increase of 20pp in Belgium is the result of a sharp decline in the number of young people in employment coinciding with the number of temporary

jobs remaining at a stable and relatively high level.

Temporary employment in the EU is mostly an employer-oriented solution, with 55% of these positions filled involuntarily; that is, due to the unavailability of permanent jobs. In Czechia, Croatia, Hungary, Portugal, Spain and Cyprus, the involuntary rate reaches 80% or more (Figure 2.10). Across the whole EU, the incidence of involuntary temporary work tends to be higher in countries with higher unemployment rates.

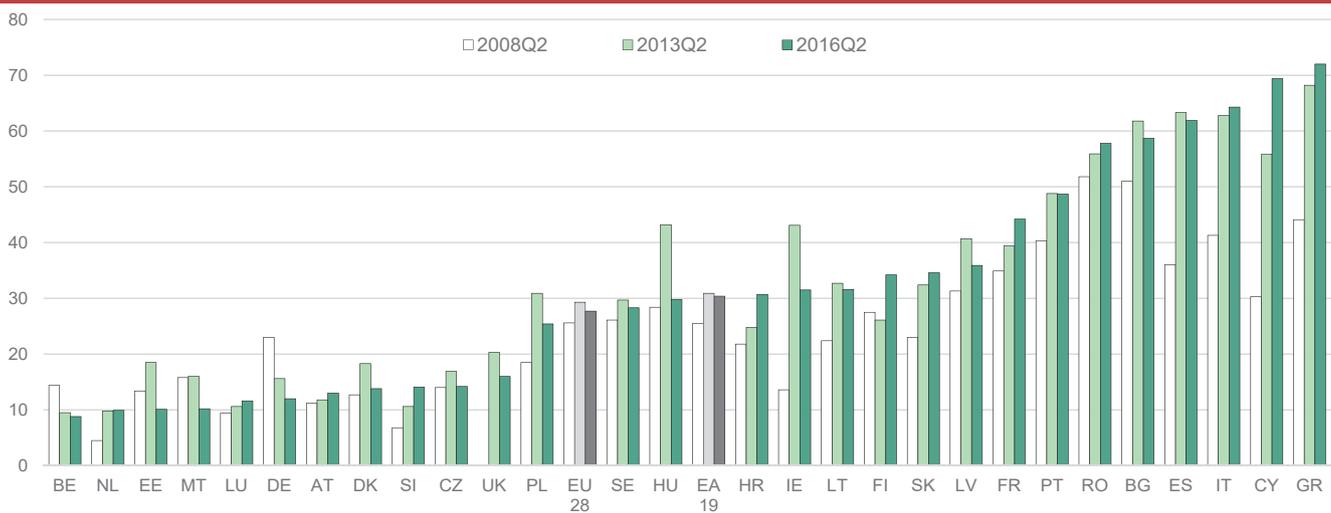
# Part-time employment

**Figure 2.11 Part-time employment rates: change in percentage points over 2013-2017 period for both genders, and rate in 2017 for total population, by country (comparisons of second quarters)**



Source: Eurostat [lfsq\_eppga].

**Figure 2.12 Involuntary part-time employment rate, by country (2008Q2, 2013Q2, 2016Q2)**



Source: Eurostat [lfsa\_epgar].

## More men being pushed into part-time work

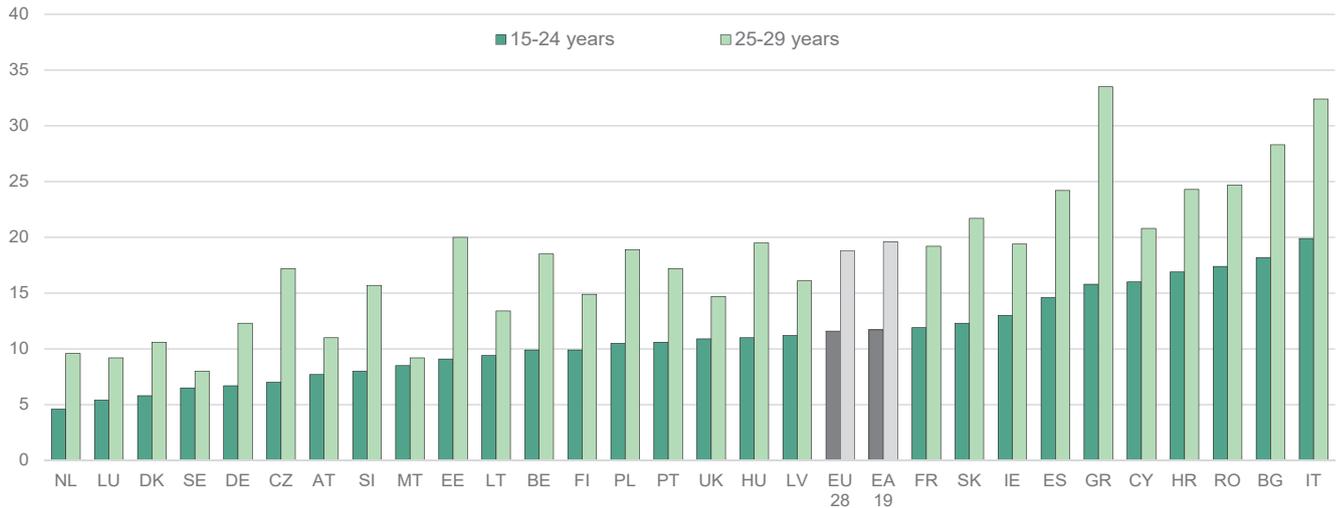
Developments in part-time work have not been uniform across the EU. Despite the average part-time rate remaining relatively stable between 2013 and 2017 at the EU28 level, in 13 countries it

increased, while declining in another 13 (Figure 2.11). The biggest increases were noted in Austria (+2.2pp), followed by Greece and Belgium. Interestingly, in the past three years the part-time rate increased more among men than women in the EU. This pattern was particularly visible in the Netherlands, Germany, Denmark, Belgium, Sweden, Luxembourg, France and Cyprus. Nevertheless, part-time employment remains a female-dominated form of work, raising concerns about women's financial dependence within households,

an unequal division of unpaid work, and a life-long penalty in pensions. The Netherlands are an outlier with by far the highest part-time employment rate in the EU: 27% among men and a striking 76% among women. However, only about one in ten workers would rather have a full-time job in this country (Figure 2.12). This contrasts with a much higher incidence of involuntary part-time work in Greece (72%), Cyprus, Italy or Spain. This highlights the inherently different labour market position of atypical workers in the southern countries.

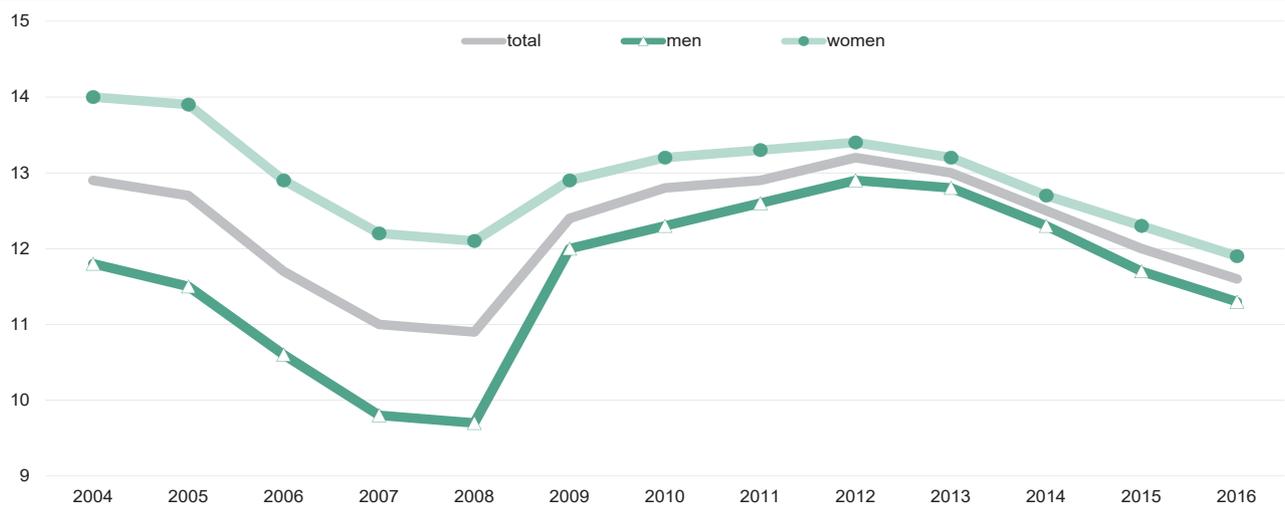
# Youth

Figure 2.13 NEET rate by country and by age (2016)



Source: Eurostat [yth\_empl\_150].

Figure 2.14 NEET rate in the EU28, by gender (ages 15-24) (2005-2016)



Source: Eurostat [yth\_empl\_150].

## Polarisation in NEET rates

NEET refers to young people that are ‘not in employment, education or training’. In the EU28, more than one in ten young persons aged 15-24 (11.6%) and nearly one in five aged 25-29 (18.8%) fell into this group in 2016. The NEET rate for the younger age group was the highest

in Italy (19.9%), Bulgaria (18.2%) and Romania (17.4%), and the lowest in the Netherlands (4.6%), Luxembourg (5.4%) and Denmark (5.8%) (Figure 2.13). In each EU country, the risk of being outside of education and employment was higher for young adults, aged 25-29, than for the younger group, aged 15-24. By far the worst outcome was noted in Greece, with one in three young adults (33.5%) falling into the NEET category. The NEET rate for the EU increased steeply after 2008, reaching its highest point in 2012 (13.2% for the 15-24 age group) (Figure 2.14). It

then started to recover, but in 2016 was still above the 2008 level. The gender gap in the NEET rate narrowed substantially after 2008, due to much higher increases among young men, but in the recent period the gap widened again.

# Youth

Figure 2.15 NEETS, by education level, by country (ages 15-24) (2016)

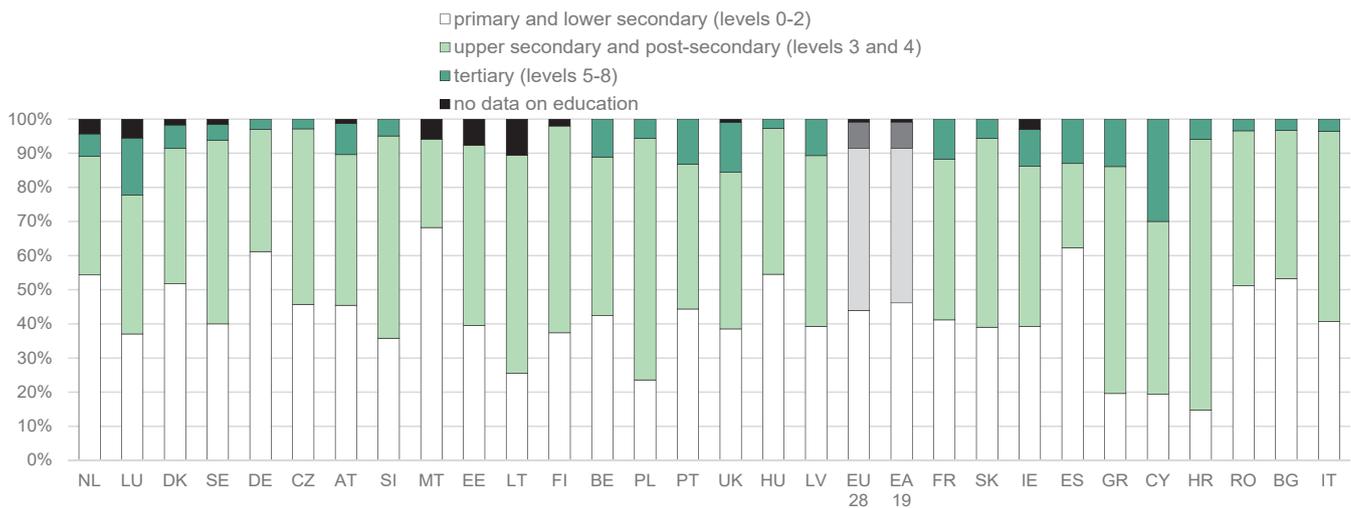
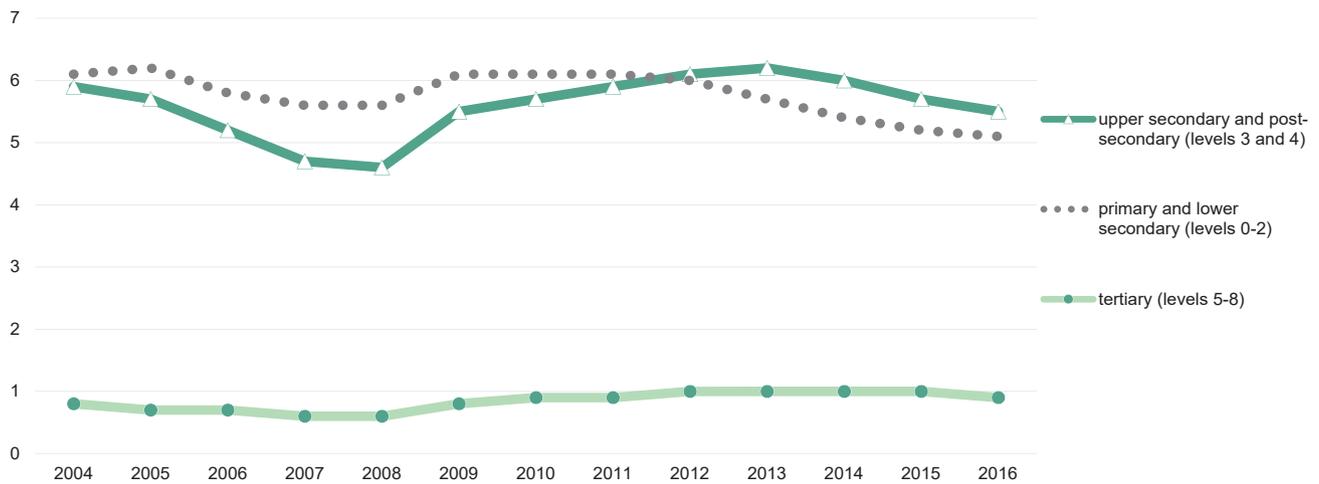


Figure 2.16 NEETS by education level in EU28 (ages 15-24) (change over 2005-2016 period)



## Heterogeneity of NEETs

Young people who are not in employment, education or training form a very heterogeneous group, with a wide range of characteristics and needs. At the EU level, the largest share of NEETs is composed of persons with an upper secondary and post-secondary education, while

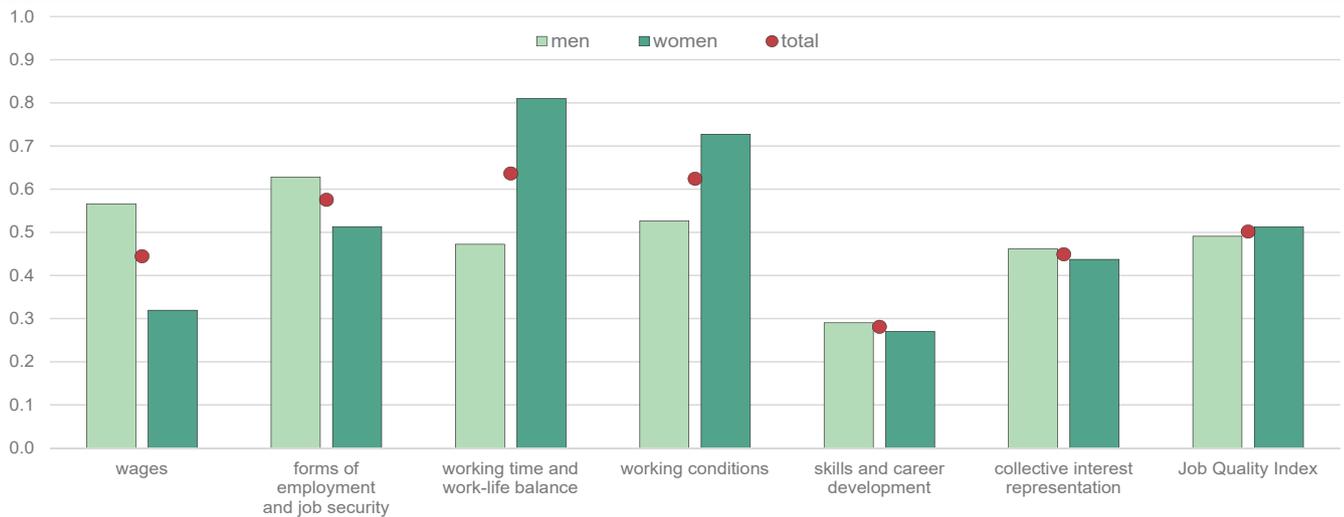
only a small fraction hold a university degree (Figure 2.15). Education thus provides an important protection against unemployment and exclusion for young people. Nevertheless, most southern European countries, as well as the UK and Luxembourg, tend to have a large proportion (more than one in eight) of highly educated young people among the NEET group.

When looking at the evolution of the NEET rates among 15-24-year-olds in the EU, we observe a relative stability in the share of those with the highest

educational attainments, at around 1% in the 2004-2016 period (Figure 2.16). Following the post-2008 crisis, the share of NEETs with lower education levels increased, but then began to decline again in recent years, which might be related to the Youth Guarantee, directed mostly towards the lower skilled.

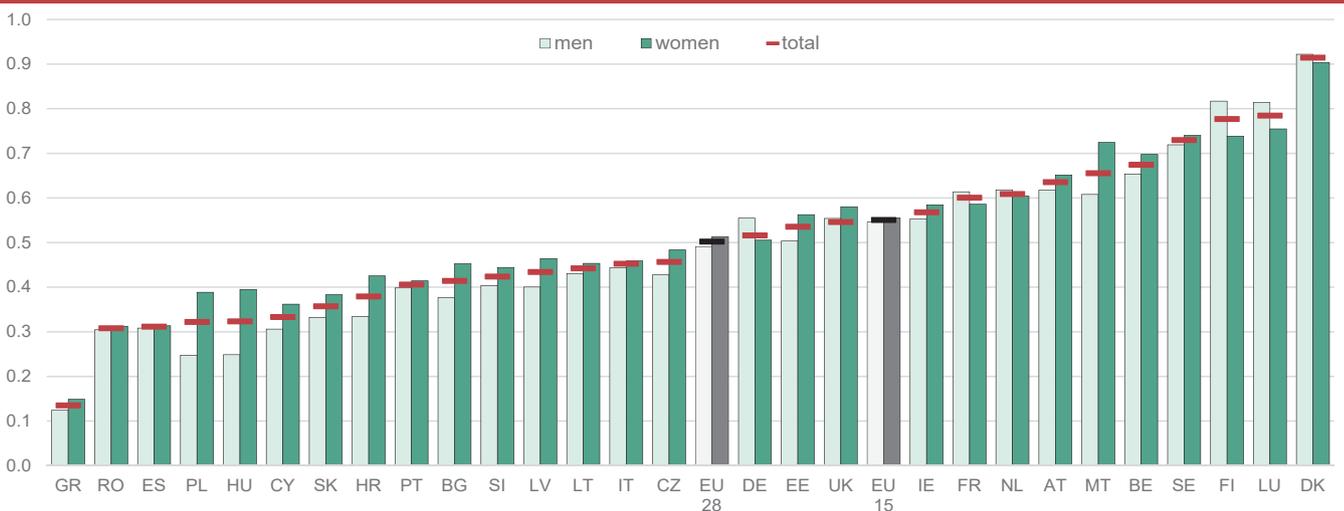
# Job quality

**Figure 2.17 European Job Quality Index and its sub-dimensions, by gender (EU28) (2015)**



Source: Piasna (2017: 10).

**Figure 2.18 European Job Quality Index, by country and by gender (2015)**



Source: Piasna (2017: 26).

## Job quality very uneven

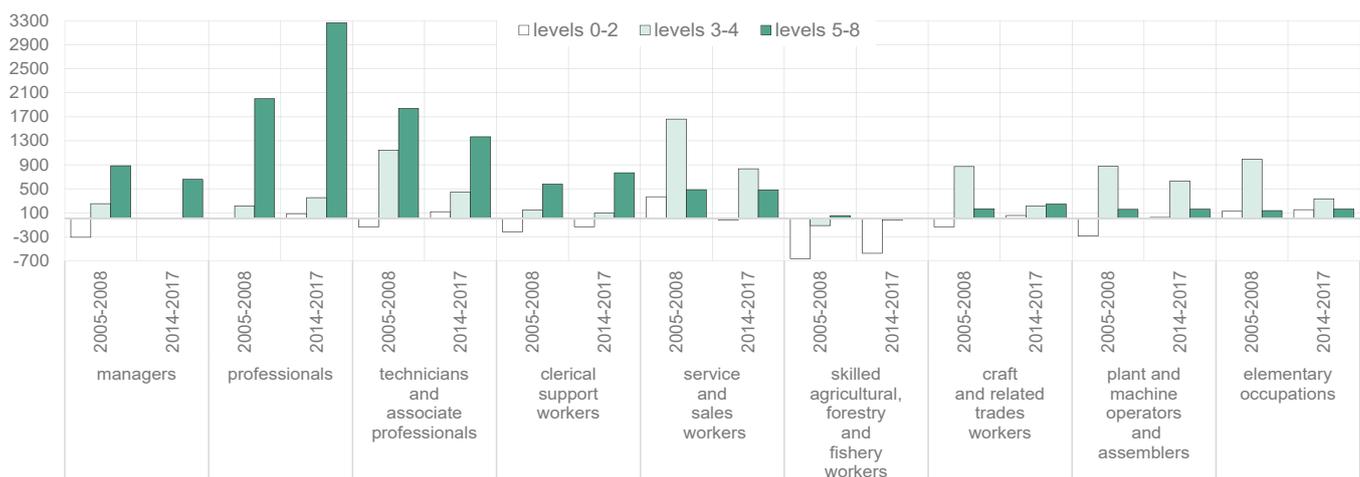
The European Job Quality Index (JQI) shows a wide divergence in the quality of work between groups of workers and across countries (for details see Piasna 2017). Figure 2.17 illustrates the magnitude of the gender gap. Men fare better in terms of wages, forms of

employment and job security. This is driven by a higher share of women in non-standard employment, such as temporary and part-time jobs, as well as a higher rate of involuntary temporary work. Such segregation in non-standard forms of work is one of the factors contributing to the gender wage gap. This contrasts with women’s better quality of working time and working conditions. The latter is mainly related to sectoral gender segregation, with women less likely to be exposed to certain physical risk factors. Job quality is very uneven across the

Member States (Figure 2.18). In 2015, overall job quality was particularly low in Greece, Romania, Spain, Poland and Hungary, while Denmark, Luxembourg, Finland and Sweden were among the top performers. Job quality was lower in post-2004 accession countries compared to the EU15 group. The gender gap also differed substantially between countries, with the most visible advantage for women in Poland, Hungary, Croatia and Malta, and a gap in favour of men in Finland, Luxembourg and Germany.

## Patterns of job growth by skills

Figure 2.19 Job growth by occupation and education level, comparison of two periods, in thousands (EU28)



Source: Eurostat [lfsq\_egised].

Note: levels 0-2: less than primary, primary and lower secondary education; levels 3 and 4: upper secondary and post-secondary non-tertiary education; levels 5-8: tertiary education.

## Skills underutilisation in an employers' labour market

Labour markets in advanced societies are being transformed by technological change, digitalisation and automation. Many commentators predict a loosening of the standard employment relationship, a decline in wages and the replacement of tasks or entire jobs by machines. Such risks tend to be addressed by a focus on building up the resilience of workers through reskilling and upskilling (Brynjolfsson and McAfee 2016). Accordingly, supply-side measures aimed at raising the skills and competences of the workforce have become a policy priority across the EU in recent years (e.g. Council of the European Union 2015; European Commission 2017a). An analysis of job growth patterns suggests that high levels of education indeed provide relative insurance against unemployment. The share of professionals in total employment in the EU increased from 13.7% in 2008 to 19.4% in 2017 (second quarters). In the same period, the number of workers with tertiary education increased

by 17.7 million. This stands in stark contrast to the decline in employment among medium-educated workers (over 2 million) and the steep decline among those with the lowest education levels (by 12.8 million). This trend is not only a reflection of disproportionate job losses among low-skilled workers after 2008, as it has also been in evidence in the most recent years of resumed employment growth.

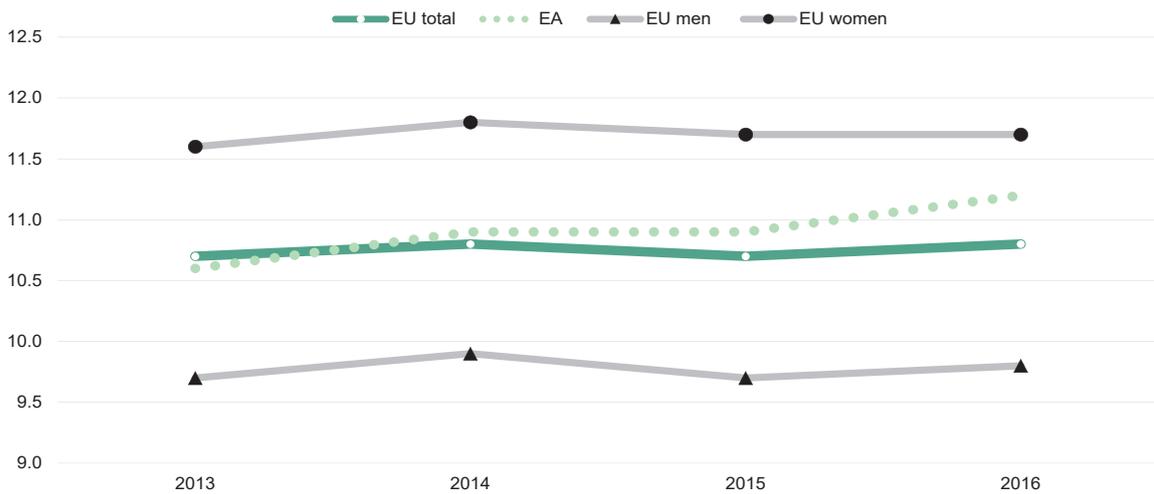
Nevertheless, a supply of highly skilled workers does not necessarily translate into a supply of highly skilled jobs. In fact, the post-crisis EU labour market, with its increased competition for jobs, gave employers an upper hand in the hiring process. We can therefore observe an increase in the number of highly skilled workers in jobs across all occupational grades. This contrasts with the pre-2008 period of net job growth (Figure 2.19). Before the crisis, in the years 2005-2008, job growth across the EU28 in both high- and low-skilled manual as well as routine clerical occupations was mainly driven by medium-skilled workers, with some increases in employment of low-skilled workers in elementary occupations, and service and sales jobs. By contrast, in the recent period of net job growth (2014-2017), a much greater share of new jobs in low-skilled manual occupations (e.g. plant and machine operators), as well as in elementary occupations, was taken up

by highly educated workers. While less than 11% of jobs generated in elementary occupations were filled by highly educated workers in the 2005-2008 period, this increased to 25% in the 2014-2017 period. Moreover, between 2014 and 2017, most of the new positions in routine clerical occupations, agriculture, and skilled manual work were also filled by workers with tertiary education levels.

Therefore, skills mismatch in a changing world of work is not only about skills upgrading and increasing the share of university graduates in the workforce. What we observe, in fact, is a growing supply of highly skilled workers that are compelled to take up jobs with very basic skills requirements, resulting in a substantial skills underutilisation across the EU. It should not be overlooked that in 2015, 28% of employees and 31% of the self-employed in the EU28 reported that they had the skills to cope with more demanding duties than those required by their current job, while only 15% and 12%, respectively, declared that they needed further training to cope well with their duties (sixth European Working Conditions Survey). The flipside of the skills mismatch is thus underemployment, a situation in which workers accept work below their skill and education levels, and employers show a preference for employing those with higher education, even for positions with typically low-skill requirements.

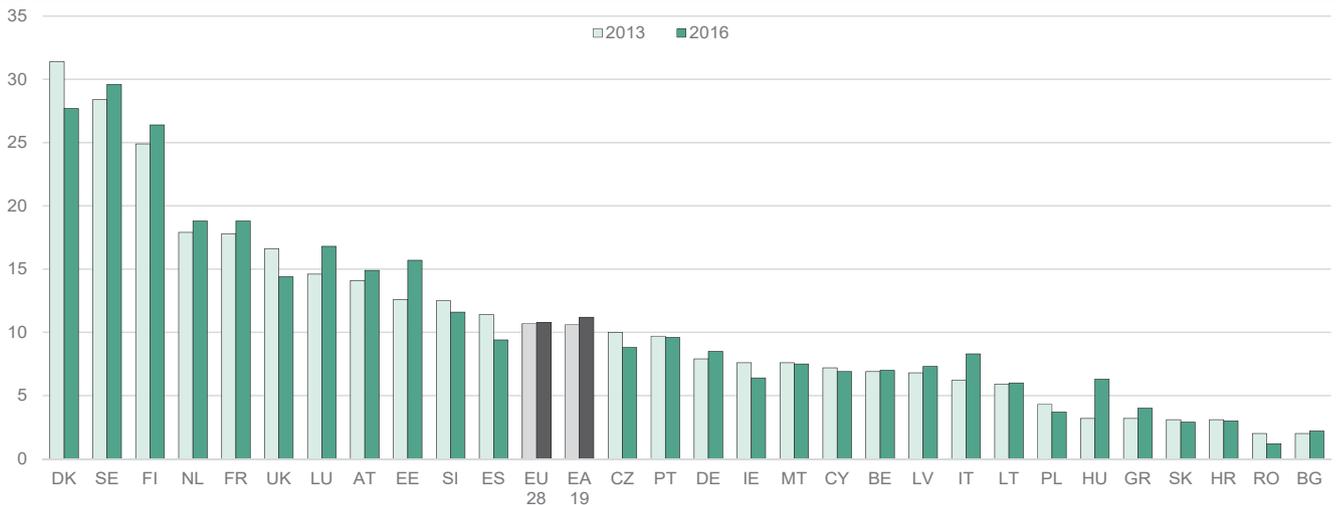
# Lifelong learning policies

**Figure 2.20** Rate of participation in education and training in the EU28 (total, men and women) and euro area (2013-2016)



Source: Eurostat (trng\_lfse\_01 series).

**Figure 2.21** Rate of participation in education and training (EU28, EA19 and EU Member States) (2013 and 2016)



Source: Eurostat (trng\_lfse\_01).

## Adult access to lifelong learning programmes

Figures 2.20 and 2.21 show the evolution of adult access to lifelong learning programmes between 2013 and 2016 in the EU (for the total, male and female populations) and the euro area as well

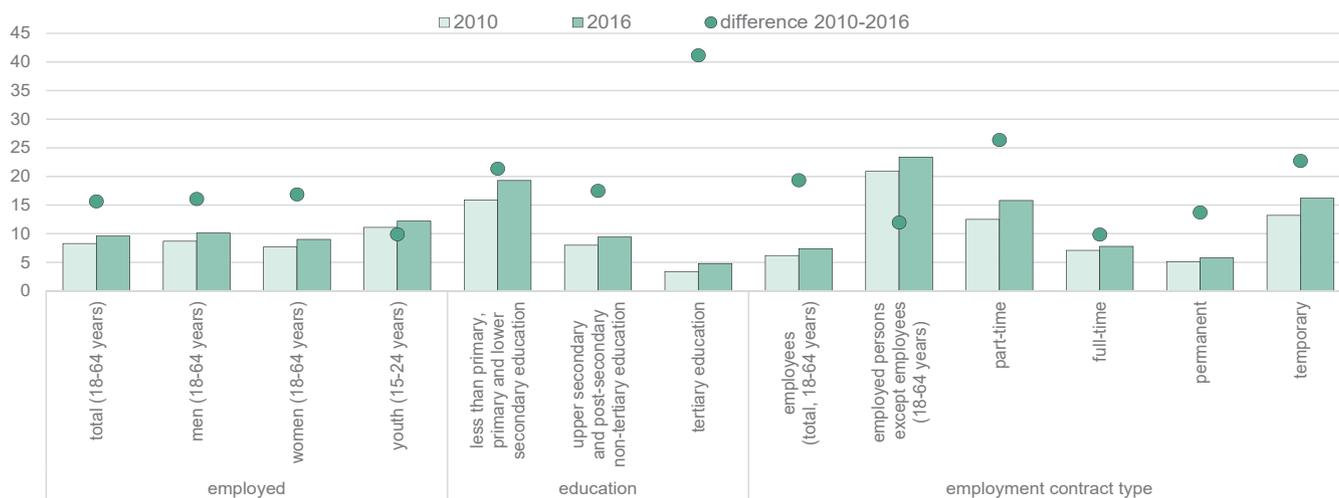
as in specific Member States. On average, adult women in the EU have higher participation rates in lifelong learning programmes than men, while the average total participation rates in these programmes have recently been higher in the euro area than in the EU.

In recent years there has been a large disparity in adult access to lifelong learning programmes across Member States. At one end of the spectrum, we find the Scandinavian countries, the Netherlands, France and the UK, and at the other, we find new CEE

and southern Member States. In eight Member States, including both the top performer Denmark and the second-worst performer Romania, participation rates declined between 2013 and 2016, while in another eleven, participation increased, mostly among the relatively high spenders but also in Germany, Italy and Greece.

# In-work poverty

Figure 2.22 In-work poverty in EU28 for different employment statuses, genders and age groups (% of population)



Source: Own calculations based on EU-SILC data (ilc\_iw01, ilc\_iw04, ilc\_iw07, ilc\_iw05).

## In-work poverty peaked

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

then, is whether we can observe any indications of shifts in the in-work poverty rate that may suggest an association with changes in the labour market or in social and fiscal policy.

In-work poverty for employed people aged 18-64 was 9.6% in 2016, virtually at the same level as in 2015, and with a relative increase of 15.7% since 2010. Although the in-work poverty risk for employed males aged 18-64 was slightly higher than that for females in both 2010 and 2016, the relative change in the risk between 2010 and 2015 was somewhat higher for women (17%) than for men (16%). At 12.2%, employed people aged 15-24 faced a higher in-work poverty risk than those aged 18-64 in 2016, although the relative increase in that risk since 2010 was 10%.

Figure 2.21 shows that the highest risk of in-work poverty in both 2010 and 2016 was faced by the self-employed (employed persons aged 18-64 excluding employees). At 21% in 2010 and at 23.4% in 2016, it was more than half the average in-work poverty risk for all employed people and more than three times higher than that of employees aged 18-64. The in-work risk for the latter was 19.4% higher in 2016 than in 2010, in contrast to the self-employed, where there was only a difference of 12% between the two years.

Persons with only lower (that is, pre-primary, primary and lower secondary)

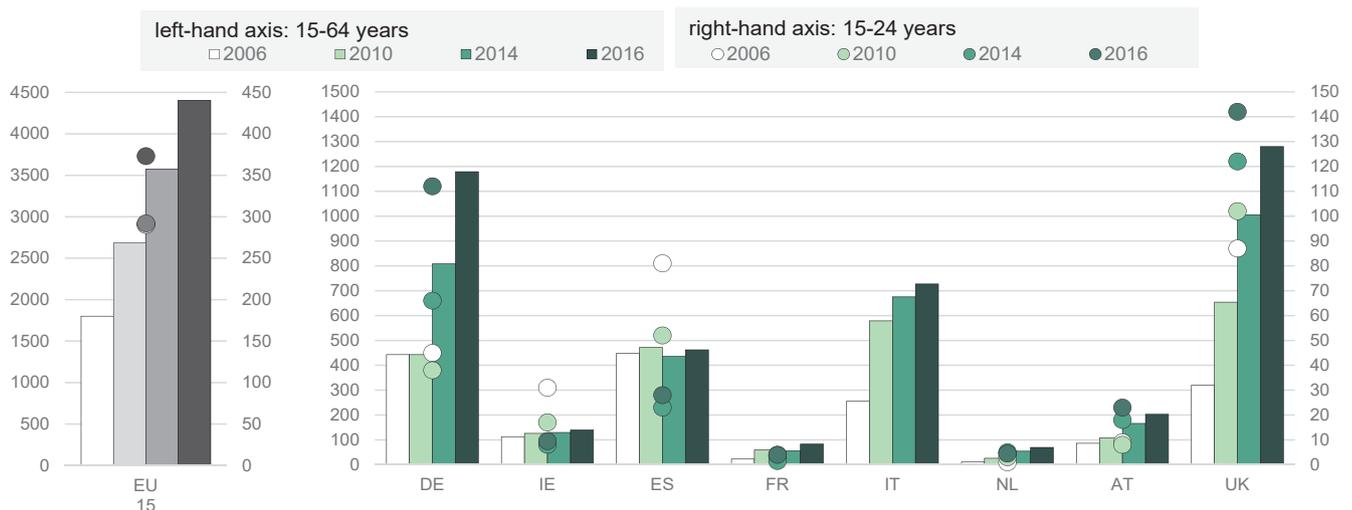
education levels, those employed under temporary contracts, and the part-time employed faced the highest in-work poverty risk among those in employment.

Other things being equal, higher educational attainment has been associated with a lower in-work risk of poverty, although the in-work poverty risk did increase across all groups of educational attainment between 2010 and 2016. However, for those with the highest qualifications the risk was 41.2% higher in 2016 than in 2010, a relatively greater change than for all other qualification level groups and categories of employed people.

Comparing typical and atypical forms of employment, the in-work risk of poverty for those working part-time and under temporary contracts was not only higher than for those working full-time and under permanent contracts (both in 2010 and in 2016) but also rose by a higher percentage between these two years, showing the increased precarity linked with atypical employment.

## Mobile workers in the EU: challenges posed by slowed-down wage convergence

Figure 2.23 Employment of EU13 mobile workers in selected EU15 countries for the 15-64 and 15-24 age groups (thousands)



Source: Eurostat [lfsa\_egan]. Note: data for the age group 15-24 not available for Italy.

### EU13 mobile workers concentrated in a few countries

According to Eurostat, in 2016 11.7 million EU28 citizens of working age (15-64) were living in another EU Member State (3.7% of the total working-age population of the EU28), while 8.5 million were employed or were looking for work (3.6% of the total active population of the EU28).

Although the trend is increasing, intra-EU labour mobility remains far behind the mobility between states in the United States. According to the OECD (2016), yearly labour flows between US states (2.3% of the total population) were seven times higher than between EU Member States (0.35%).

Out of the 8.5 million EU28 mobile workers, 4.4 million were from new Member States (EU13), and therefore substantially overrepresented compared to their population share in the EU.

Figure 2.21 shows the evolution of the numbers of EU13 mobile workers in the EU15 and in individual, major EU15 Member States between 2006 and 2016 for the 15-64 and 15-24 age groups. There

was a continuous increase in the number of EU13 mobile workers in the EU15, from 1.8 million in 2006 to 4.4 million by 2016 for the working age population (15-64 years). For the 15-24 age group the increase was from 291,000 in 2006 to 373,000 by 2016. It should be noted that the number of EU13 workers in this age group had been stagnating until 2014 (292,000). The distribution of EU13 workers within the EU15 shows a concentration within a small number of Member States, although with rather different dynamics developing in each of the receiving countries. The UK takes the lead both for the entire EU13 working age population and for young workers (1.28 million and 142,000, respectively, in 2016). With higher rates of increase, Germany is catching up (1.18 million and 112,000). Italy and Spain had, respectively, 727,000 and 462,000 EU13 workers of working age in 2016 (for Italy no data are available for the 15-24 age group). While the numbers of EU13 workers increased each year in Italy, for Spain their numbers have been stagnating since 2006. It is noteworthy that the number of young EU13 workers in Spain reduced considerably over this period. Austria and Ireland still have considerable numbers of EU13 workers, while among the EU15 countries, France has one of the lowest shares of EU13 workers in total employment.

The east-west mobility of workers in Europe keeps on growing year by

year, despite the substantially reduced unemployment rates in most EU13 Member States, many of which are showing signs of labour shortages.

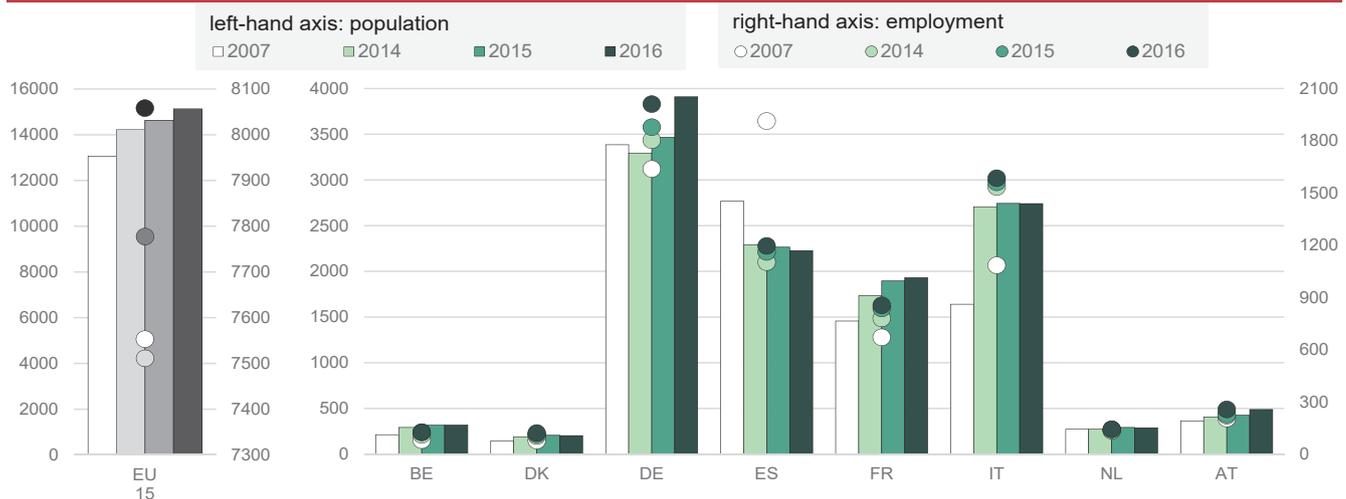
Labour market tensions in the EU13 pose a serious challenge for these countries, in particular in labour market segments with medium and higher skills needs.

It is a further challenge of intra-EU labour mobility that there is still a high share of EU13 mobile workers carrying out low-skilled jobs. According to a report of the European Commission (2017b), the share of recent EU13 mobile workers reporting to be being over-qualified for their jobs is significantly higher (37%) than that of nationals (20%). Lack of language skills in the host country appears to be the main (known) obstacle to getting a job among all mobile workers, followed by a lack of recognition of their qualifications (especially for EU13 mobile workers).

More upward convergence – particularly wage convergence between poorer and richer Member States – is necessary for a more balanced pattern of intra-EU labour mobility. Moreover, further efforts need to be made regarding the mutual recognition of qualifications between Member States.

## Only three Member States show some progress in the labour market integration of refugees

Figure 2.24 Non-EU28 population and employment in selected Member States (15-64 years, in thousands)



Source: Eurostat [ifsa\_egan], 2017.

### Fewer arrivals, but slow integration in labour markets

The historic refugee wave the EU was facing in 2015/2016 substantially receded in 2017. While in 2015 the International Organisation for Migration (IOM) recorded 1,015,078 arrivals of irregular migrants and refugees to Europe, during 2016 their number fell to 387,895 and in 2017 was down to 184,170 (IOM 2018). Although no comprehensive EU policy framework to face the challenge was put in place, the closure of the Western Balkans route meant that the smaller wave of refugee arrivals was concentrated on the central Mediterranean route. The quota system to reallocate asylum seekers among Member States more evenly could not be implemented because of the refusal by a number of Member States.

According to the European Commission (2018), 31,502 asylum seekers have been relocated from Greece and Italy as of 3 November 2017 out of the 106,000 originally foreseen. In Greece, no person who arrived after 20 March 2016 has been referred and submitted for relocation, resulting in a huge pressure on Greek authorities. The total number of

people returned to Turkey in accordance with the EU-Turkey Statement was 2,078 by the end of 2017.

As there is always a time lag with registrations of asylum seekers, first-time registrations peaked in the first half of 2016, since which time their numbers have been in sharp decline in the EU generally and in most of the Member States. While the number of registrations was at 1.3 million in 2016, this dropped to 670,000 within the first nine months of 2017. Germany saw the sharpest decline, from 748,000 to 142,000, but Italy saw an increase from 111,000 to 141,000, and Greece from 38,000 to 62,000.

The pattern has nevertheless remained the same: asylum seekers are still concentrated in a small number of Member States. The big challenge for these countries will be the labour market integration of refugees and those asylum seekers that are eligible for employment. Based on Eurostat data, Figure 2.22 shows the number of non-EU28 citizens of working age and then, of those, the number who have been in employment for the past couple of years in the most important Member States. These figures are indicative, as they include all non-EU nationals, not only refugees, but they do provide a maximum value. The figures also demonstrate that in none of the Member States except Germany, Austria and Sweden did the number of non-EU nationals in employment noticeably grow

between 2014 and 2016. In Germany the number of non-EU citizens in employment grew by 440,000 in 2016, in Austria by 63,000, and in Sweden by 38,000, together making up a figure higher than the 510,000-total employment increase of non-EU28 nationals in the entire EU. This can be explained by the fact that in Belgium, the Netherlands, Denmark and Spain, the number of non-EU28 nationals in employment decreased somewhat in 2016. These data indicate that in all but three EU Member States the labour market absorption of the large number of refugees that arrived in the past three years has hardly begun.

National data available for Germany – one of those three Member States that show progress in the labour market integration of refugees – demonstrate that this process has several stages and takes time. In February 2017, around 455,000 refugees, asylum seekers and tolerated persons were registered at the German Federal Employment Agency as searching for work. Most of these persons were participating in integration-related measures and 177,700 were registered as unemployed and available for work (OECD 2017). By October 2017, 202,000 persons with nationality of the main countries of origin for refugees were in regular employment, constituting an increase of 62% compared to the same period in 2016 (BAMF 2017).

## Conclusions

- Economic recovery, albeit fragile, has brought about expected improvements in the employment rate and a corresponding decline in unemployment. The headline EU labour market indicators are finally recovering to pre-crisis levels.
- However, a less optimistic outlook emerges from a more careful examination of labour market dynamics, which reveals a persistently depressed labour demand and growing inequalities between and within countries.
- While unemployment has been declining, the underutilisation of labour ('labour market slack') remains high in Europe, and twice as high as the current average unemployment rate.
- We observe an employers' labour market, where employing organisations have an upper hand in imposing less favourable work and employment conditions.
- Workers are being compelled to take up non-standard jobs against their preferences and to do work below their qualification levels. Without the creation of good quality jobs in highly productive sectors, the risk is that the skills potential of the European workforce will be underutilised.
- Non-standard employment is on the rise, raising doubts about the sustainability of employment growth and social protection in the long run.
- Gender gaps in employment have been closing during the crisis through a process of levelling down, not up. Therefore, gender equality remains a challenge, with a return to old patterns in the recent period of employment growth.
- The situation of young people in the labour market remains difficult, with a significant increase in non-standard employment and persistently high NEET rates. After completing education, young adults face great difficulties in entering the labour market and finding stable employment.
- In recent years there has been a large disparity in adult access to lifelong learning programmes across Member States. At one end of the spectrum, we find the Scandinavian countries, the Netherlands, France and the UK, and at the other, we find new CEE and southern Member States, such as Bulgaria, Romania, Slovakia, Croatia, Greece and Italy.
- In-work poverty remains at the high levels it reached during the crisis, painting a particularly grim picture of the precarity involved in atypical forms of employment.
- The historical refugee wave that the EU was facing in 2015/2016 receded substantially in 2017, but no comprehensive EU level policy framework exists. The next big challenge will be the labour market integration of refugees, and only three Member States are showing some early signs of progress in this area.
- The east-west mobility of workers in Europe keeps on growing year by year, even with labour shortages and lower unemployment rates in many EU13 Member States, but EU13 mobile workers still face the large-scale issue of being overqualified for their work. Stalled wage convergence between the east and the west is one of the main reasons for such malfunctioning.



# Developments in social indicators

## Introduction

Social cohesion and convergence have been objectives of the European Union since its creation as the European Economic Community in 1957. While convergence characterised earlier periods up to 2008, especially for the Member States that gradually joined the EU from the 1970s onwards, more recently this process has stalled in certain parts of the EU. What is more, the trust of citizens in the capacity of the EU to foster upwards social convergence has been shaken during the recent crisis, not least due to the consequences of misguided policy responses.

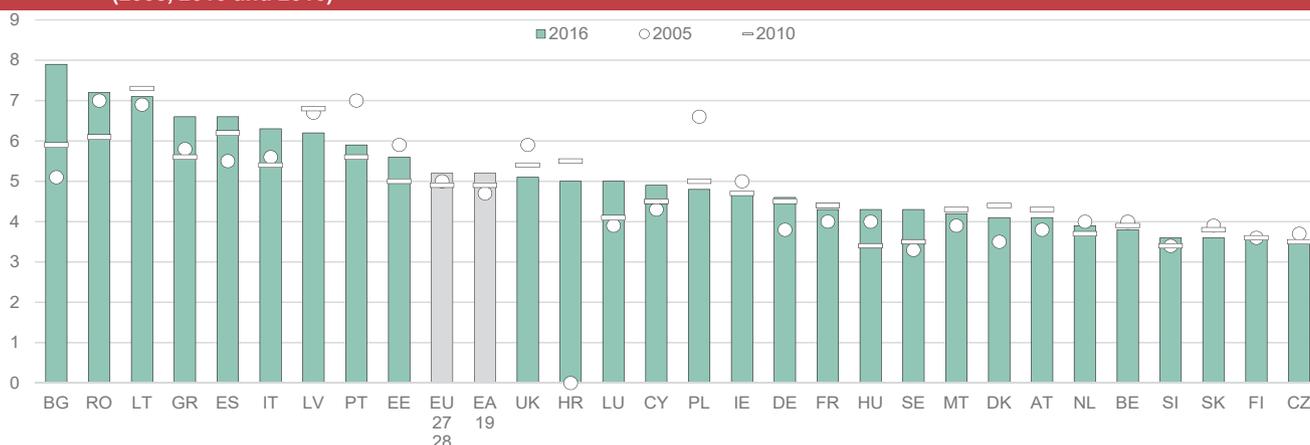
The current European Commission has pledged to win a ‘triple social A’ for Europe (Juncker 2014). The most recent initiative has been the launch of the European Pillar of Social Rights, which provides a compass for establishing common minimum social standards (European Parliament et al. 2017). Along with the Pillar has been the launch of a Social Scoreboard, aimed at guiding policy recommendations to Member States in the context of the European Semester.

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## Income inequality

**Figure 3.1 Inequality of income distribution (income quintile share ratio) (EU27/28, EA19 and Member States) (2005, 2010 and 2016)**



Source: Eurostat EU SILC database (ilc\_di11 series).

Note: Data for Bulgaria are for 2006 instead of 2005; data for Romania are for 2008 instead of 2005; data for Ireland are for 2013 instead of 2016; EU27 data are for 2005, EU 28 after 2010.

## Increasing income inequality

The income quintile (or S80/S20) ratio calculates the ratio of total income received by the 20% (or quintile) of the population with the highest income to that received by the 20% (or quintile) with the lowest income. The higher the income quintile ratio, the higher income inequality is. The EU/EA figures reflect the average of the national S80/S20 ratios, weighted by population size and not the ratio of the top to bottom quintile shares in the EU/EA, which can be expected to be higher, as it would be when also taking into account differences in income distribution between countries.

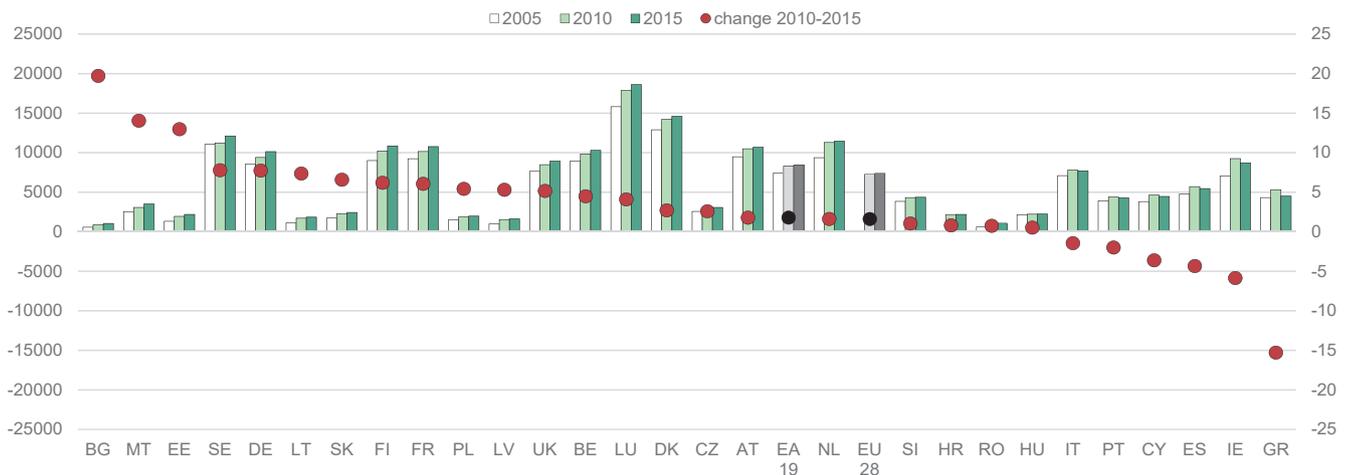
The inequality of income distribution in the EU28 (EU27 for 2005, for which there is no data available for Croatia) has increased since 2005, and after 2010 the richest 20% of the population earned at least five times more than the poorest 20% (see Figure 3.1). Income inequality rose more in the EA19 than it did in the EU28 between 2005 and 2016. There have been large variations across countries (see Figure 3.1). In Czechia, Slovakia, Slovenia, Finland and Belgium the income quintile ratio in 2016 was 3.5-3.6 whereas in Bulgaria it was 7.9, in

Romania 7.2 and in Lithuania 7.1. What is interesting is that in the EA19, on average, the S80/S20 ratio remained stable during the early years of the crisis (2008-9) and started increasing from 2010 onwards, when there was a shift in EU/EA policies towards fiscal austerity. The indicator has not changed since 2014.

There is evidence of non-negligible increases in income inequality between 2005 and 2016 in specific Member States, such as Bulgaria, Sweden and Luxembourg, among others, and between 2010 and 2016, income inequality also rose substantially in Italy, Greece, Hungary and Romania. By contrast, between 2005 and 2016, income inequality declined in Poland. The coefficient of variation (based on the EU27/28 weighted average) suggests that while divergence in income inequality within the EU28 was lower in 2013 compared to 2005 (21.6 vs. 25%), it increased from 2013 to 2016 (23.7%).

## Social protection policies

**Figure 3.2 Public social expenditure (euros per inhabitant) and change 2010-2015 (% , right-hand axis) in the EU28, EA19 and Member States (2005, 2010, 2015)**



Source: Own calculations using Eurostat data (spr\_exp\_sum).

### Diverse developments in social protection spending

Public social expenditure (at 2010 prices) per inhabitant was higher in 2015 compared to 2005 in all Member States (no 2005 data available for Croatia). However, the evolution of social expenditure per inhabitant differed between the 2005-2010 and 2010-2015 periods. While it increased everywhere between 2005 and 2010, between 2010 and 2015 it fell in Ireland and in all the southern countries (Italy, Greece, Spain, Portugal and Cyprus). All of these countries had to receive direct (Greece, Ireland, Portugal, Spain, Cyprus) or indirect (Italy) financial support for their governments or their banks in exchange for tough economic adjustment programmes of fiscal austerity and structural reforms. Wherever social expenditure per inhabitant increased between 2010 and 2015, the increase was smaller than between 2005 and 2010, with the exception of Sweden.

By far the biggest increases in social expenditure per head in the period 2005-2015 were in the new Member States, with the exception of Hungary, which with

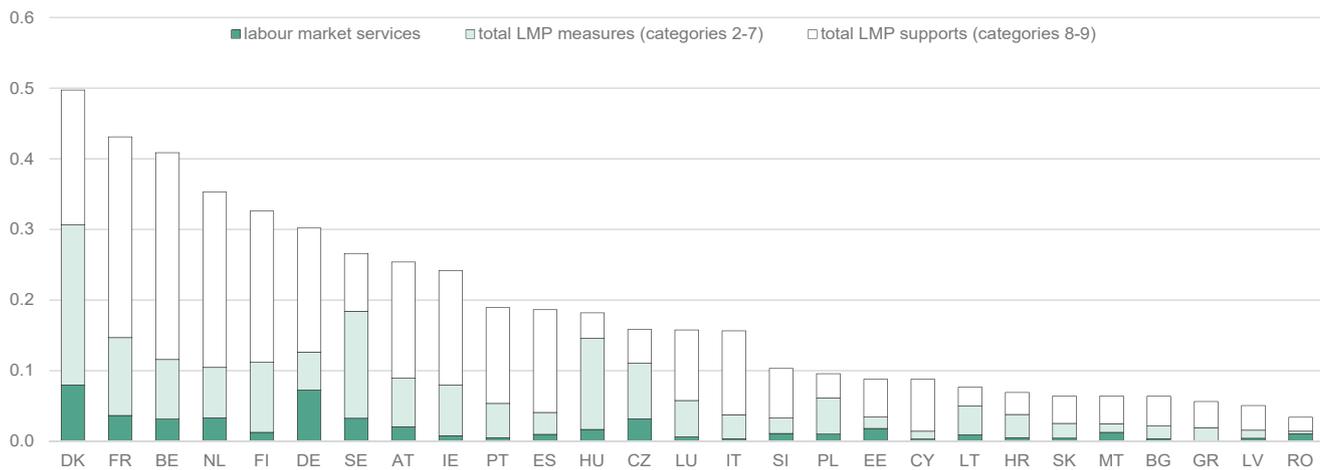
4.1% had the lowest increase among all Member States, and Slovenia, where the increase of 13.6% was below average. The biggest increases (over 80%) were seen in Bulgaria and Romania, two of the Member States with the lowest social spending per inhabitant, followed by all three Baltic states, where increases were around 65%, and Slovakia, Malta and Poland, with increases between 30 and 40%. Interestingly, several of these newer Member States were also hit hard by the financial crisis of 2008-2009 and had to receive financial support that was conditional on them pursuing tough economic adjustment programmes, such as Latvia and Romania. However, these countries did at least fare better than their southern European counterparts.

During the 2010-2015 period, when consolidation of public budget deficits took place in most of Europe in the middle of economic stagnation/recession, social protection spending per inhabitant fell or was virtually stagnant (that is, smaller or equal to 0.5%) in seven Member States, Greece, Ireland, Spain, Cyprus, Portugal, Italy and Hungary, while Romania, Croatia and Slovenia also saw below EU28 average increases in their public social spending per inhabitant. Incidentally, most of these countries, with the exception of Ireland and Hungary, belong to the southern sub-groups of the EU15 and EU13 groups, whose real GDP per capita was also negative or relatively weak.

Overall, within the entire group of Member States there appears to have been divergence in social expenditure per inhabitant between 2010 and 2015 (the coefficient of variation, using the weighted average for the EU28, increased). However, a closer look reveals that this was due to the reductions taking place predominantly in the south of the EU.

## Labour market policies

**Figure 3.3 Public expenditure on labour market policies per person wanting to work as a share of GDP per head (all in PPS, %) (EU Member States) (2015)**



Source: Own calculations using data from European Commission-DG Employment and Eurostat (nama\_10\_pc).

### Disparities in labour market policy expenditure

Figure 3.3 shows the public expenditure on labour market policies per person wanting to work as a share of the GDP per head in 2015, the year for which there are European Commission data available for all but a couple of countries. Both the expenditure and GDP per capita figures are expressed in a unit of measurement (purchasing power standard, PPS) that allows meaningful comparisons across different countries. A distinction is made between three types of public policy intervention: labour market services, labour market policy measures (that is, active labour market policies, ALMPs) and labour market supports (that is, income support received when not working). On average in the EU28, public expenditure on unemployment represented about 5% of total public social expenditure in 2014 (Eurostat data).

In 2015, there were huge disparities across the EU in the level of total expenditure dedicated to each person wanting to work. Figure 3.3 shows that there was a clear divide between north-west European countries, which, with

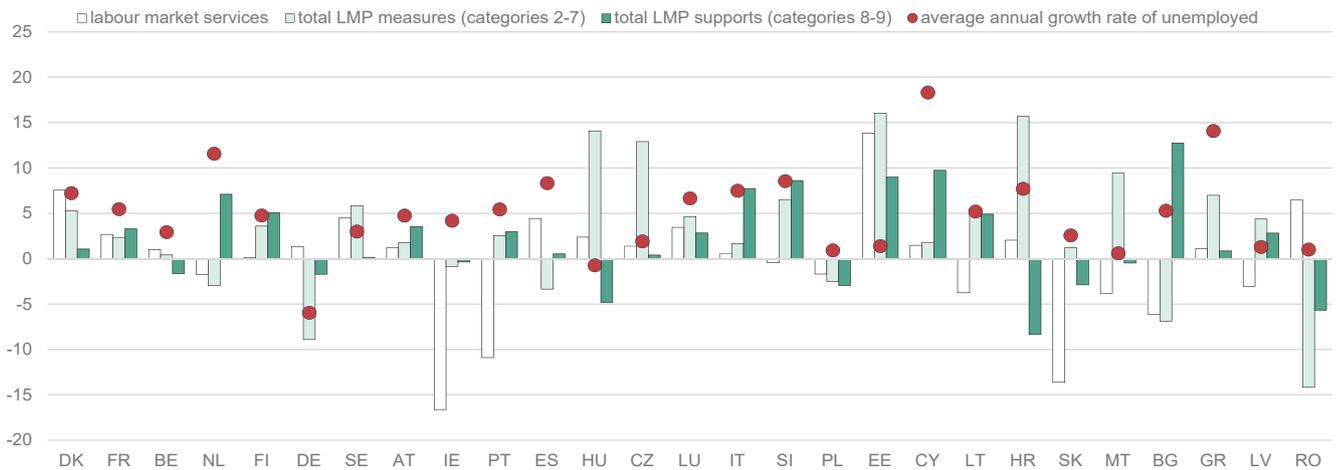
the exception of Ireland, Denmark and the Netherlands have not been or have been far less severely affected by the crisis in terms of unemployment, and southern and central-eastern Europe. In 2015, Denmark dedicated almost 0.5% of its GDP per capita to labour market policy measures, almost 13 times more than the respective share in Romania (0.04%). Other relatively high spenders included France (0.43%), Belgium (0.39%), the Netherlands (0.35%), Finland (0.34%) and Germany (0.3%). Interestingly, Sweden, once a role model for its high public spending on labour market policies, ranked below all these countries to end up on a par with Austria at 0.27%, and close to Ireland (0.26%). At the other end of the spectrum, we find Romania, Latvia, Greece and Malta with 0.06%, Slovakia and Croatia with 0.07%, and Lithuania and Cyprus with 0.09%. There were still large parts of Europe where spending on persons wanting to work was clearly insufficient.

In 2015, labour market policy supports (that is, income support benefits such as unemployment and early retirement benefits) still made up the largest part of public expenditure on labour market policies in most Member States, with the exceptions of Denmark, Sweden, Hungary, Czechia, Poland, Lithuania and Croatia, all of which dedicated relatively larger proportions to labour market policy measures (ALMPs). By

contrast, labour market services everywhere received the smallest share of public expenditure on labour market policies. The highest of these shares were in Denmark and Germany.

## Labour market policies

**Figure 3.4 Average annual growth rate in public expenditure in labour market policies by type, and in numbers of unemployed, EU Member States (2008-2015)**



Source: Own calculations using data from European Commission-DG Employment and Eurostat LFS(lfsa\_ugan series).

### Some drift in labour market policies

Figure 3.4 shows the average annual growth rate of public expenditure on labour market policies – labour market services, labour market policy measures (ALMPs) and labour market policy supports (income replacement) – as a share of GDP in the 2008-2015 period and compares it to the average annual growth rate in the number of unemployed people in each country. Slower average annual growth in policy expenditure as a share of GDP than in the number of unemployed can be taken as an indication of policy resources not moving in line with needs, often called ‘policy drift’.

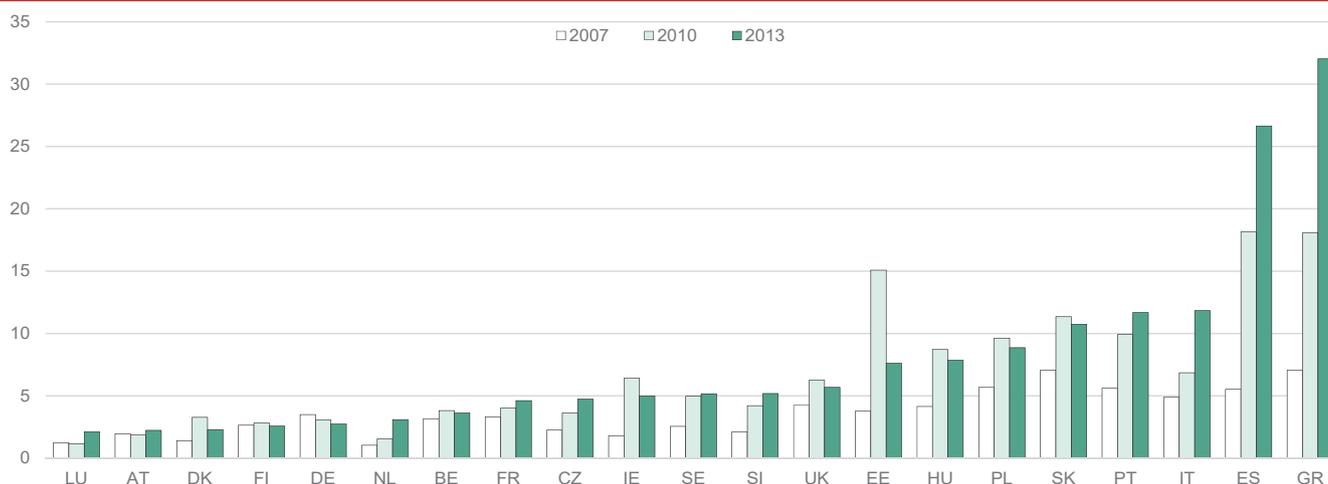
Among the three types of labour market policy examined here, expenditure as a share of GDP declined the most for labour market services, with the biggest cuts (over 10%) observed in Ireland, Portugal and Slovakia. The biggest increases were seen in active labour market policies (labour market policy supports) in several CEE Member States, which, as shown in Figure 3.3, have been relatively low spenders on labour market policies: most notably Hungary, Czechia,

Estonia and Croatia, although Malta, Greece and Latvia can also be included in this group. Relatively high increases were also seen in the three Scandinavian countries, which have traditionally dedicated high amounts of public resources to active labour market policies.

Public spending on labour market policies in all three policy areas grew more slowly than the numbers of unemployed in 12 Member States between 2008 and 2015, notably in France, Belgium, the Netherlands, Ireland, Portugal, Spain, Cyprus, Slovakia and Greece. Many of these countries saw large increases in unemployment during this period.

## Labour market insecurity

Figure 3.5 Labour market insecurity (expected earnings loss due to unemployment as percentage of previous earnings), OECD-EU Member States (2007, 2010, 2013)



Source: OECD Job Quality database.

### Drifting into labour market insecurity

Labour market insecurity is an OECD indicator measuring the expected income loss associated with unemployment (2014: 87). It is measured as the uninsured average expected earnings loss associated with unemployment as a share of previous earnings (OECD 2014, 103). The labour market security indicator consists of two sub-indicators, namely the risk of becoming unemployed and its expected cost in terms of previous income, measured by the ‘effective unemployment insurance’.

The available data on this indicator run only from 2007 to 2013 and cover the large majority but not all EU Member States who are OECD members. In the vast majority of the 21 countries examined, labour market insecurity was higher in 2013 than it was in 2007. The only exceptions were Finland and Germany, where labour market insecurity decreased by 3 and 22%, respectively, while Austria and Belgium saw the smallest increases (at 14%). The largest increases in labour market insecurity between 2007 and 2013 were observed in

Greece, Spain, the Netherlands, Ireland, Slovenia, Italy, Czechia, Portugal and Sweden. The unweighted average labour market insecurity for the group more than doubled between 2007 and 2013 but there was also substantial divergence between these countries (measured by the coefficient of variation based on an unweighted average, which increased from 52 to 98%).

Interestingly, the largest increases in labour market insecurity occurred between 2007 and 2009: the large output losses suffered by many Member States as a result of the global financial crisis apparently had a significant effect on the risk of becoming unemployed. During the 2007-2009 period, labour market insecurity increased even in Germany and Finland, whereas Greece, which experienced the largest increase in insecurity between 2007 and 2013, only had a middle-of-the-range-increase in 2007-2009.

## Labour market insecurity

**Figure 3.6 Unemployment risk (% of time) and effective unemployment insurance (% of previous earnings), OECD-EU Member States ( 2007, 2010, 2013)**



Source: OECD Job Quality database.

### Unemployment risk and insurance

Turning to the two sub-indicators which make up the labour market insecurity indicator, the risk of becoming unemployed is calculated by the monthly rate at which people become newly unemployed and the expected average duration of unemployment, measured as the expected share of the year that an average person is expected to spend in unemployment (OECD 2014, 80). Effective unemployment insurance combines the coverage of unemployment insurance and assistance recipients and the net replacement rates of benefits, including family, social assistance and housing benefits, and is measured as the percentage of previous earnings that is lost due to unemployment.

Higher unemployment risk seems to have been the main driver of the increase in labour market insecurity between 2007 and 2013. The unweighted average of unemployment risk quadrupled during the 2007-2013 period. Again, there was accelerating divergence in unemployment risk within the group of countries, with the coefficient of variation more than doubling between 2007 and 2013, from 32 to 67%.

In 9 out of the 21 countries, effective unemployment insurance was lower in 2013 than it was in 2007. If we compare 2010 with 2013, then effective unemployment insurance was lower in 2013 than in 2010 in 13 countries. The unweighted average of effective unemployment insurance decreased between 2007 and 2013, while divergence within the group of countries considered here increased, although less dramatically than in the case of the unemployment risk, with the coefficient of variation increasing from 42 to 48%. What is interesting, however, is that effective unemployment insurance rose on average between 2007 and 2009 and that there was convergence. However, from 2010 to 2013, effective unemployment insurance fell on average and there was divergence, an indication that fiscal austerity had uneven effects across countries and that despite calls for flexibility as a principle for labour market reform, in practice, labour market policies have been delivering far more flexibility than security.

## Poverty and social exclusion

Figure 3.7 At-risk-of-poverty rate (% of population) in EU, euro area and Member States (2005, 2010, 2016)



Source: EU-SILC database (ilc\_li02 series).

### Monetary poverty on the rise

The at-risk-of-poverty (AROP) rate shows the share of population living in households with equivalised disposable income (after taxes have been paid and benefits received) that is lower than 60% of the median equivalised household income. The equivalised disposable income of a household is the income available for spending or saving divided by the number of household members, converted in this calculation into ‘equivalised adults’. People ‘at risk of poverty’ are not necessarily poor in the sense of lacking the necessary resources for material wellbeing such as food, housing, and other assets. Much also depends on the level of the median income in a country. Therefore, the AROP rate is more a measure of inequality at the low end of income distribution (Darvas 2017).

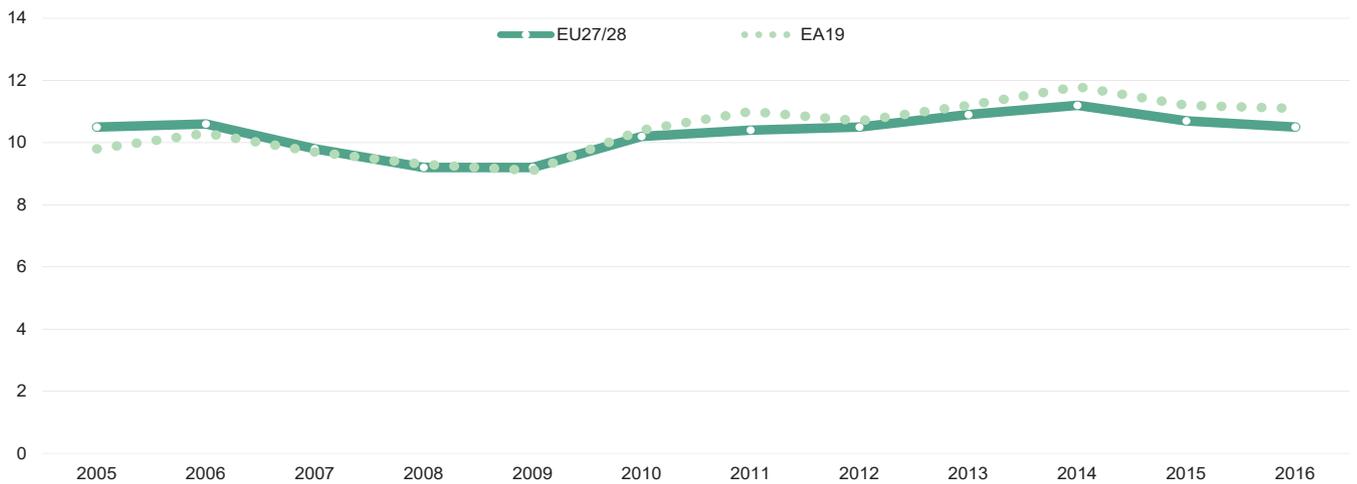
The AROP rate is one of the three components of the at-risk-of-poverty or social exclusion headline target of the Europe 2020 strategy, the other two being the share of people living in low-work-intensity households and the share of people living in severely materially deprived households (for more on which see further below). The AROP rate has

also been included in the Social Scoreboard (European Commission 2017). Given that progress in one of these indicators does not necessarily imply progress in the other two, we examine them here separately.

The AROP rate was on average higher in 2016 in both the EU and the euro area, at 17.3% and 17.4 %, respectively, than it was in 2005 when it was 16% and 15.4%. It therefore followed a similar evolution to the broader income inequality measure discussed under Figures 3.1 and 3.2. The AROP rate also rose in all but a handful of Member States between 2005 and 2016. The greatest increases took place in Sweden (70.4%) and Germany (35.2%), while the largest relative decreases were recorded in Poland (-15.6%), the UK (-16.3%) and Ireland (-15.4%).

## Poverty and social exclusion

**Figure 3.8** Share of persons under 60 years old (%) living in low-work-intensity households in the EU27/28 and EA19 (2005-2016)



Source: EU-SILC (ilc\_lvhl11 series); EU27 data until 2009, EU 28 after 2010.

**Figure 3.9** Share of persons under 60 years old (%) living in low-work-intensity households in EU, euro area and Member States (2005, 2010, 2016)



Source: EU-SILC (ilc\_lvhl11 series).

### Share of persons living in low-work-intensity households

This indicator shows the number of persons (as a share of the persons aged under 60) living in a household where

the members of working age worked less than 20% of their total potential during the previous 12 months. For the purposes of this indicator, ‘members of working age’ exclude people aged 60 and over and students aged 18-24 years.

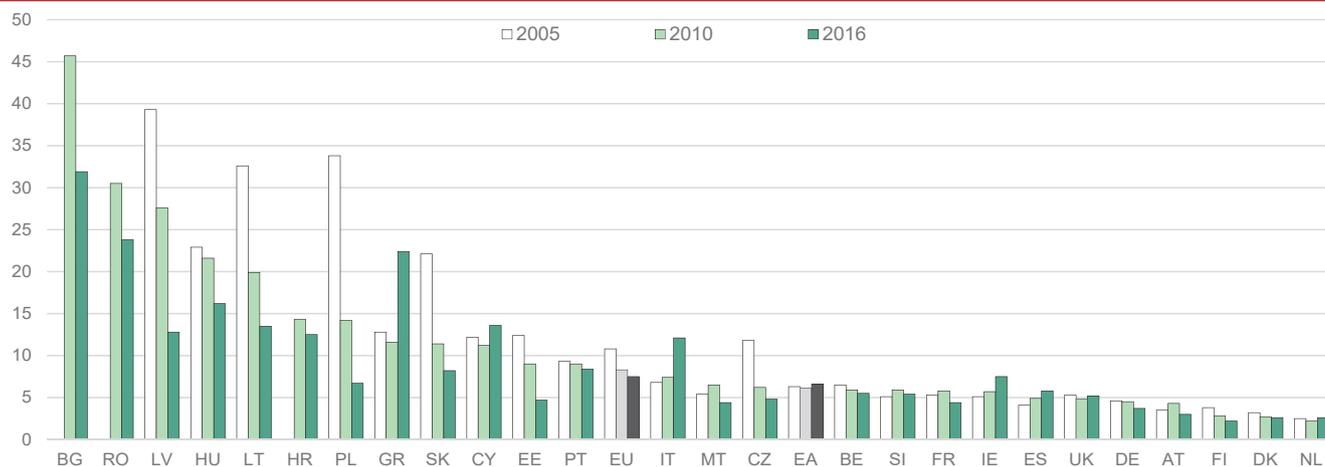
On average in the EU and the euro area, the indicator declined after 2005, reaching its lowest point for the 2005-2015 period in 2009. In 2016, the rate in the euro area was still slightly above its 2010 level, although the number of persons living in low-work-intensity households was slightly higher, while in the EU

the rate was about the same level in 2016 as in 2010.

The share of persons living in low-work-intensity households was higher in 2016 compared to 2005 in 13 Member States and lower in only 9. In 16 Member States this share rose between 2010 and 2016 and in 10 countries it fell during that period.

## Poverty and social exclusion

**Figure 3.10 Share of people (%) living in households facing severe material deprivation in EU, euro area and Member States (2005, 2010, 2016)**



Source: EU-SILC (ilc\_mddd11 series).

### People living in severely materially deprived households

reductions in this indicator were observed in Poland, Latvia, Sweden, Slovakia, Estonia, Czechia, Lithuania and Finland, while Italy, Greece, Ireland and Spain experienced increases in this indicator. More generally, the new Member States from central and eastern Europe saw sizeable improvements in this indicator, while it worsened for the southern members, including Cyprus.

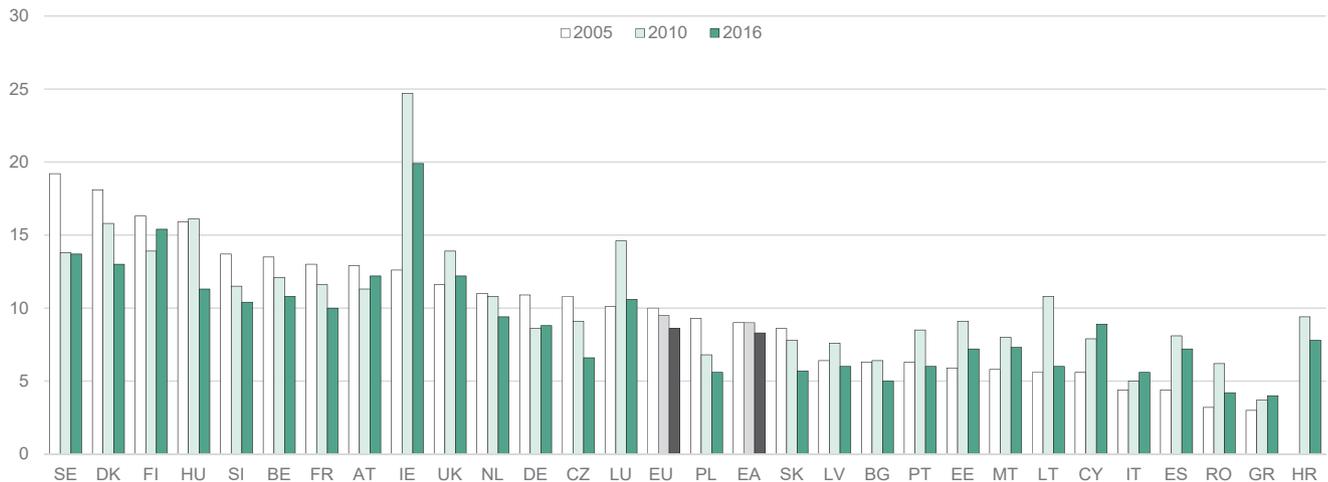
This indicator illustrates the share of the population that cannot afford at least four items which are considered by most people as desirable or necessary to lead an adequate life. The share of severely materially deprived people in the EU27/EU28 was in decline between 2005 and 2009 (and between 2005 and 2007 in the euro area) before starting to climb again, peaking at 10% in 2012 (8% for the euro area). By 2016 it had declined again to 7% (6% for the euro area).

These averages, however, concealed an immense variation among Member States. At one end of the spectrum in 2016, Bulgaria, Romania and Greece had population shares facing severe material deprivation three to four times higher than the EU average. At the other end, in eleven Member States – mostly north-western countries but also in Scandinavia, Estonia and Czechia – less than 5% of the population faced material deprivation in 2015.

For the period for which data are shown here, the most impressive

## Anti-poverty policies

**Figure 3.11** Difference in at-risk-of-poverty rate before and after social transfers, excluding pensions (percentage points) (EU, euro area and Member States) (2005, 2010, 2016)



Source: Own calculations using EU-SILC data (ilc\_li02 and ilc\_li10 series).

### Declining effectiveness of anti-poverty policies

Figure 3.11 shows the difference in percentage points in the at-risk-of-poverty rate before and after social transfers (excluding pension benefits), with the poverty line being defined as the 60% median equivalised household income in the EU, euro area and Member States between 2005 and 2015. This difference is taken as a measure of the impact of social policies in the form of social transfers in alleviating the risk of poverty. As argued earlier (under Figures 3.8-9), the at-risk-of-poverty rate is essentially an income inequality indicator focusing on the low end of income distribution and it does not measure wealth or poverty. This is one of the indicators included in the EU Social Scoreboard (European Commission 2017), which is associated with the European Pillar of Social Rights.

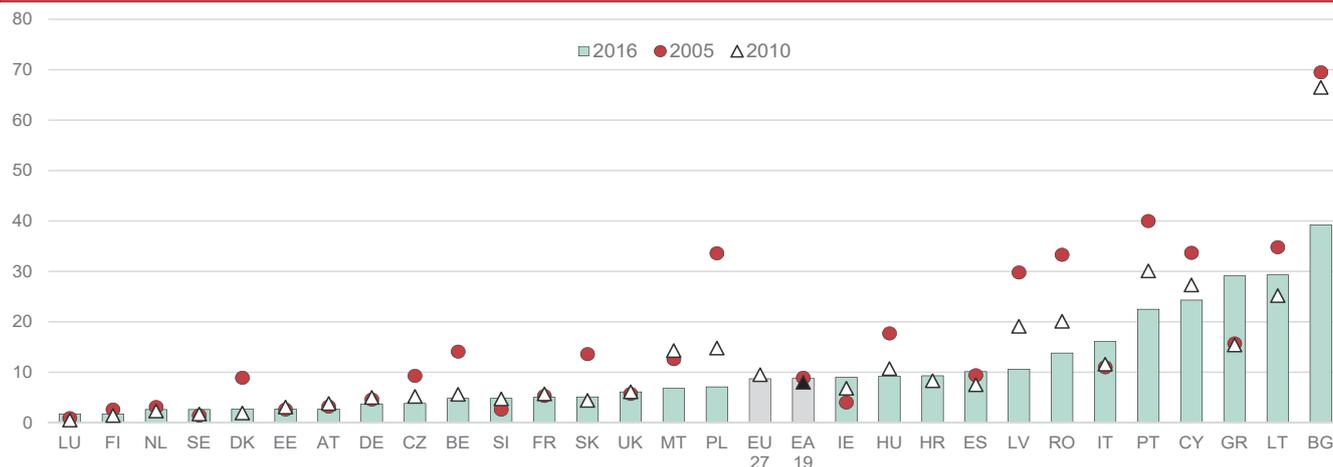
The effectiveness of social transfers in alleviating the risk of poverty fluctuated between 2005 and 2010 in both the EU and the euro area and has been demonstrating a downward trend since 2011.

While this effectiveness has been greater in the EU than in the euro area, there has been some apparent convergence of levels in the EU towards those in the euro area since 2013.

Looking into specific Member States, there were large differences both in 2005 and in 2006, with the effectiveness of social transfers ranging from almost 20pp to 3-4pp. In both 2005 and 2016, the Scandinavian countries were all at the top of the ranking of effectiveness for social policies in alleviating poverty, and by 2016 Ireland had also shot to the top. Southern and central-eastern European new Member States were to be found at the other end of the ranking in 2016, such as Greece, Romania, Bulgaria and Italy, but also Poland, Slovakia and Lithuania. What is also interesting is that in the 2005-2010 period there was an improvement in the effectiveness of social transfers in 11 Member States, whereas in the 2010-2016 period, such an improvement could only be seen in 6 of them (Finland, Austria, Cyprus, Germany, Italy and Greece).

## Energy poverty

Figure 3.12 Share of the total population not able to keep home adequately warm by Member State (%)



Source: EU SILC, 2017.

Note: for Ireland 2016=2015, for Romania 2005=2006

### Huge divisions between Member States, with improvements in most but still alarming levels in some

As a standard feature of the EU SILC database on material deprivation, the share of population who feel they are not able to keep their home adequately warm is an important indicator of energy poverty. Figure 3.16 shows the results for all EU Member States (MS) for the years 2005, 2010 and 2016.

Energy poverty typically used to be higher in the new Member States (NMS) than in the EU15. Back in 2005, energy poverty in all CEE MS (with the exception of Slovenia and Estonia) was significantly higher than in the EU15. While the rate for the eurozone was 8.9% in 2005, in Bulgaria 69% of the population was affected by energy poverty, and in Lithuania, Poland and Romania, more than a third of the population were not able

to keep their homes adequately warm. Within the EU15 only Portugal reported similarly high values (40%) in 2005, while in Luxembourg energy poverty was within the margin of statistical error (0.9%).

Although the enormous gap has significantly narrowed during the last decade (from a ratio of 1:77 between the best and worst performers down to 1:23) the wide variation between MS has remained and also taken on a new dimension.

In spite of the effects of the crisis, most NMS performed significantly better in 2016 than in 2005, while the trend for some southern European countries was just the opposite. Out of the whole EU, Poland has achieved the greatest proportional improvement, but Romania and Latvia also saw major improvements. Even Bulgaria, still the worst performer of the EU in 2016, made a huge positive change (by 30pp, making it the biggest change in absolute terms). Greece on the other hand witnessed a dramatic deterioration in energy poverty, sharing now the second-worst level in the EU with Lithuania, at 29%. The situation in Italy has also got worse, with the 2016 figure higher than both 2005 and 2010, as over 16% of Italians claimed not to be able to keep their homes adequately warm in 2016. After Greece and Italy, Ireland was the third MS with an increasing level of energy poverty, although with values closer to the EU average.

Easy generalisations should not be made, as not all southern European MS performed worse in 2016 than in the decade before. Spain kept a stable level, around the EU27 average, while the situation in Portugal has improved a lot since 2010; nevertheless, these are still among the MS with the highest levels of energy poverty in the EU. Instead of the earlier east-west division, the current new division in the EU seems to be mostly driven by shortcomings in social policy. Energy poverty does not only depend on GDP/capita levels: Estonia and Denmark, Czechia and Germany all had similar rates in 2016. Climate policy ambitions and performance do not seem to be decisive either, as some of the best performers in greenhouse gas reduction show the lowest energy poverty values (Sweden, Denmark and Estonia). On the other hand, some of the climate policy laggards top the energy poverty ranking (Bulgaria, Greece and Cyprus). There is thus no general pattern behind the huge divisions in energy poverty among EU Member States.

It is alarming that in 2016 over 20% of the populations of five EU Member States were still affected by energy poverty. Energy poverty needs to be addressed by targeted social policy measures, and in particular by social energy tariffs.

## Unmet healthcare needs

**Figure 3.13 Share of people (%) with self-reported unmet needs for medical examination because it is too expensive in EU, euro area and Member States (2008, 2010, 2016)**



Source: EU-SILC (hlth\_silc\_08 series).

## Affordable access to healthcare

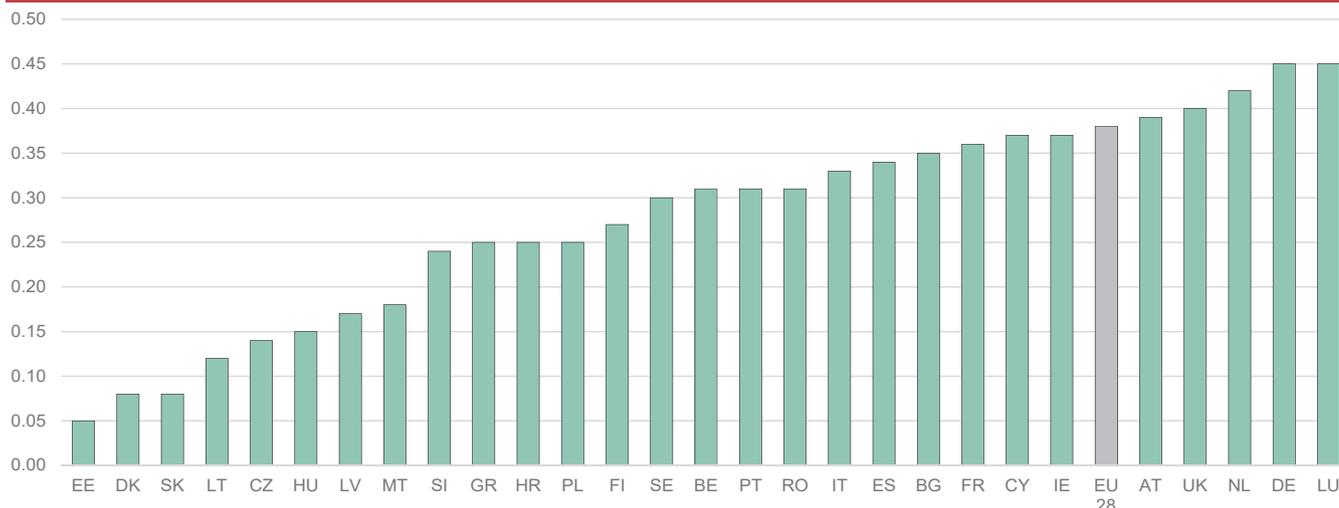
The share of population that reported having unmet needs for medical examination because it was too expensive declined in the EU from an estimated 3.7% (or 18 million people) in 2005 to 1.9% in 2009, before peaking again at 2.4% in 2014 and then once more declining to 2% (10 million people) in 2015 (see Figure 3.13, latest available data). Beneath these averages there were large variations across Member States, both in levels and in relative changes (see Figure 3.10). In 2005, the countries with the highest population shares reporting unmet needs for medical examination because it was too expensive were Latvia, with the highest share at 16.2%, followed by Germany at 7.3% and Poland at 6.8%. Lithuania also had a somewhat above-average share of 4%. On the other hand, in 2005 Czechia, Slovenia and Spain had less than 0.5% of their populations reporting unmet needs for medical examination due to its expense, with Slovenia being on a par with the Netherlands and Luxembourg at 0.2%.

Looking at the evolution of these figures, we see that the largest improvements (decreases) were registered in

Germany, Finland, Austria and the Netherlands (at almost 100%), as well as in most central-eastern European Member States and Spain, where by 2015 self-reported unmet healthcare needs were reduced by 75 to over 80% of what they were in 2005. Substantial decreases in unmet healthcare needs for financial reasons from just under 20% to almost 50% were also seen in Hungary, Sweden, Portugal, France, Malta, Cyprus and Slovenia. On the other hand, large increases in unmet healthcare needs were observed between 2005 and 2015 in Luxembourg, Greece, Belgium and Denmark where they more than doubled, and in Italy and Ireland, where these needs rose by a quarter to twice as much. Overall, measures of dispersion (standard deviation or coefficient of variation) suggest a convergence towards lower unmet healthcare needs for financial reasons among Member States, especially between 2010 and 2015.

## Pensions gender gap

Figure 3.14 Pensions gender gap (%), people aged 65 and over (EU28 and Member States) (2012)



Source: EIGE (2015).

### Pensions gender gap needs to be tackled

The gender gap in pensions is important to address for two reasons. First, because it often manifests itself as the continuation of gender inequalities in labour market participation, distribution of working hours, and pay; and secondly, because women in fact make up the largest proportion of ageing populations. This gap reflects inequalities in the labour market, including the distribution of unpaid work and its interaction with social protection systems.

Figure 3.14 shows one of the existing indicators of the pensions gender gap, constructed by the European Institute for Gender Equality and calculated as the percentage by which women’s average pension income is lower than men’s, using EU-SILC 2012 microdata (taking 2011 as the reference year). Three types of income received by people older than 65 have been used for the calculation, namely old-age benefits, survivor’s benefits, and regular pensions from individual private plans. Different age cohorts can be used for the calculation of the gap: for example, 65-69 years old,

70-74 years old, and over 75 years old (data not shown here). Here we use the more inclusive cohort of 65 years old and over. The higher the indicator, the higher the gender pension gap is.

On average in the EU28, the pension gender gap for those aged over 65 years old was 38% in 2011. The differences between Member States were sizeable. Above-average gaps were observed in Germany (45%), Luxembourg (45%), the Netherlands (42%), the UK (40%) and Austria (39%). At the other end of the ranking, Estonia (5%), Slovakia (8%) and Denmark (8%) had the smallest gaps.

Policies to address the pensions gender gap should target gender segregation in the labour market and social protection systems as well as the availability of high quality care services for children and elderly family members. Policies to tackle the unequal labour market participation, working hours and pay of men and women, but also the low wage growth in services in which women are traditionally overrepresented, would be one way of achieving lower labour market segregation.

## Conclusions

- Income inequality as measured by the income quintile ratio has been increasing in Europe since 2005 and particularly since 2009. While there seemed to be some convergence within the EU28 between 2005 and 2013, divergence between individual Member States set in from 2013 to 2016.
- Public social expenditure per inhabitant increased very modestly in the EU28 between 2010 and 2015, but there also appears to have been divergence in this period (the coefficient of variation, using the weighted average for the EU28, increased). However, a closer look reveals that this was due to the reductions taking place predominantly in the south of the EU.
- In 2015, there were large disparities in the level of total expenditure dedicated to each person wanting to work across the EU. There was a clear divide between north-west European countries – which, with the exception of Ireland, Denmark and the Netherlands, were not or were far less severely affected by the crisis in terms of unemployment – and southern and central-eastern Europe. Expenditure did not move in line with the increase in unemployment.
- On average, labour market insecurity rose after 2007, as did the risk of unemployment. Effective unemployment insurance declined on average. The experiences of the EU Member States examined diverged between 2007 and 2013 along all three dimensions. This is an indication that fiscal austerity had uneven effects across countries and that despite calls for flexicurity as a principle for labour market reform, in practice, labour market policies have been delivering far more flexibility than security.
- Monetary poverty was in decline between 2005 and 2008 before starting to increase again up to 2013. It declined after that but by 2016 had yet to reach its 2008 levels.
- The share of people living in low-work-intensity households took off after 2008 and although it started to decline after 2014, the decline has been fairly slow. The biggest increases between 2005 and 2016 were in the southern European countries that were affected by the crisis, while the largest decreases took place in Poland, Estonia and Czechia.
- The share of people living in households facing severe material deprivation was declining between 2005 and 2008, at which point it started to rise again, up until 2012. The most impressive reductions in this indicator were observed in Poland, Latvia, Sweden, Slovakia, Estonia, Czechia, Lithuania and Finland, while Italy, Greece, Ireland and Spain experienced comparable increases. More generally, the new Member States from central and eastern Europe, with the exception of Slovenia and Croatia, saw sizeable improvements in this indicator, while it worsened for the southern members, including Cyprus.
- Between 2005 and 2010, the effectiveness of social transfers in alleviating the risk of poverty fluctuated in both the EU and the euro area and has been demonstrating a downward trend since 2011. While the effectiveness of social transfers in alleviating the risk of poverty has been higher in the EU than in the euro area, since 2013 there has been some apparent downwards convergence of the EU levels towards those of the euro area.
- There have been significant improvements in the share of people with unmet healthcare needs for financial reasons, with apparent convergence within the EU.
- It is alarming that in 2016 over 20% of the population was still affected by energy poverty in five EU Member States. Energy poverty needs to be addressed by targeted social policy measures, in particular by social energy tariffs.
- On average in the EU28, the pension gender gap for those aged 65 years old and over was 38% in 2011. The differences between Member States were sizeable.
- Overall, the indicators concerning social and labour market conditions have been evolving very much in line with developments in the macroeconomy: following improvements between 2005 and 2008, they started deteriorating up until 2013-2014, since which time there have been signs of slow improvement. Nevertheless, divergence can be observed between the north and south of Europe.
- Despite these improvements, the policies examined in this chapter seem to have been consistently failing to rise to the challenges described above, especially in many of those Member States which were starting from more unfavourable positions when the crisis began (e.g. relatively low public spending on labour market or social protection policies) and which were hit the worst by the crisis itself or the economic policy responses to it.



# Wages and collective bargaining: a new attempt to ensure fair wages and adequate minimum wages?

## Introduction

Recently, a new narrative has been emerging at the European level in the field of wages and collective bargaining, emphasising the need for stronger wage growth and wage convergence within the EU as a prerequisite for more sustainable economic growth. The European Commission has stated that ‘for the upswing to be sustained investment and wages need to rise more strongly’ (European Commission 2017a: 1). A similar argument has been made by Mario Draghi, President of the ECB, who declared that ‘the case for higher wages is unquestionable’ (Draghi 2016). This new, more demand-side view of the issue of wages also found its way into the initiative to establish a European Pillar of Social Rights, which contains a clear commitment to fair wages and adequate minimum wages in the EU. Even though the Social Pillar has often been criticised for its non-binding character, it does offer the potential for a reversal of the previously dominant approach to wages and collective bargaining, and an opportunity to fulfil the objectives of fair wages and wage convergence.

Against this background, the main objective of this chapter is to review the extent to which recent developments in the field of wages and collective bargaining contribute to achieving these objectives. The issues addressed in this chapter will be the country-specific recommendations as regards wages and collective bargaining, and the development of real and minimum wages in the EU28. Going beyond the issue of wage developments, the chapter will also analyse recent trends in collective bargaining systems, strike activities and judicial developments.

## Topics

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## Wage developments

**Figure 4.1 Country-specific recommendations in the field of wages and collective bargaining**

	Formal recommendations	Justification
BG	More transparency in minimum wage setting	Lack of transparency jeopardises proper balance between objectives of competitiveness and safeguarding labour income
DE	Create conditions for higher real wage growth	Supporting internal demand and reducing high external imbalances
FI	Align wages with productivity	The need to improve cost competitiveness
FR	Ensure that minimum wage developments support employment and competitiveness	Indexation of minimum wage hampers overall wage adjustment and employment of low-skilled people
HR	Reform public sector wage setting	Fragmentation of wage setting in public sector limits government control over public wage bill, risking spillover to broader economy
IT	Reform of wage-setting system to better take into account local conditions	Insufficient use of second-level bargaining hampers efficient allocation of resources and the responsiveness to local economic conditions
NL	Create conditions for higher real wage growth	Reduction of the proportion of people employed on temporary contracts and the self-employed to support real wage growth and internal demand
PT	Ensure that minimum wage development does not harm employment of the low-skilled	High minimum wage increases may entail employment risks for low-skilled people
RO	More transparency in minimum wage setting	Lack of transparency and objective criteria creates uncertainty
	Implicit recommendations	Justification
AT	Address gender pay gap	Improving the use of women's labour market potential
DE	Address gender pay gap	Creating incentives to increase female labour market participation
EE	Address gender pay gap and ensure that wages stay in line with productivity	Reducing gender segregation in the labour market; wage growth exceeding productivity growth negatively affects profits and investment
RO	Ensure moderate wage increases in public sector	Avoiding spill-over effects from public sector wage increases to the private sector which would harm competitiveness

Source: Author's own compilation.

## Country-specific recommendations 2017/2018: no real change of direction

The 2017 country-specific recommendations (CSRs) were elaborated roughly at the same time as the European Pillar of Social Rights (EPSR), which the European Commission launched in April 2017 in order to encourage further convergence within the EU (European Commission 2017b). In the field of wages and collective bargaining, the CSRs should therefore reflect the EPSR's commitment to the right of workers 'to fair wages that provide for a decent living standard' and to ensuring 'adequate minimum wages ... in a way that provides for the satisfaction of the needs of the worker and his/her family' (European Commission 2017c: 26).

However, when measured against these commitments, the 2017 CSRs in this field are yet another disappointment. As Figure 4.1 illustrates, the CSRs can be divided into formal recommendations and 'implicit' recommendations. The latter are contained in the explanatory part that precedes the actual

recommendations (Clauwaert 2017). As regards content, the CSRs – both formal and implicit – can be divided into four standard recommendations, concerning: (1) the reform of wage-setting systems, (2) the changing of wage policies, (3) the reform of minimum-wage setting and policies, and (4) the reduction of the gender wage gap. The last point was dealt with exclusively in 'implicit' recommendations addressed to Austria, Germany and Estonia on increasing female labour market participation and realising women's full labour market potential. While these implicit recommendations are quite progressive in fostering wage convergence between men and women, the formal recommendations in the other three areas follow the usual supply-side-oriented approach which has dominated the Commission's crisis management all along.

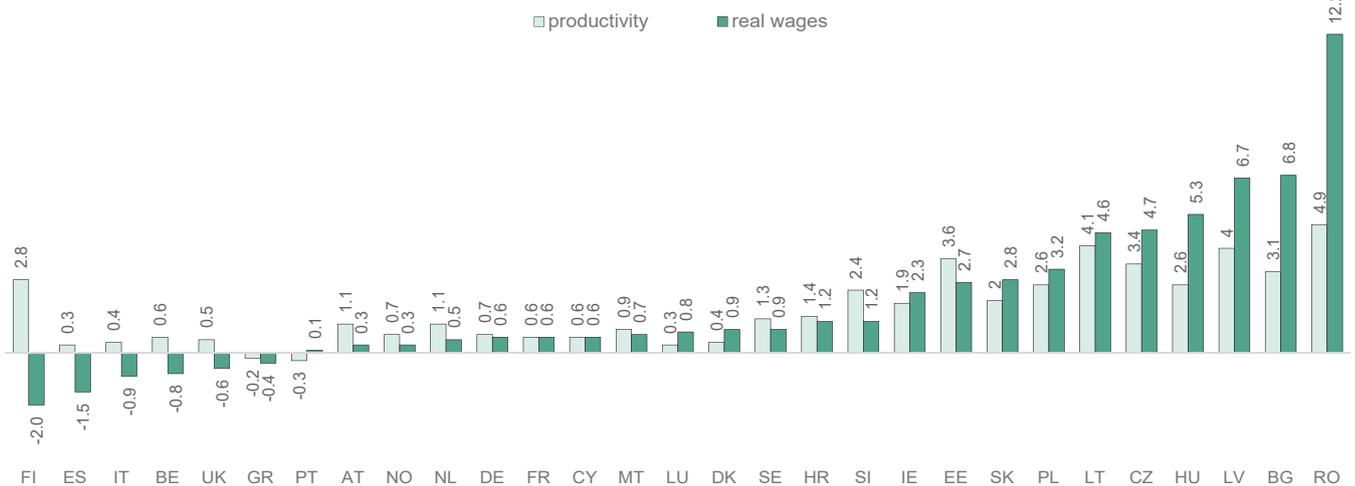
The only exceptions are the recommendations addressed to Germany and the Netherlands, who were requested to create more favourable conditions for stronger real wage growth in order to boost internal demand. The rest of the CSRs concerning wage policy and wage-setting systems were just business as usual, with the primary objective of improving cost competitiveness. To this end, Finland, for instance, was asked to align wages with productivity; Italy received the recommendation to ensure more decentralised bargaining so that

local conditions could more effectively be taken into consideration; and Romania and Croatia were asked to control wage growth in the public sector in order to avoid spill-overs to the private sector which would negatively affect cost competitiveness.

However, the CSRs' treatment of minimum wages shows a stark contrast to the commitments made in the EPSR. In particular, those countries which meet or come close to the widely acknowledged threshold for adequate minimum wages, at a level of 60% of the national median wage (such as France and Portugal), were urged to ensure that minimum wages are consistent with the objectives of job creation and competitiveness and do not hamper employment opportunities for low-skilled workers. By the same token, Bulgaria and Romania – both countries with very low absolute minimum wage levels – were viewed highly critically because recent wage increases in these countries were seen to threaten the balance between the objectives of supporting employment and competitiveness and those of safeguarding labour income. Both countries therefore received the recommendation to establish more transparent mechanisms for setting the minimum wage – a criteria which in 'Commission-speak' is often a euphemism for ensuring more modest minimum wage increases (Müller and Schulten 2017).

## Wage developments

Figure 4.2 Development of real wages and productivity in 2017 (changes in % compared to the previous year)



Source: Author's calculation based on AMECO (version February 2018).

### Divergent real wage developments

In contrast to the overall very dynamic development of real wages in 2016, the picture in 2017 is more diverse. Figure 4.2 compares the development of real compensation per employee (the development of nominal compensation per employee, which includes social contributions, deflated by the harmonised consumer price index) with the development of productivity (defined as changes in gross domestic product per person employed), and illustrates the great diversity in real wage developments in 2017. According to the calculations made based on data from the AMECO database, three different groups of countries can be distinguished.

The first group comprises the countries in which real wages declined in 2017. While in 2016 Belgium was the only country with declining real wages, this group now comprises six countries, ranging from Greece, with -0.4%, to Finland, with -2%. Other countries that reported decreasing real wages in 2017 include Spain (-1.5%), Italy (-0.9%), Belgium (-0.8%) and the UK (-0.4%).

The second group comprises those 10 EU countries with stagnating or very modestly rising real wages by between 0% and 1%. At the bottom of this group is Portugal with 0.1%, while the two Nordic countries Sweden and Denmark are to be found at the top, both with 0.9% real wage growth. The third and largest group comprises those 12 countries in which real wages in 2017 grew by more than 1%. As Figure 4.2 shows, this is a very diverse group ranging from Croatia and Slovenia, both with a comparatively modest 1.2% real wage growth, to Latvia (6.7%) and Bulgaria (6.8%). The outlier in this group is Romania, with an increase of 12.2%. With the exception of Ireland (2.3%) this group consists exclusively of central and eastern European (CEE) countries. This shows that after a period of stagnation, the CEE countries are now showing signs of 'catching up', even though, as Figure 4.4 will illustrate, overall wage convergence since the start of the crisis in 2008 has still been slower than it was prior to the crisis. An important factor explaining the impressive-looking growth rates of this group are statistical base effects, because the overall wage levels are significantly lower than in the western European countries. The overall fairly modest real wage growth in 2017 can be partly explained by macroeconomic developments and in particular by the fact that inflation was higher than in 2016, mainly driven by higher prices for energy and food (Lübker and Schulten 2017).

Figure 4.2 also illustrates that last year's trend of real wage growth exceeding productivity growth has been broken. Whereas in 2016 real wage growth lagged behind productivity in only three countries, this year the number of countries grew to 15. However, in general the gap between the development of real wages and that of productivity remains modest. Only in four countries did real wage developments outstrip productivity growth by more than 2%: Latvia and Hungary (2.7%), Bulgaria (3.7%), Finland (4.8%) and Romania (7.3%). From a redistribution perspective, this means that the trend of 2016, when at least part of the wealth in a majority of EU countries was redistributed from capital to labour, was reversed in 2017.

## Wage developments

Figure 4.3 Development of real wages (2000-2009 and 2010-2017)



Source: Author's calculation based on AMECO (version February 2018).

### Why there has been no long-term real wage growth

It has already been mentioned in the introduction that the European Commission and the ECB are calling for stronger wage growth. Figure 4.3, which compares the growth of real wages in the pre-crisis period (2000-2009) with that in the following period (2010-2017), illustrates the need for a more expansive wage development.

While the 2000-2009 period was characterised by a substantive increase in real wages in the majority of EU countries, the pattern of real wage development subsequently changed completely. Between 2010 and 2017, real wages stagnated or even decreased, despite the more recent recovery of real wage growth. The most striking feature of Figure 4.3 is that in nine countries real wages are still below the level of the crisis year of 2010. Between 2010 and 2017, real wages dropped most dramatically in Greece (-19.1%), followed by Cyprus (-10.2%), Portugal (-8.3%) and Croatia (-7.9%). Only in three countries – Bulgaria, Poland and Germany – did real wage growth between 2010 and 2017

exceed that in the 2000-2009 period. In the case of Germany this was not difficult seeing as it was the only country where real wages decreased between 2000 and 2009.

In the light of relatively favourable framework conditions of returning economic growth after a long period of stagnation and expanding employment, many observers have been questioning why wages are not growing accordingly. As Schulten and Luebker (2017) point out, the Commission even speaks of a 'wage-poor recovery'.

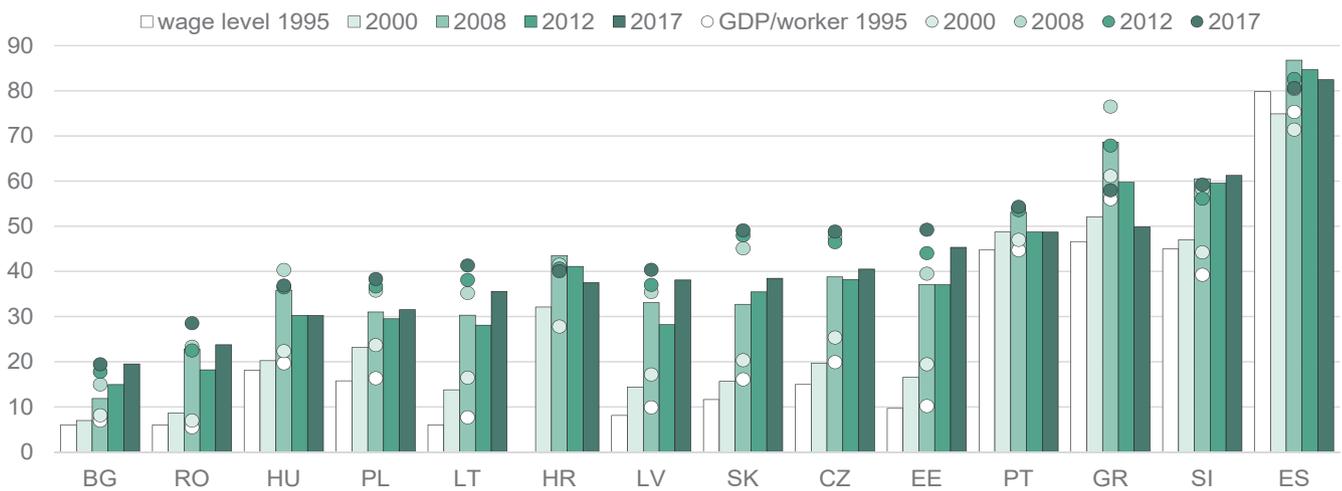
The ECB names three reasons for this wage-poor recovery: significant slack in the labour market, weak productivity growth and the ongoing impact of labour market reforms implemented in some countries during the crisis (European Central Bank 2017: 16). The first point refers to the fact that official unemployment statistics systematically underestimate the degree of underemployment by not sufficiently taking into account the number of job seekers and the extent of involuntary part-time work of those people who would like to work more hours, (European Central Bank 2017: 33). Another important factor is that many of the newly created jobs are precarious in nature (see Chapter 2 of this report for more on this topic) so that, in contrast to what figures showing decreasing unemployment would suggest, the bargaining power of trade

unions remains limited (Schulten and Luebker 2017: 429).

However, the most obvious reason for the subdued real wage growth between 2010 and 2017 are the labour market reforms implemented in the context of the crisis. In many countries a key objective of reform policies was to increase the downward flexibility of wages by weakening employee and trade union rights and by decentralising wage setting to the company level (Schulten and Müller 2014). The result was a systematic weakening or even dismantling of multi-employer bargaining structures which could now help to support stronger wage growth. Many countries simply lack the political and institutional prerequisites for negotiating higher wage increases and for initiating a U-turn towards a more expansive wage policy (Schulten and Müller 2017: 48). Against this background, it is fairly surprising that it is the very institutions, such as the European Commission and the ECB, which as part of the Troika were directly responsible for these structural reforms, who are now puzzled about the lack of wage growth.

## Wage developments

Figure 4.4 Wage and productivity levels as % of EU15 average (in nominal EUR terms)



Source: AMECO (2018).

### Wage convergence between poorer and richer MS stalled after crisis

It was not only real wage developments that lagged behind pre-crisis developments between 2010 and 2017. Figure 4.4 illustrates that the crisis also put an end to upwards convergence in nominal wages between the levels in most CEE new Member States and southern European countries and those in Europe's core. The graph shows the CEE countries' share of nominal compensation in euro terms as a percentage of the EU15 average over two decades. Wage convergence in both the east and the south was dynamic until 2008.

Between 1995 and 2008 wages in the three Baltic states grew from a range of 6-9.6% of the EU15 average to 30-37%. For central Europe (Czechia, Hungary, Poland and Slovakia), relative wage levels in 1995 were 11-18% of the EU15 and rose to 32-38% by 2008. Spain, Portugal and especially Greece also saw significant wage convergence towards EU15 levels in that period. A clear break in this trend, however, came in 2008, and this was

largely due to flawed one-size-fits-all EU crisis management practices. In certain countries (Croatia, Hungary, Romania, Slovenia, Greece, Portugal and Spain), wage convergence went into reverse mode, while in others dynamic wage convergence between 1995 and 2008 gave way to wage stagnation or to a slower catch-up process. Only in Bulgaria, Slovakia and Estonia did wage convergence continue in spite of a temporary slowdown in the wake of the crisis.

The data also show that wage developments were lagging behind productivity for most of the countries, and relative wage levels remained lower than relative productivity when compared (using the same measure) to the EU15. For CEE new Member States, productivity, expressed as GDP per employee (also in nominal euro terms) as a percentage of the EU15 average, shows a more dynamic convergence than has been the case for wages. In these countries productivity grew more than wages over the whole period and, relative to the EU15, productivity levels were significantly higher than relative wage levels in most years. In 2017, relative productivity as a share of the EU15 was 38% in Poland, while this country's wage level stood at 31%. For Czechia the corresponding relative shares were 49 and 40%, and for Slovakia, 49 and 38%.

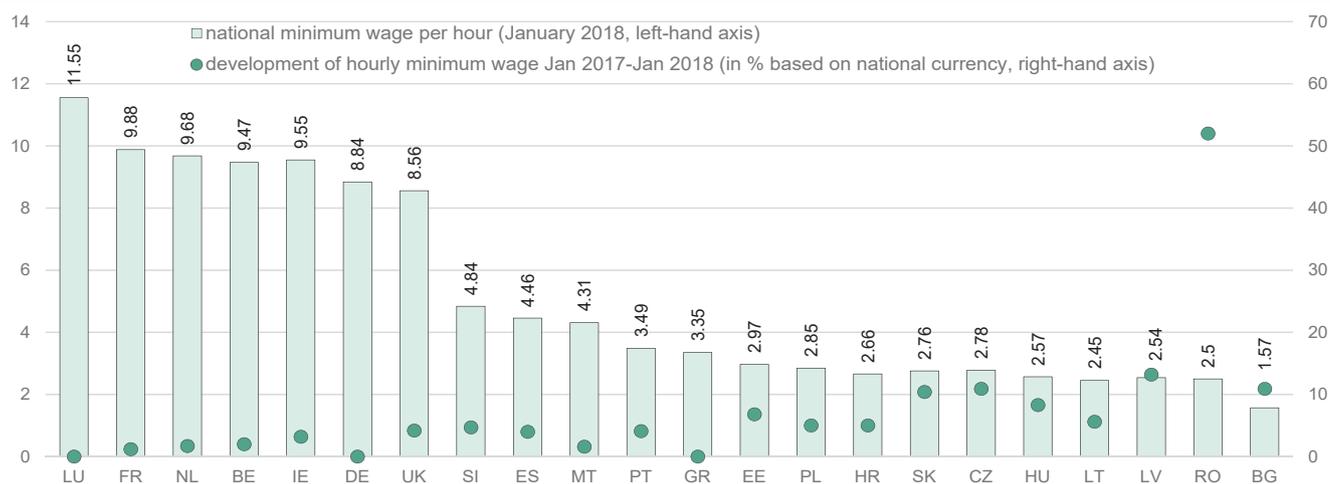
For Spain and Portugal relative productivity levels were more in accordance with relative wage levels up to the

crisis (for Spain, wages were slightly ahead of productivity), but then both wages and productivity levels fell. The case of Greece, meanwhile, merits special attention. After initial convergence up to 2008, in 2017 wage levels in Greece, relative to the EU15, were almost back at what they were in 1995. It is also noteworthy that Greece's relative productivity levels were ahead of its relative wage levels throughout these years (1995: 56/46%; 2008: 76/68%; and 2017: 57/49%). 'Internal devaluation' did not bring about any gains in competitiveness, and wages were brutally cut, but productivity also fell significantly.

Stalled wage convergence in poorer MS towards the EU average undermines social cohesion in the EU, but it is also detrimental to sustained growth and poses a threat to the future of Europe. With the free flow of capital, services and people, the persistently high wage gap creates adverse effects both in Europe's centre and periphery. Ill-fated crisis management practices based on austerity and wage moderation should be phased out entirely. Instead of being further undermined, collective bargaining needs to be strengthened. Minimum wage policies should play an essential role in pushing the wage floor upwards.

## Minimum wage developments

Figure 4.5 National minimum wage per hour (January 2018, in euros)



Source: WSI minimum wage database (2018).

### Progress in minimum wage convergence

In the EU, the dynamic growth of statutory national minimum wages continued in 2017. Only in Germany, Greece and Luxembourg did they remain at the same level as the year before. In all the other 19 EU Member States with a statutory minimum wage there were increases of different degrees.

As Figure 4.5 illustrates, the countries can be divided into three groups as regards their minimum wage increases in 2017. The first group with a growth rate of 5% or more is exclusively comprised of ten central and eastern European (CEE) countries. The outlier in this group with an exceptionally large increase of 52% is Romania, where the minimum wage was increased in two stages on 1 February 2017 and 1 January 2018 (Lübker and Schulten 2018). The increases in the remaining nine countries in this group range from 5% in Poland and Croatia to more than 13% in Latvia.

The large increases in this country group can partly be explained by statistical base effects because all these countries belong to the group with the lowest

absolute minimum wages. However, they are also an indicator of a double convergence process taking place. Since minimum wages in this group of countries grew much more strongly than in the rest of Europe, the minimum wage gap (in particular in relation to the southern European countries) is narrowing. The second convergence process within the countries is due to the fact that minimum wage growth exceeded the overall development of wages, meaning that the relative position of low-paid workers improved.

The second group with increases between 3% and 5% comprises five countries: Ireland (3.2%), Spain (4%), Portugal (4.1%), the UK (4.2%) and Slovenia (4.7%). In the first three countries the increase follows a long period of crisis-induced stagnation. In the UK, the increase is a consequence of an increase in the National Living Wage, which was newly introduced in April 2016 for all employees above the age of 25 years. The third group with a very modest growth rate of 2% or less consists of Germany, Greece and Luxembourg, where there was no increase at all, plus France (1.2%), Malta (1.6%), the Netherlands (1.7%) and Belgium (2%).

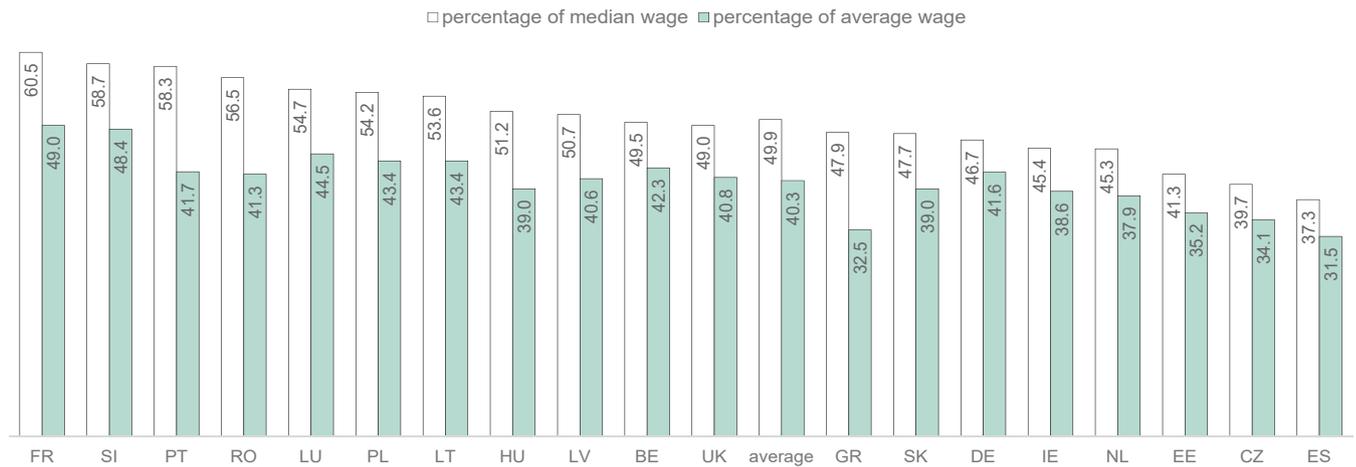
However, despite this convergence of minimum wage levels of CEE countries and southern European countries, the EU still remains divided into three distinct groups of countries as regards

the absolute level of (statutory) minimum wages. As Figure 4.5 illustrates, the first group of countries with relatively high minimum wages is comprised exclusively of western European countries. Luxembourg is leading the table with €11.55, followed by France (€9.88), the Netherlands (€9.68), Ireland (€9.55) and Belgium (€9.47). The laggards of this group are Germany (€8.84) and the UK with a national living wage of €8.56. However, the figure for the UK is heavily distorted by the devaluation of the British pound vis-à-vis the euro since the Brexit vote in June 2016. Without this currency effect the hourly minimum wage in the UK would be €10.79 and therefore the second highest in Europe (Lübker and Schulten 2018).

The second country group with minimum wages between €3 and €5 contains Slovenia (€4.84) and the southern European countries Spain, Malta, Portugal and Greece (€4.46–€3.35). The third group of countries with minimum wages below €3 comprises ten exclusively CEE countries ranging from Estonia (€2.97) to Romania (€2.50). Bulgaria is at the very bottom of this group with a minimum wage of only €1.57.

## Minimum wage developments

Figure 4.6 Minimum wage as percentage of national full-time median and average wages (2016)



Source: OECD Stat.

## On the way to a European minimum wage policy?

In light of the still large differences in absolute minimum wage levels, a more telling way to compare the level of minimum wages is the so-called ‘Kaitz index’ which measures the minimum wage as a percentage of the national full-time median or average wage. The strength of the Kaitz index is therefore that it puts the minimum wage in relation to the overall wage structure. Over time, this relationship between the minimum wage and the median wage became the more common measure for the Kaitz index. The median wage is defined as the wage that divides the overall wage structure into two equal segments, i.e. it marks the boundary between the highest-paid 50% and the lowest-paid 50% of the employees. Figure 4.6, which is based on the OECD Incomes Database, shows minimum wages as percentages of both national median and average wages.

The Kaitz index is an important measure because it was repeatedly used by international and European

institutions to call for fair and adequate minimum wages. In 2008, for instance, the European Parliament (EP), in a resolution to promote social inclusion and combat poverty, called on the European Council to agree a common EU target for minimum wages that should ensure a remuneration of at least 60% of the national average wage (European Parliament 2008). In its 2016 report on social dumping in the EU, the EP repeated this demand calling for a minimum wage target of ‘at least 60% of the respective national average wage ...to avoid excessive wage disparities, to support aggregate demand and economic recovery and to underpin upward social convergence’ (European Parliament 2016: 17).

In a similar vein, the commitment made in the EPSR to promoting ‘adequate minimum wages ... that provide for the satisfaction of the needs of the worker and his/her family’ (European Commission 2017b: 27) can be seen as an implicit acknowledgement that minimum wages should be living wages, i.e. wages that provide ‘more than mere subsistence enabling participation in society and some scope for workers and their families to insure against unforeseen shocks’ (Parker et al. 2016: 1).

Even though the EPSR does not refer to any concrete threshold for adequate minimum wages, the implicit reference to the concept of living wages and the explicit commitment to the objective

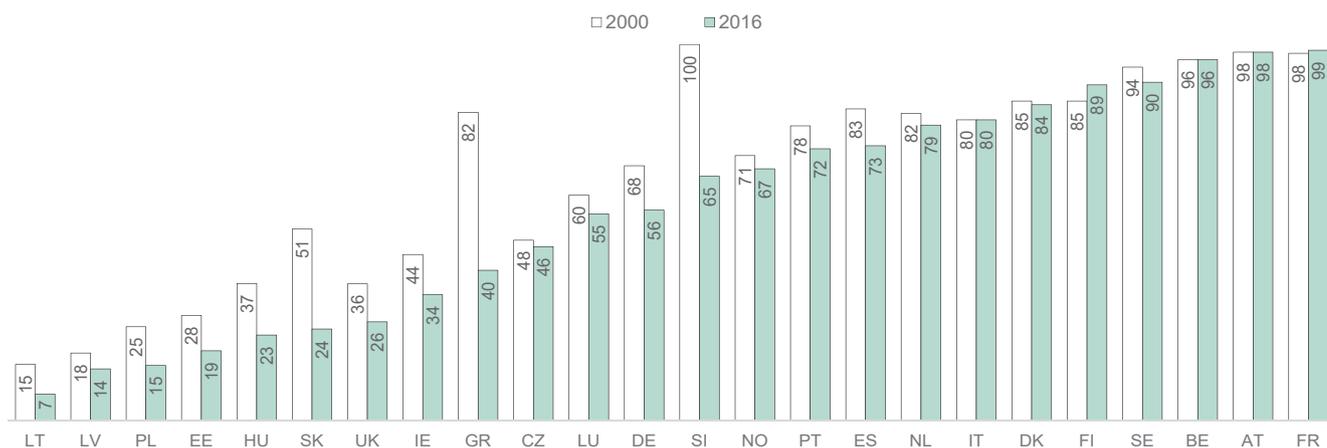
of preventing in-work poverty suggests that in order to achieve these objectives minimum wages should be at least 60% of the national full-time median wage. This can be seen as the ‘at-risk-of-poverty’ wage threshold, following from the goal of ensuring that workers should not be dependent on the state (through tax credits or in-work benefits) to ensure relief from poverty.

Figure 4.6 illustrates that despite recent minimum wage increases, only France is above this ‘at-risk-of-poverty’ threshold. In 10 out of the 19 countries for which the OECD provides data, the relative level of the minimum wage is even below 50% of the national median wage. This is a clear sign that a lot still needs to be done to fulfil the commitments made in the EPSR as regards ensuring adequate minimum wages.

However, it is very important to not only focus on the Kaitz Index as such. The pursuit of a common European minimum wage target of, for example, 60% of the national median wage always needs to be linked with measures to stabilise the overall wage structure, for instance through the support of multi-employer sectoral bargaining structures, because 60% of a very low median wage is ultimately still a wage that does not provide for the satisfaction of the needs of the worker and his/her family, as stated in the EPSR.

## Trends in collective bargaining and strike activities

Figure 4.7 Collective bargaining coverage (2000 and 2016) (% of employees covered by a collective agreement)



Source: OECD Stats.

Note: data for EE for 2001; for FR, LV, NO and LT, 2002; for CZ, DK, ES, FI, IT, PT, SI, SE and LT, 2015; for FR, HU, IE and LU, 2014; for GR, 2013; for PL, 2012.

### A continuous decrease in bargaining coverage

The coverage of collective bargaining is an indicator of the extent to which terms and conditions for workers are set by collective negotiations between trade unions and employers. It therefore measures the regulatory capacity of collective bargaining. Figure 4.7, which is based on OECD data, shows the long-term trend from 2000 to 2016. The percentages indicate the share of employees per country who are covered by a collective agreement.

Collective bargaining coverage is influenced by a multitude of factors, a crucial one being the level at which bargaining takes place. Figure 4.7 illustrates that collective bargaining coverage is high and fairly stable in countries with multi-employer bargaining structures, where collective bargaining mainly takes place at sectoral or, in some cases such as Belgium and until recently Finland, even at cross-sectoral level. By contrast, the lowest coverage and the deepest drop in coverage can be found in countries with single-employer bargaining

arrangements. This applies in particular to some central and eastern European countries where coverage decreased even though it was at a fairly low level already in 2000.

In addition to the level of bargaining an important factor is the existence of legal extension mechanisms or functional equivalents that ensure that collective agreements also apply to companies which did not sign the agreement or which are not members of the employers' federation that signed the agreement. As Schulten et al. (2015) illustrate, all the countries with a stable bargaining coverage of 80% or more are countries that make frequent use of the administrative extension of collective agreements or functional equivalents. The only exceptions are Denmark and Sweden, where no legal extension mechanism exists and where high coverage purely rests on the organisational strength of the two bargaining parties. An example of a functional equivalent ensuring high coverage is Italy where there is no legal procedure for the extension of agreements but where high coverage is based on established practice of labour court judgements. According to Treu (2014), this can be seen as a more indirect form of or functional equivalent to extensions.

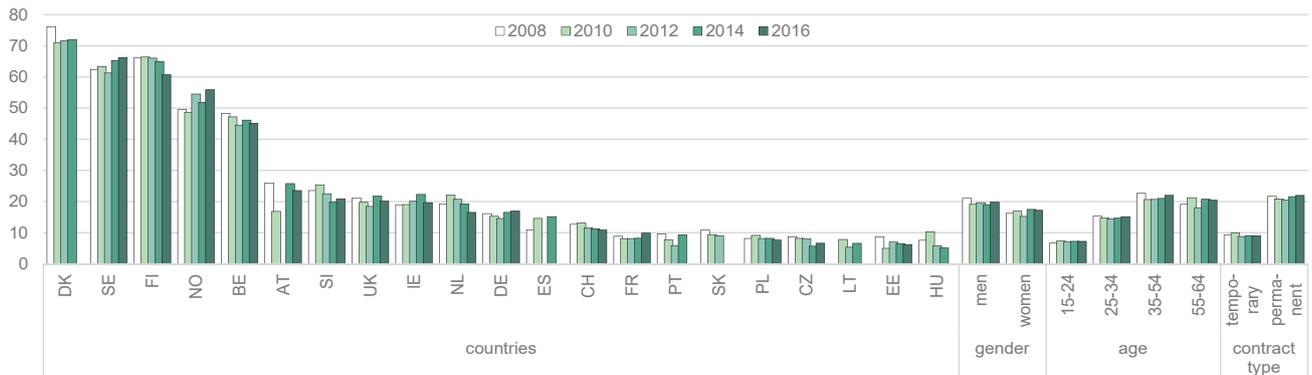
This confirms that there are two principle ways to establish high collective bargaining coverage: first, the

'Nordic way' through a high organising density, particularly on the union side, and second, through the comprehensive use of extensions (Schulten et al. 2015). This is further confirmed when looking at those countries, such as Greece and Portugal, where in the context of the crisis more restrictive criteria for the extension of agreements have been introduced, leading to a dramatic drop in bargaining coverage. In the case of Portugal, Figure 4.7 still shows a high coverage of more than 70%. This, however, refers to the agreements that still exist but may not have been renewed for years and have essentially lost their regulatory capacity. The more telling figure in Portugal therefore is the amount of newly concluded or renewed agreements whose coverage dropped to 10% in 2014 (OECD 2017: 140; Schulten et al. 2015).

This has important political implications. In order to achieve the political objectives of fair wages, wage convergence between CEE countries and western European countries, and a more equal distribution of income, European and national policymakers need to ensure that a majority of workers will be covered by collective agreements. Therefore, instead of supporting its abolition, the European Union should actively promote administrative extension in order to strengthen multi-employer collective bargaining all over Europe.

## Trends in collective bargaining and strike activities

Figure 4.8 Union density across countries and different groups of workers (2008-2016) (%)



Source: European Social Survey Cumulative File, ESS 1-7 (2016). Data file edition 1.0. NSD - Norwegian Centre for Research Data, Norway - Data Archive and distributor of ESS data for ESS ERIC; European Social Survey Round 8 Data (2016). Data file edition 1.0. NSD - Norwegian Centre for Research Data, Norway - Data Archive and distributor of ESS data for ESS ERIC; ESS Round 5: European Social Survey Round 5 Data (2010).

Note: Sorted by 2016 figures. Union membership is defined as being a member of a 'trade union or similar organisation' for employees aged between 15 and 64 years. Unionisation for different groups of workers is based on data from BE, CZ, CH, DE, EE, FI, FR, IE, NL, NO, PL, SE, SI and UK. Survey weight used: dweight for country unionisation and dweight and pspwght for unionisation among different groups of workers.

### Continued variation in unionisation rates...

Figure 4.8 confirms the already mentioned variation in unionisation rates. It provides an overview of trade union density in 21 European countries (masking sectoral differences) and the unionisation levels among different groups of workers; the latter is the weighted average of 14 countries for which data is available for all years considered. Relying on European Social Survey data, union density here concerns employees aged between 15 and 64 years. The data might overestimate density as it comprises unions and similar organisations (as stated in the questionnaire), but it is generally a bit lower than the assessment of density based on administrative data (Visser 2016); Denmark and Norway are exceptions. Overall, the comparison shows that the validity of the measurement of union density here is convincing: Ireland is a remarkable outlier, with density considerably lower than indicated in administrative data, although it stands virtually at the same level as in the Irish Central Statistics Office data (2017). At least three conclusions can be made from an analysis of Figure 4.8.

First, considerable divergence in country unionisation rates remains, with the Nordic countries still at the top of the 'unionisation league' due to a relatively benevolent institutional setting. While unions' involvement in voluntary unemployment insurance (the 'Ghent system') is an important explanation for this (except for Norway) (Ebbinghaus et al. 2011), strong union access to the workplace is also essential (Ibsen et al. 2017). Furthermore, centralised collective bargaining is associated with a higher unionisation level (Rasmussen 2017). At the other end of the league are most central and eastern European countries, 'supporting the notion that to some degree European integration has served as a neoliberal project to advance the interest of capitalists' (Vachon et al. 2016: 13); Slovenia is an exception, but density is falling. France, with its low but stable density, illustrates that workers' power can also be based on their mobilisation capacity (Sullivan 2010). Indeed, in addition to workers' associational power, other power resources and their capabilities to use them (Lévesque and Murray 2010) should be considered for assessing workers' power vis-à-vis employers' power.

Second, in most countries considered here, density is either stagnating at a mediate or low level or declining. However, unions can still rely upon a growing (at least until 2009) and relatively high level of social legitimacy, especially among social groups exposed to economic

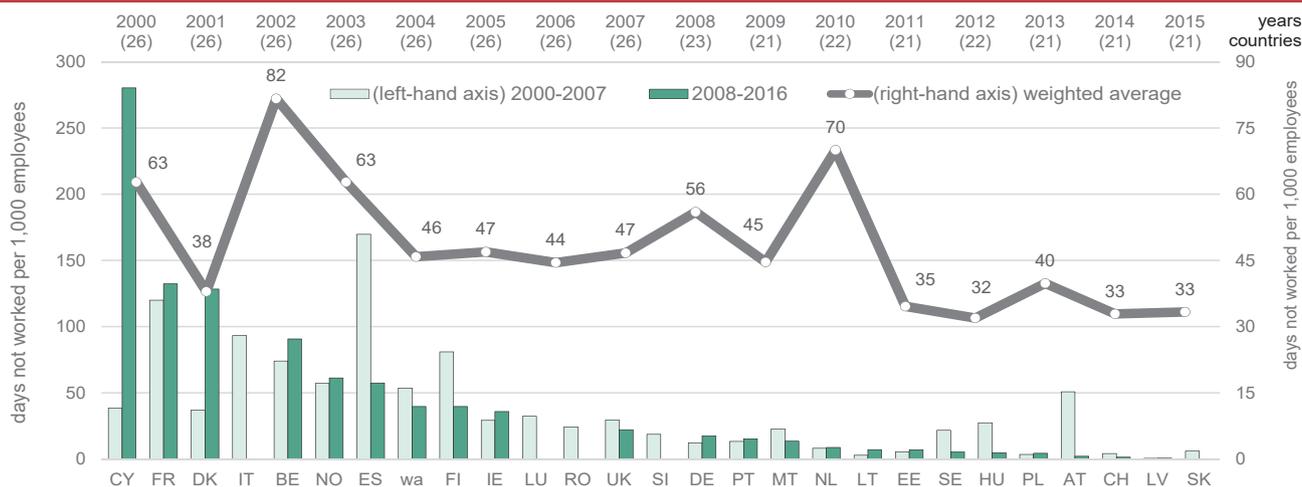
vulnerability like young people and migrant workers (Frangi et al. 2017).

Third, the gender gap in unionisation has been generally diminishing (mainly due to a rise in women's unionisation), but the gaps in unionisation between the age categories and contract types considered here seem to be persisting (although they hide considerable country differences). Regarding age, there is a strong association between youth and adult unionisation; both point to distinctive patterns in the school-to-work-transition and the different degrees of union integration in that transition (Vandaele 2018). Also, workers on temporary contracts (as an indicator of precariousness) tend to be less unionised in countries where collective bargaining coverage is low (Shin and Ylä-Anttila 2017).

The loss in workers' associational power has led to some convergence in union responses, with the promotion of variants of the US-style 'organising model' (Ibsen and Tapia 2017). Union agency (and coalitional support from, for instance, community-based organisations) can make a difference, even in very adverse circumstances. Apart from a broad strategic vision on the future of unions, a vast shift in resource allocation is needed to overcome representation gaps and to turn small-scale, local initiatives into large-scale revitalisation efforts, whereby those occupations and industries where unions are needed the most are preferably prioritised.

## Trends in collective bargaining and strike activities

Figure 4.9 Relative strike volume in Europe since 2000 and country comparisons between 2000-2007 and 2008-2016



Source: ETUI. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016).

Note: wa: weighted average. Bar graphs sorted by 2008-2016 average.

### ...and in the strike volume

The line graph (left-hand scale) in Figure 4.9 depicts the weighted average of the strike volume in most European countries since 2000. It displays a relative peak in the volume in 2010, mainly resulting from ‘national days of action’ against pension reforms in France (Ancelevici 2011). Thereafter, the volume falls to a level below 40 days not worked due to industrial action per 1,000 employees. However, post-2008 strike developments are underestimated, as data for some countries are lacking and the data here ignore several general strikes linked to anti-austerity protests (Vandaele 2016).

The strike picture at the country level is far more differentiated than the line graph suggests, as the structural crisis of the finance-dominated accumulation regime has affected economies differently. Yet the economic hardship has only provided a context for grievances and feelings of relative deprivation: a connection should be made between the protest cycle and austerity programs, as they made it more likely that blame could be attributed to political authorities (Bermeo and Bertels 2014). Besides the austerity drive’s timing and severity, the

organisational cohesion between unions and their institutional access to negotiations with political authorities have also varied, all of which has generated country-specific dynamics of resistance (Ancelevici 2015). Moreover, nationally embedded action repertoires explain the sustained cross-national variation in the strike volume and its uneven development (Andretta et al. 2016).

Political mass strikes like large-scale strikes in the public sector and general strikes help to explain differences in the country’s volume, as shown in the bar graphs (right-hand scale), which compare its average in the 2008-2016 period (i.e. since the financial crisis and its aftermath) with a preceding period of almost equal length. Country differences in the volume are generally persistent over time: there is a positive relationship between the country rankings in both periods, with those differences tending to increase during upswings in industrial action (Brandl and Traxler 2010). Changes in the deployment of the strike weapon over time and across countries (and industries) reflects its context-dependent character and the variation in the legally institutionalised recognition of labour rights (Gentile and Tarrow 2009).

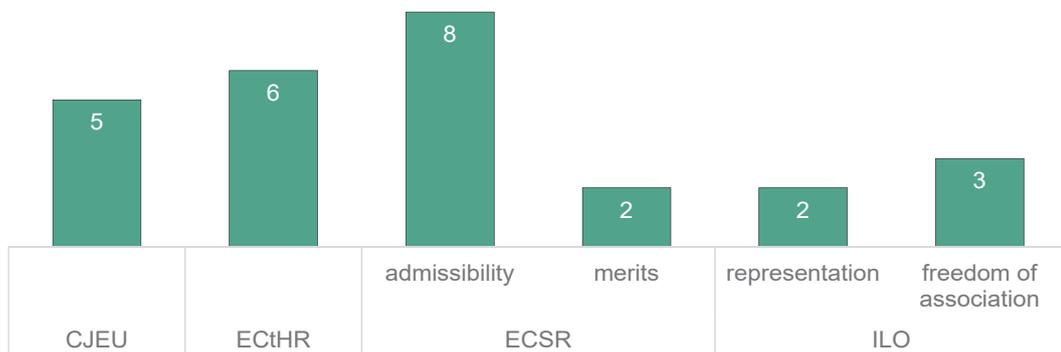
However, from a long-term perspective, there seems to have been a prevailing convergence in strike trends. In most countries for which data are

available for the two periods, the volume declined or has been relatively stable. The drop in the volume is naturally most prominent in those countries that had a relatively high level in the first period, such as Spain, Finland and Austria (the latter can be explained by an exceptional general strike against pension reforms in 2003). But there are exceptions, of which Cyprus and Denmark are the most prominent cases. Cyprus skyrockets to the top of the ‘strike league’ due to an open-ended conflict that erupted in the construction industry in 2013. The Danish data, meanwhile, are dominated by three large-scale strikes in the public sector in 2008 (Scheuer et al. 2016) and a general lock-out in the public sector in 2013.

Finally, industrial action across Europe in the so-called ‘gig economy’ (Cant 2017) demonstrates once again that the use of the strike weapon is not restricted to middle-aged men in the manufacturing industry. While these small, short-term strikes of precarious (young) workers are not captured by the official strike data (either because they do not pass the threshold for inclusion or because the right to strike of these ‘gig workers’ is in a legal ‘grey zone’), their ‘disruptive form of agency’ (Bailey et al. 2018:4), together with other forms and expressions of workers’ creativity in collective action, will undoubtedly influence future employment relations in platform capitalism.

## Trade unions before European courts in 2017

Figure 4.10 Judgments in cases with trade union participation



Source: Author's own compilation.

### Transnational litigation: an underused opportunity?

Another institutional power resource of trade unions is the legal system. The judgments of European courts in particular often influence policy developments beyond individual cases, not least in the area of workers' rights. Pan-European litigation strategies are therefore a potentially important area for trade unions and workers' representatives in pursuing their interests.

In practice, however, pan-European courts and quasi-judicial bodies are only rarely used by trade unions. The available data from 2017 show that trade unions have been direct participants in only 25 cases before European courts and quasi-judicial bodies. Out of these 25 cases, 8 dealt with trade union rights (e.g. workers' representation rights, the right to association, and the right to have enterprise-level trade union representation). The rest of the cases concerned a diverse set of topics (working time, protection of workers during transfer of undertakings, atypical work, access to

training, forced labour, health and safety at work, and the right to privacy at work).

One of the key reasons behind the lack of use of judicial avenues by the trade unions seems to be the limited access to some of the European courts.

For example, in 2017 only five cases were brought before the Court of Justice of the European Union (CJEU) that involved the direct participation of a trade union. Access to the CJEU is limited for collective actors and entirely dependent on national law, since EU-level rules do not allow intervention (e.g. as 'amicus curiae') and the admissibility rules in direct actions for collective entities are very restrictive. Therefore, and despite the existence of many cases concerned with workers' rights and the potential interest to trade unions, the lack of use of this court is to be expected.

By contrast, the European Court of Human Rights (ECtHR) deals far more rarely with social and workers' rights. Nevertheless, during 2017 the ETUC intervened in three cases and the ITUC in one, and in two more cases a trade union has been the applicant. Even though the focus of this court is on civil and political rather than social rights, the possibility to intervene in the proceedings creates a favourable environment for trade unions to assert their positions before this judicial body.

The European Committee of Social Rights (ECSR), which allows direct

access for trade unions (from Member States that have accepted the collective complaints procedure) has also been used more actively. In 2017 the ECSR made decisions in 10 cases where a trade union was the complainant (eight on admissibility, and two on merits).

The ILO complaints procedures (the representation procedure and the freedom of association procedure), however, although accessible to trade unions, have rarely been used (in five instances).

As Figure 4.10 illustrates, by and large, trade unions rarely use pan-European courts to pursue their interests. Key problems seem to be the often limited access to these courts (CJEU) and the limited number of cases that are of interest to the trade unions (ECtHR). However, in the light of the influential role of European courts, this is certainly an avenue to be further explored.

## Conclusions

- 
- Concerning the commitments of the EPSR as regards fair wages and adequate minimum wages, the 2017/2018 CSRs contain mixed messages. On the one hand, there are recommendations to reduce the gender pay gap and to ensure stronger real wage growth; on the other hand, the majority of recommendations still aim at only moderate developments of (minimum) wages and the decentralisation of collective bargaining. A close eye should be kept on the upcoming CSRs as regards the EPSR's commitments.
  - In 2017, the dynamic development of real wages in 2016 slowed down and showed strongly divergent trends across the EU countries. CEE countries pursued their catching-up process with a stronger real wage growth than in the rest of the EU, although this progress has slowed down somewhat since the onset of the crisis. In addition, the 2016 trend of real wages outstripping productivity has been reversed in many countries.
  - Longer-term wage convergence between the EU's western European core countries and CEE and southern European countries has slowed down or even gone into reverse since the crisis, mainly due to the negative effect of the flawed 'one-size-fits-all' EU crisis management based on austerity and wage moderation.
  - The long-term development of real wages in the post-crisis period (2010-2017) has lagged behind that of the pre-crisis period (2000-2009). As a matter of fact, in nine EU countries the level of real wages is below what it was in 2010.
  - The dynamic growth of statutory minimum wages continued in 2017. Since this growth was much stronger in the CEE countries than in western and southern European countries, further progress was made in minimum wage convergence.
  - Relative minimum wage levels as a percentage of the national full-time median wage are still below what is needed to fulfil the commitments made in the EPSR to promoting adequate minimum wages from which a worker and his/her family can make a living.
  - Collective bargaining coverage has been continuously decreasing in most countries since 2010. In order to foster processes of convergence, active political support for multi-employer bargaining arrangements are needed, through the promotion of effective extension mechanisms in countries with low coverage.
  - Trade union density remains highly diverse across the EU. The main trend in most countries is one of stagnation at medium or low levels, while in some cases membership numbers are even decreasing. However, the gender gap in unionisation rates is declining, mainly due to rising numbers in female union membership.
  - Strike activity continues to be uneven across the EU. However, from a long-term perspective, there is also a continuing convergence of strike trends, with generally declining strike volumes.
  - Pan-European courts such as the Court of Justice of the European Union are rarely used by trade unions in pursuit of their interests, mainly due to their often limited access to these courts.

# Social policymaking and workers' participation

## Introduction

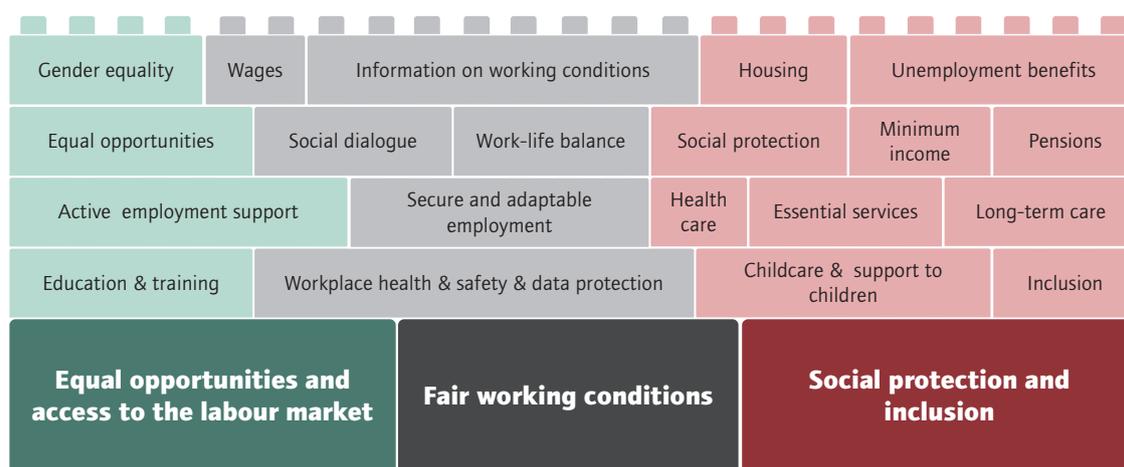
This chapter builds upon the assessment of social policymaking in Chapters 2 and 3. Taking stock of recent developments in social policymaking and particularly workers' participation, this chapter concludes that the overall trend is one of stagnation as we continue to wait for long-promised reforms and improvement. A brief overview of the potential contribution of the European Pillar of Social Rights towards strengthening the social dimension of the EU is followed by a critical look at its impact on workers' rights in particular. Building upon this, we take a critical look at the underlying rationale of the Commission's Regulatory Fitness and Performance (REFIT) programme and explore some of its actual social outcomes. Turning to workers' participation, we bring together research evidence and practitioners' experience with European Works Councils (EWCs), focusing on their conclusions about the current state of play and target areas for improvement. We identify an east-west divide among EWCs and, with dwindling hopes for a reform of the legal framework, we look at the potential for individual EWCs to pull themselves up by their bootstraps by renegotiating their founding agreements; we also identify the factors which continue to hamper the establishment of new EWCs. We explore the dynamics and impacts of workers' voice more generally. Turning to board-level employee representation, we look at the myriad ways in which mandates have been negotiated in the Societas Europaea (SEs), take stock of initiatives to promote gender equality in company boards, and explore the links between territoriality and workers' rights in this area. Finally, in anticipation of the EU Commission's long-announced 'company mobility package', we assess the limited available evidence, particularly with respect to its impact on tax justice.

### Topics

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# The European Pillar of Social Rights

Figure 5.1 The Social Pillar



Source: Author's own compilation.

## Quo vadis?

It was hoped that the 2017 European Pillar of Social Rights (EPSR) would give some 'new momentum' to Social Europe by reviving EU social ambitions. Indeed, every 15 years or so, an ambitious proposal to 're-balance' the EU's economic dimension with its social one is tabled (Pochet 2017). This, the latest of such proposals, was awaited with particularly high expectations by the stakeholders, including trade unions.

Indeed, the EPSR is the most encompassing social initiative to have been adopted by the EU in the past decade. Its three chapters lay out 20 broad principles in three areas: 1) equal opportunities and access to the labour market; 2) fair working conditions; and 3) social protection and inclusion.

The EPSR not only extends across social policy and labour law, it also seeks to confer new rights – rights previously absent in the EU realm. For example, the EPSR introduces for the first time 'the right to [...] adequate unemployment benefits or reasonable duration' (#13) and the obligation (for the Member States) to provide adequate shelter and services for the homeless. It also states that everyone lacking sufficient resources has the right to adequate minimum income benefits (#14).

Concerning workers' rights, the 'right to fair wages' is completely new (#6), especially since the EU lacks the legislative competence to regulate pay. In many ways the EPSR therefore sounds very promising.

However, despite its promise of upward convergence, the EPSR is quite disappointing in terms of its legal form. In fact, the implementation and enforcement of this brand-new instrument raises more questions than answers (Rasnača 2017: 37). The EPSR consists of a recommendation and a proclamation, and both are soft law instruments without legally binding force. The three legislative initiatives issued together with the EPSR (on work-life balance, on the revision of the Written Statement Directive, and on access to social protection) merely make reference to the EPSR rather than set out to implement its principles. Furthermore, despite repeated requests, the Commission has thus far declined to issue a Social Action Plan of future legislative initiatives for implementing the EPSR.

The only area in which the Commission has promised a meaningful role for the EPSR is the European Semester process (European Commission 2017c: 9). Until very recently, however, the country-specific recommendations failed to reflect this promise (Clauwaert 2017: 16). The Social Scoreboard's set of

indicators for monitoring the 20 EPSR principles (ETUI, Scoreboard: 7) have also only very recently been defined (see also Chapters 2 and 3). Therefore, for now the prospects of meaningful implementation and enforcement of the EPSR seem bleak.

At the same time, there are various ways in which the EPSR could be used to strengthen the EU's social dimension in a significant way.

First, a strong (political) commitment to its implementation and enforcement is needed, together with a concrete action plan, be it from Member States at the national level or from the EU legislator.

Second, independently of political will or the lack thereof, the EPSR could acquire some role in future litigation before the CJEU, perhaps similar to that played by comparable instruments in the past (Rasnača 2017: 33).

Third, it could serve as a shield against attempts to further deregulate social protection (e.g. via the European Semester or EMU mechanisms).

Finally, the EPSR could be used to reach a consensus on at least a few of its principles (such as unemployment insurance) that are essential for the smooth functioning of the EMU (Rasnača and Theodoropoulou 2017: 1). Conceivably, a legally binding framework could be built around such a consensus.

## Workers' rights and the Social Pillar

Figure 5.2 Workers' rights and the Social Pillar



Source: Author's own compilation.

### Old wine in new bottles?

Politically, the European Pillar of Social Rights (EPSR) reaffirmed social and labour law's place squarely on the EU agenda. It also raised some hopes for convergence towards higher pan-European legal standards. However, when we look specifically at workers' rights, we see that hardly anything new has been proposed.

For the most part, the EPSR merely reiterates rights that have already long existed in the EU acquis. Prime examples of this are the right to equal pay for women and men, the right to equal treatment in employment, and the right to be informed and consulted in cases of business transfer, restructuring and mergers.

There are very few new rights proclaimed in the EPSR. The most promising, and most frequently mentioned, is the right to fair wages (see also Chapter 4). The EPSR also adds a deadline to the existing right to be informed about the terms and conditions of employment: this information should be given at the start of employment, instead of within the first two months, as is currently foreseen in the Written Statement Directive. With respect to dismissals, the EPSR establishes the right to a

reasonable notice period and the right to be informed about the reasons for the dismissal. Finally, while the Merger Regulation states that workers have to be informed about the merger, the EPSR adds the right to consultation.

In this way, the EPSR to a certain extent complements some of the already existing rights. This, however, has mostly been done to remain aligned with the secondary law proposals that were issued alongside the EPSR proposal (on work-life balance, the revision of the Written Statement Directive, and access to social protection).

The Commission's proposed revision of the Written Statement Directive already proposes that the information on working conditions should be given to the worker on the first day of their employment (European Commission 2017a: 12). Therefore, the EPSR does no more than implement the Commission's proposal. Similarly, the Commission's proposal on work-life balance, in line with Principle #9 of the Pillar, envisages that the right to parental leave should provide flexibility in how this leave will be taken (e.g. part-time, full-time or in flexible forms) (European Commission 2017d: 12). Here, again, it can be argued that the Pillar seeks to implement the Commission's legislative proposal, rather than vice versa.

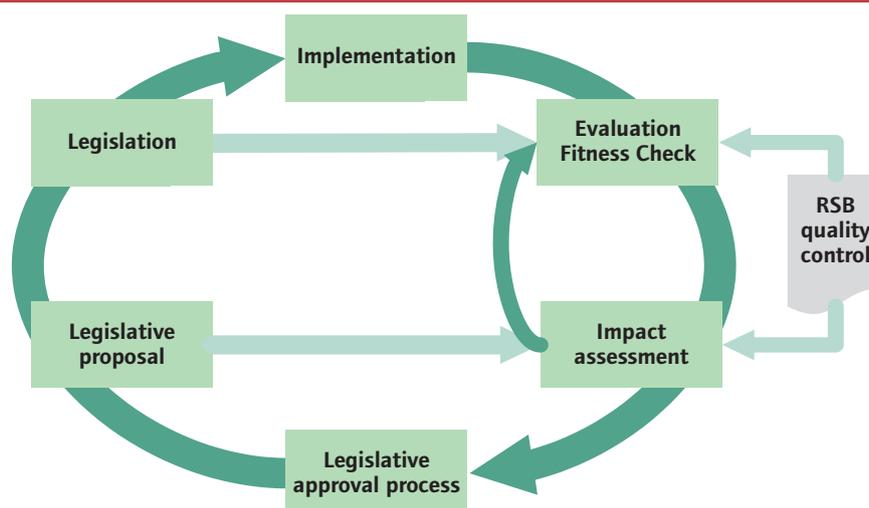
Furthermore, the Pillar itself requires specific legislative measures to

be adopted in order for its rights to be legally enforceable (Recital 14 of the Preamble). In this way the EPSR fails to use the opportunity to strengthen the implementation of workers' rights embedded in EU secondary law.

What does the EPSR actually mean then for workers' rights at the EU level? In legal terms at least, nothing much beyond reaffirming the existence of already existing rights. Although to a limited extent it adds to existing rights, a major question mark remains hanging over how they will be enforced, and any meaningful enforcement will require the adoption of further (implementing) measures either at national or EU level, and with all the accompanying legislative struggles. A political commitment to the principles which guide social policy is essential.

## REFIT: social outcomes

Figure 5.3 Better regulation cycle



Source: Better Regulation toolbox.

### An inadequate process...

The Better Regulation agenda has become one of the key elements in the policy-development process within the Commission. Having to a great extent reshaped the way that the Commission works, it now affects practically all relevant EU policy and legislative initiatives, both those newly proposed and those long existing.

The Commission's Regulatory Fitness and Performance (REFIT) programme is one of the main constitutive elements of the Better Regulation agenda. It aims to keep EU law simple, remove unnecessary burdens and adapt existing legislation without compromising on policy objectives.

While this ambition does not in itself seem threatening, the REFIT process has been heavily criticised, especially by trade unions and NGOs. Their key charge is that it furthers an exclusively deregulatory agenda.

Indeed, since the REFIT process inevitably puts measures under review into a defensive position, it underscores the perception that regulation is a burden by default (Van den Abeele 2014: 27). Further costs of the REFIT process arise

due to the necessary redirecting of scarce resources within the Commission. For example, instead of working on problems of enforcement and implementation in the Member States, in compliance with existing EU labour law measures, or on developing new social policy and labour law initiatives, the Commission's scarce administrative and expert resources are spent on justifying new and existing social *acquis* before the Regulatory Scrutiny Board (RSB).

The major critiques that can be directed at the REFIT process, however, concern its underlying rationale. Legally, the REFIT process is rooted in the principles of subsidiarity and proportionality (i.e. acting only where necessary and in a way that does not go beyond what is needed to resolve the problem). Economically, it is based on cost-benefit analysis and uses the Standard Cost Model (SCM) to evaluate policy measures. The SCM has a significant methodological bias and has been criticised as 'a propaganda tool for spinning a deregulation agenda' (Vogel 2010: 45). Briefly, the SCM consists of three steps: 1) dividing regulation into measurable units; 2) calculating the cost of the regulatory and administrative burdens of each segment; and 3) proposing the removal of elements of regulatory and administrative burdens deemed to be pointless, redundant or too costly. It is therefore inevitably oriented towards cuts and deregulation. In sum, the *raison*

d'être of the REFIT process is inevitably deregulatory and based on the idea that the EU should act only where it is really necessary and in as limited a manner as possible.

Moreover, for the social *acquis* in particular, this process poses additional problems. First, it is very difficult to quantify (in any way) the benefits of labour law and social policy measures, and even more so those of fundamental social rights. How does one calculate the benefit that limited working time gives to the worker? How can one quantify the benefits of non-discrimination legislation? While it may be obvious that such measures are necessary and extremely relevant, they do not lend themselves easily (or even at all) to the underlying logic of the REFIT process.

Unsurprisingly, therefore, the REFIT process has been met with extreme caution and much criticism.

## REFIT: social outcomes

Figure 5.4 Overview of the published REFIT evaluation reports on workers' rights

Year	Document number	Topic
2013	SWD(2013)293 final	EU law in the area of information and consultation of workers
2016	SWD(2016)350 final	Access to the occupation of road transport operators
2017	SWD(2017)10 final	EU occupational safety and health directives
2017	SWD(2017)205 final	'Written Statement Directive'
2017	SWD(2017)184 final	Social legislation in road transport

Source: Author's own compilation.

### ...promoting (unforeseen) convergence?

Considering the previous section's negative evaluation, it may come as a bit of a surprise that the actual outcomes of the REFIT process have so far fostered greater (upwards) convergence and unity across the EU social *acquis* than perhaps expected.

The main REFIT evaluations in the areas of EU labour law and social policy have so far concerned: 1) EU law in the area of information and consultation of workers; 2) access to the occupation of road transport operator; 3) the occupational safety and health (OSH) directives; 4) the Written Statement Directive; and 5) social legislation in road transport.

All of these REFIT evaluation reports, rather than containing deregulatory recommendations, have instead duly indicated the gaps in enforcement and also in the level of protection offered by the said measures that should be closed.

First, the REFIT review in the area of information and consultation of workers came to the conclusion that the three EU directives in this field are all

relevant and provide such benefits as increased trust between management and labour, the protection of workers, and the establishment of a more level playing field among companies (European Commission 2013: 2). Furthermore, among the problems that require (possibly EU-level) solutions, the review listed the lack of information and consultation bodies in many establishments and the often only formal involvement of workers, as well as the gaps in the scope of application of the directives and the inconsistencies concerning the definitions used.

Second, the major evaluation of the OSH *acquis* (comprising 24 directives) came to quite similar conclusions. While the legal framework was seen as relevant (European Commission 2017d: 4), the REFIT report pointed out that the lack of coverage of SMEs poses significant problems that should be solved, and that for some issues, novel working methods, technological changes and new scientific knowledge necessitate an update of the the legal framework (ibid: 69-70). Furthermore, such matters as work-related cancer, musculoskeletal disorders, and mental health might require new (and possibly legislative) solutions at the EU level (ibid: 70).

The REFIT evaluations concerning access to the occupation of road transport operator, the Written Statement Directive, and the social

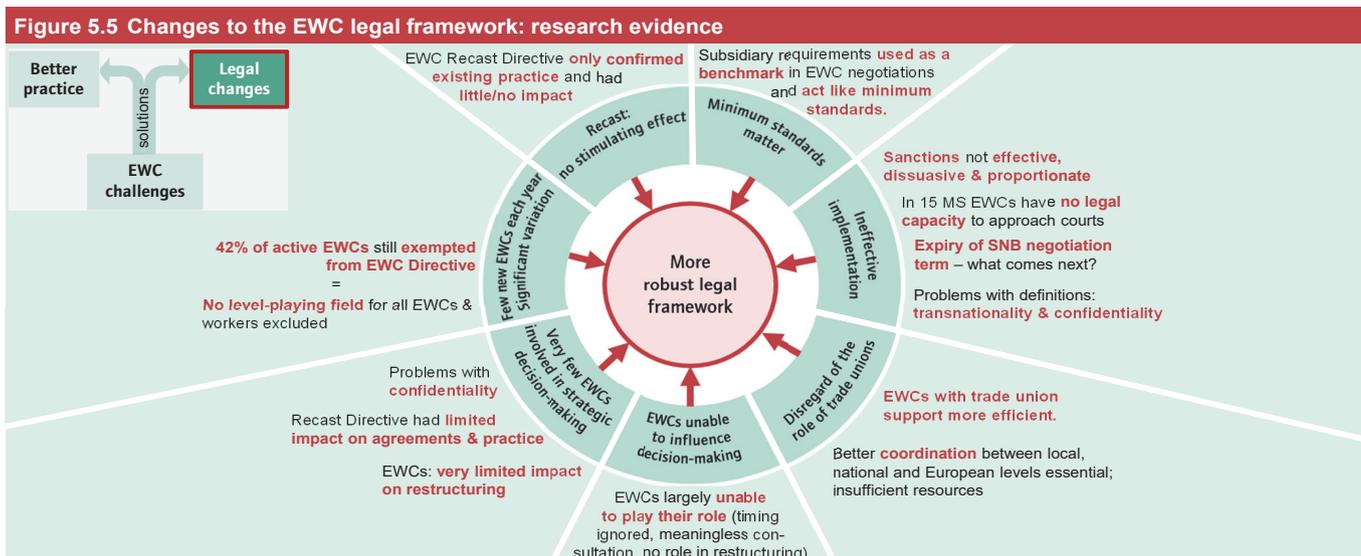
legislation in road transport came to similar conclusions to the two reports cited above.

Among the key issues raised in all the available reports one finds: 1) the suggestion to limit the existing exclusions from the scope of application of the measures, and 2) the need to address implementation deficiencies (by either fostering better compliance via new tools that could control or facilitate implementation, or by adopting special implementing measures.) Finally, and contrary to expectation, one further common conclusion about the social *acquis* being subjected to the REFIT process has been that the measures are relevant across the board and that they do not create undue burdens for businesses.

Therefore, in the light of its underlying methodology, the results of the REFIT process in the area of labour law and social policy have overall been rather unexpectedly positive so far. Moreover, they even suggest the need to achieve more upwards convergence (via legislative means) at the EU level.

While underlying problems with this process still remain, the defence strategies adopted both within the Commission and by the (social) stakeholders have proven capable of halting the deregulatory attempts that were expected to have shaped the REFIT process.

# European Works Councils



Source: R. Jagodzinski, own compilation.

## Converging evidence

In the area of European Works Councils, 2017 was spent waiting for the Commission's long overdue report on the implementation of the EWC Recast Directive. Originally due in 2016, it was repeatedly postponed and then promised to be announced as part of the Social Pillar in spring 2017. This promise could not be fulfilled either.

The least likely obstacle to the publication of the report seems to be the availability of research evidence and evaluations on the topic. The various pieces of research published between 2011 and 2017 concur in their diagnoses and solutions.

First, several of the EWC studies published (European Commission 2015; ETUC 2016; Pulignano et al. 2016; Waddington et al. 2016) concur that despite the modifications to the Recast Directive, EWCs are still unable to play their role. The reasons range from insufficient safeguards concerning the content and timing of information and consultation, as well as the management's reluctance to endow information and consultation with a good faith intention to make it a meaningful part of the company's decision-making process.

Second, as the above pieces of research indirectly suggest and three further studies explicitly put forward, the Recast EWC Directive had only a marginal impact in the two main goals it set: 1) increasing the number of new EWCs and the quality of the existing ones (De Spiegelaere 2016; De Spiegelaere and Jagodzinski 2015); and 2) improving the quality of implementation, legal certainty, effectiveness and transparency of national legal frameworks (Jagodzinski 2015). Admittedly, the Recast Directive did have an effect in that it encouraged management and labour to adopt some new definitions when renegotiating the agreements (mainly thanks to the support from trade unions and to learning processes within EWCs), but the overall low share of renegotiated agreements limits this impact.

Third, studies conducted on EWCs in the past years point towards some key issues where the Recast Directive failed to make a difference. One such example are definitions that were only partially amended: while information and consultation were more precisely delimited, no similar upgrade was applied to definitions of the transnational competence of EWCs, the confidentiality of information, or sanctions (ETUC 2016; Pulignano et al. 2016; Waddington et al. 2016; Jagodzinski 2015). Furthermore, these studies also identify the persistent problem of inadequate links between the

EU level of information and consultation (EWCs) and national structures as a factor which has diminished the potential impact of the Recast Directive.

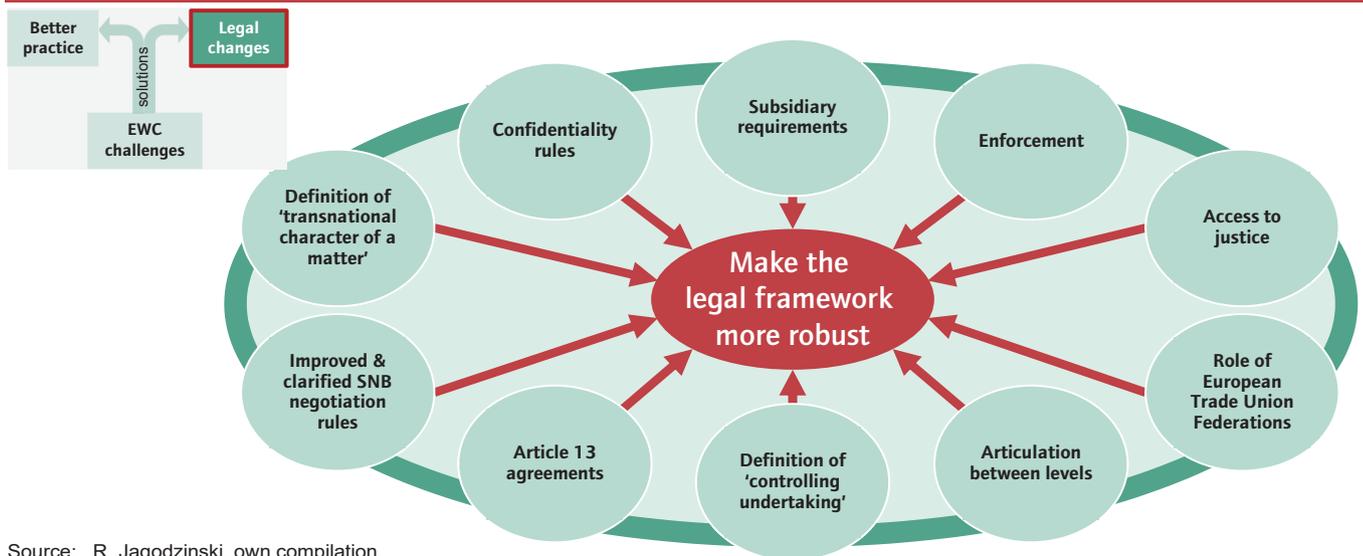
Fourth, the studies share the common conclusion that EWCs do not have access to appropriate and sufficient resources to fulfil the expectations placed in them (De Spiegelaere and Jagodzinski 2015; ETUC 2016; Jagodzinski 2015). These resources comprise both the institutional facilities (access to justice; means of enforcement; a single annual meeting) and the material ones (no defined budget; managements' strategies to limit operational costs; limited access to training or trade union experts, etc.).

Finally, research also concludes that the gap between well-functioning and poorly functioning EWCs is growing at an even greater rate than it was in the past (ETUC 2016; De Spiegelaere and Jagodzinski 2015).

Not all of the above problems can be resolved solely by improving legal frameworks for EWCs; many of the solutions rely on improving the daily and strategic practice of EWCs and their members. Nevertheless, the Commission's long-awaited report on implementation represents an important milestone. If it not only identifies but also suggests ways to correct the myriad shortcomings laid out above, it may even prove to be a game changer.

## European Works Councils

Figure 5.6 Changes to the EWC legal framework: trade unions' assessment



Source: R. Jagodzinski, own compilation.

### Trade unions demand more robust rules

While not dismissing the need to improve practice, European trade unions presented a catalogue of demands for changes to the current legislative foundations for EWCs (ETUC 2017a). These demands are largely built upon the foundations of solid research evidence (see Figure 5.5) and are clearly supported by the practical experience gained by unions in coordinating hundreds of EWCs.

The ETUC catalogue of ten key demands can be grouped into several clusters. The first cluster comprises demands for the improvement of the existing definitions in the EWC Recast Directive. The first definition in this group is the central notion of the 'transnational character of a matter' (Art. 1.4); it is currently formulated too generally and vaguely, hence EWCs are too often denied the right to information and consultation by companies unilaterally classifying matters as purely national. Trade unions demand that the existing definition of transnationality be complemented with the criteria set out in the Preamble (Recital 16).

A second definition requiring review is the exemption of the so-called Article 13 agreements (i.e. pre-Directive agreements) from the standards of the Directive. In 2018, 22 years after the entry into force of the EWC Directive, 37% of active EWCs still operate on the basis of such exempted pre-Directive agreements (www.ewcdb.eu, January 2018). Trade unions rightly argue that the reasons to maintain the exemption (which was originally designed as an incentive to stimulate the establishment of EWCs prior to 1996) can no longer be justified and should finally be abolished.

The third definition for which the trade unions demand improvement is that of the 'controlling undertaking' (Article 2.1) which currently excludes common forms of corporate organisation, such as contract management, franchises, or joint ventures. Furthermore, the lack of objective criteria to determine the location of the 'representative agent' of companies whose headquarters lie outside the EEA invites arbitrary 'regime shopping'.

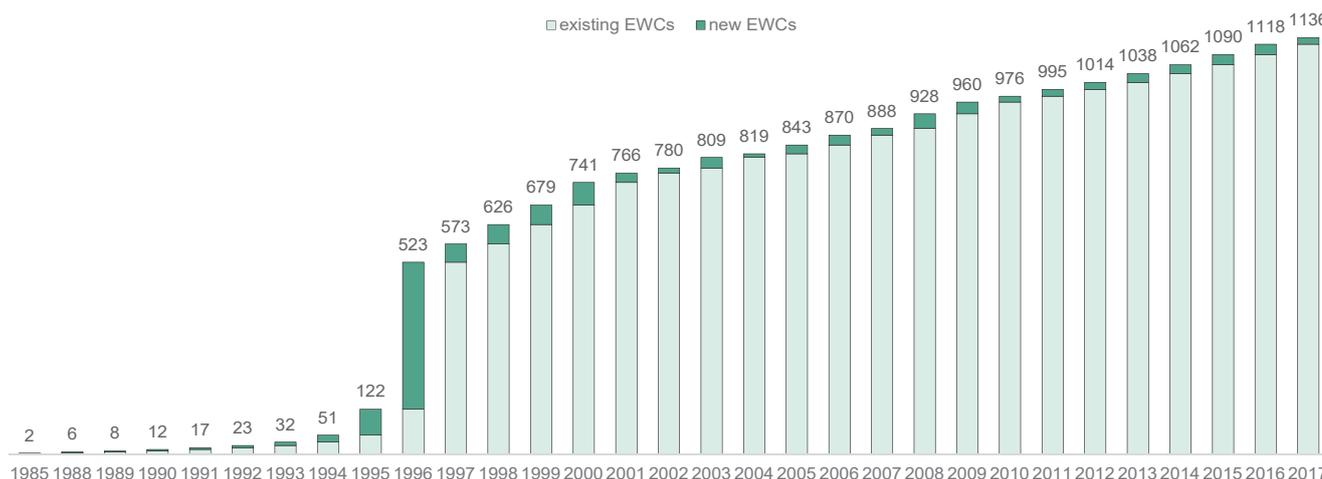
The fourth area for improvement are the vague and excessively restrictive provisions concerning confidentiality which are found in many negotiated agreements; too often, these are used to exclude or block information and consultation processes. When combined with the limited options of seeking judicial clarification or remedies, these definitions effectively cripple EWCs.

Other trade union demands point to the quality of the subsidiary requirements (see also ETUI 2014: 98 on their standard-setting impact), the lack of access to justice, and the enforcement of EWC rights. One of the most glaring examples of the latter is the lack of an unambiguous statutory obligation to set up EWCs where requests to set up Special Negotiation Bodies (SNBs) have been ignored, or where SNBs have negotiated fruitlessly for three years. As evidenced by research (Jagodziński 2015), the national frameworks in this area leave much room for improvement and this remains a significant hurdle for attempts to set up EWCs in the first place.

The last cluster of demands concerns the lack of resources for EWCs. Firstly, as practice shows, EWCs with trade union support operate more efficiently; the problem remains, however, that trade unions are too often denied access to EWCs. One remedy is to formalise the right of experts to participate in all EWC and Select Committee meetings and all other activities of EWCs. Secondly, more resources and rights need to be geared towards an appropriate, issue-driven interlinkage between the EU level of information and consultation and its national counterparts. Provisions to ensure this are currently left to the Member States to define, yet none have done so in any meaningful way.

## European Works Councils

Figure 5.7 EWCs, SE WCs and SCE WCs (growth over time)



Source: ETUI database of EWCs, [www.ewcdb.eu](http://www.ewcdb.eu) (January 2018).

## How to establish more EWCs

The ambition of the Recast of the European Works Council (EWC) was clear: creating more and better EWCs. However, the subsequent policy interventions did little to boost the creation of new EWCs (De Spiegelaere 2016). Figure 5.7 shows that there was no surge in the amount of EWCs after the adoption of the Recast EWC Directive.

Research has identified four factors as crucial to the establishment of more EWCs: (1) awareness, (2) information, (3) capacity and (4) priority.

EWCs are not installed automatically when companies pass a certain threshold of employees. The initiative needs to be officially taken from the employer or employee side to start a negotiation process which eventually leads to the creation of an EWC. Unless the actors (employees, trade unions, representatives, management) are aware of the possibility to install an EWC, there will be no initiative and no EWC.

A first hurdle to overcome in the road to more EWCs is therefore ensuring that the stakeholders know about the option to install an EWC.

Even when there is awareness, the actors also need information: information

about whether or not their specific company meets the thresholds, how to correctly take the initiative and how the negotiations should be pursued.

Yet even if employees are aware and informed, the largest hurdles are still waiting for them. Before creating an EWC, they must have the capacity to negotiate and run an EWC. This means they need to know employee representatives of other countries, have the resources to liaise with them, and be able to communicate with them. This capacity is not only related to the resources of the employee representatives or trade unions, it is also a legal issue, since the current EWC rules give little recourse to employee representatives if management simply ignores the request for negotiations or undermines the negotiations themselves.

Last but certainly not least is the issue of priority. Employee representatives might be aware of the possibility, have the necessary information and have the capacity to conduct negotiations, but an EWC still needs to be on their priority list. They need to see the added value of having an EWC. And this added value needs to be larger than the envisaged investment.

An effective strategy to create more EWCs must address all these points simultaneously, but many of them require different forms of intervention.

To address the information problem, an obligation for companies to

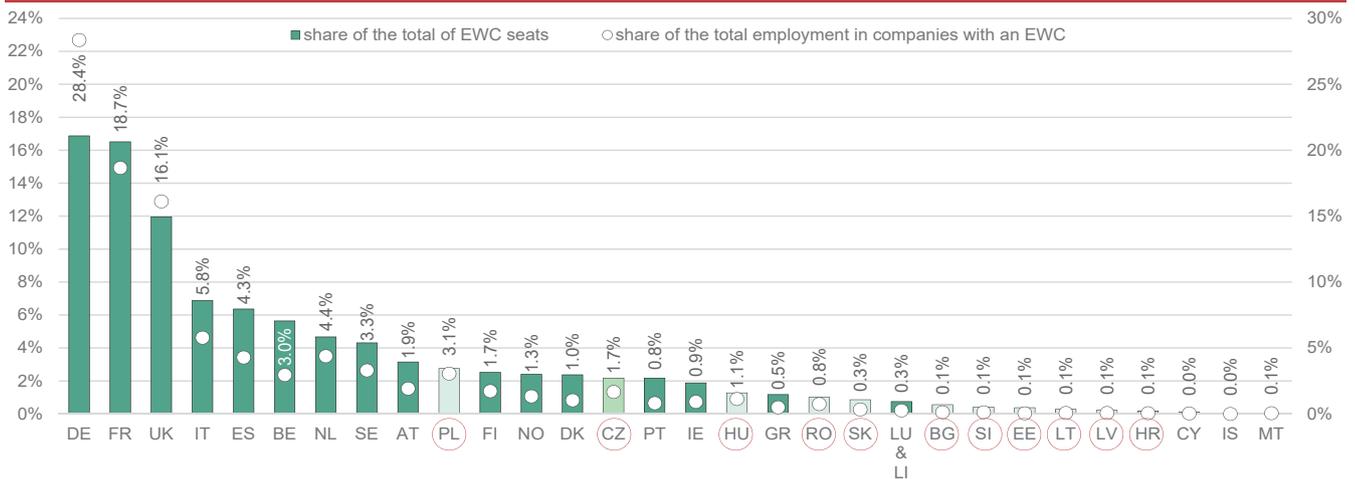
report country by country on employee figures could easily solve the issue. Capacity issues could be tackled by providing targeted support and legal interventions.

However, one policy intervention could kill many birds with a single stone: strategic strengthening of the trade unions, specifically the European Trade Union Federations. They are the organisations best equipped to raise awareness in multinational companies and inform the employee representatives. But more importantly, with sufficient resources they can compensate for scarce local capacity by providing legal and material backing to employee representatives who seek to establish an EWC. They are best placed to develop European views on employee matters and encourage local representatives to do the same.

At the national level, many policy-makers have seen the value in supporting trade union activities to enable fruitful social dialogue at the company level. To foster genuine social dialogue in Europe's multinationals, European trade unions deserve more support.

## European Works Councils

Figure 5.8 EWC seats per country of origin of representatives



Source: ETUI database of EWCs, [www.ewcdb.eu](http://www.ewcdb.eu) (January 2018).

Note: Share of seats per country calculated on the basis of analysis of provisions pertaining to mandate distribution in an active EWC with currently valid EWC agreements.

### An east-west divide in EWCs?

As recent research evidence on EWCs suggest (see Figure 5.5), EWCs are at risk of growing apart in several respects, such as the quality of EWC agreements, the effectiveness and quality of practice and dialogue with management, or regarding the statutory guarantees as provided by national legal frameworks (ETUC 2016; De Spiegelaere and Jagodziński 2015; Jagodziński 2015). One of the striking axes of division, however, remains the east-west split, which reflects the dichotomy that can still be seen between the 'old EU' and the 11 'new Member States' which joined the EU after 2004 (NMS13, excluding Cyprus and Malta), despite the fact that most of the so-called 'new' countries have been in the EU for 14 years now. The question is whether, in the area of EWCs, this divide is justified by the numbers.

The first numerical indication often referred to is a cleft between the number of EWCs established in the 'old' and the 'new' Member States: among the currently active 1138 EWCs, only six were set up in companies headquartered in the central-eastern countries (two in Hungary, and one each in Czechia, Poland, Slovakia and

Slovenia ([www.ewcdb.eu](http://www.ewcdb.eu), January 2018). Arguably, these figures say little about the east-west divide since they mainly reflect differences in economic development: most multinational companies that qualify to set up an EWC are headquartered in the 'old' EU.

An alternative measure of the east-west divide could thus be the distribution of seats and composition of EWCs. At first sight this data is telling too: it shows that workers' representatives from the 10 Member States that joined the EU in 2004 are involved in only 30% (341) of active EWCs; representatives from Bulgaria and Romania are involved in only 11% of active EWCs; and representatives from Croatia are members in only 3% of EWCs. In terms of the number of seats, the cleft seems undisputable: only 11% of seats on active EWCs are occupied by representatives from NMS.

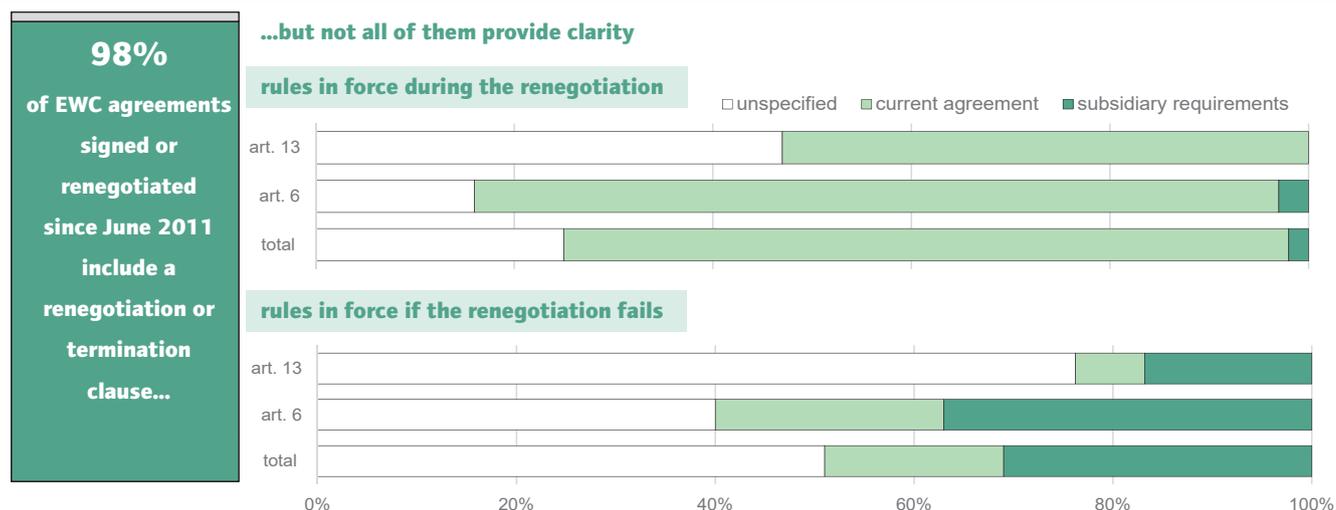
All the arguments based on numerical data are, however, quickly dismissed if one compares the number of seats per country with the workforce employed: the number of seats is approximately proportionate to the number of employees in each country. Indeed, Czechia, Slovakia, Bulgaria, Slovenia, Estonia, Lithuania, Latvia and Croatia may be slightly over-represented, although this finding is possibly driven by error margins in available employment data per company.

In conclusion, it must be emphasised that the source of the

reported rifts between the east and west in EWCs is not discrimination against representatives from these countries. Rather, there are stark differences in political resources which representatives are able to bring to their role. These resources are determined by the rights and material resources provided through their national legislation for them to perform their functions. ETUI research has found that these are often highly limited compared to those of their western counterparts. (Jagodziński 2015; Jagodziński and Hoffmann 2018, forthcoming). Substantial differences between the CEE countries and the rest of the EU in their industrial relations models (ETUI and ETUC 2012: 57), corporate culture, trade union power, and worker representation models also create differences in the way representatives function and the expectations, interests and ideas they have about EWCs. This distinctive background often explains why members from NMS often see EWCs as an alternative to malfunctioning national systems of information and consultation, rather than a complement and extension thereof, as their western counterparts do. Any future EU initiatives should thus address these institutional differences to bridge the real east-west divide.

# European Works Councils

Figure 5.9 Renegotiation clauses in European Works Council agreements



Source: ETUI database of EWCs, www.ewcdb.eu (January 2018).

## Renegotiating in a legal fog

Another issue which is generally overlooked, but which arguably has a decisive impact on the ability of European Works Councils (EWCs) to fulfil their role is the lack of robust rules for renegotiating the founding agreements.

As with any contract, EWC agreements should include rules on how to terminate and renegotiate an agreement. Yet when looking at the EWC agreements made before 1998, Marginson and colleagues (1998) found that only one in five agreements included renegotiation and termination clauses. A study carried out in the German metal sector 10 years later (Hoffmann 2008) showed that while many more agreements specified rules, these still lacked essential information, such as the notice period, the duration of the renegotiation, what rules apply during the renegotiation and what happens if negotiations fail. The legal uncertainty caused by a lack of clear procedural rules amounts to a stark disincentive to embark on renegotiations in the first place, even if an agreement may be decades old.

The EWC Recast Directive of 2009 thus specifies that every EWC agreement must include rules on the procedure

of terminating and renegotiating an agreement (Art. 6).

The question is, therefore: did the quality of renegotiation and termination clauses improve? To study this, a selection of 100 Article 6 EWC agreements signed after the Recast EWC Directive entered into force, as well as 50 pre-Directive EWCs (also called Article 13 EWCs), was analysed.

The analysis showed that almost all agreements mention termination and renegotiation procedures (98%). Almost half of these clauses also specify which majority one needs to call for a renegotiation. Most agreements also specify a notice period, generally between one and six months. Far fewer specify how long the renegotiations could run; only about one in four agreements include such a period, which is generally one year. This means that 75% of these agreements are expected to enter into open-ended negotiations.

A further worrying gap arises around the question of which rules apply, both during the renegotiation itself, and if the parties should fail to reach a new agreement. About one in four recently signed EWC agreements do not specify which rules apply during renegotiations. Of those who did, the large majority states that the agreement currently under renegotiation continues to apply.

But what if the parties fail to come to a new agreement? In about 50% of the

agreements, it remains unclear which rules will apply if negotiations are fruitless. This makes the termination of an unsatisfactory agreement akin to jumping off a cliff's edge.

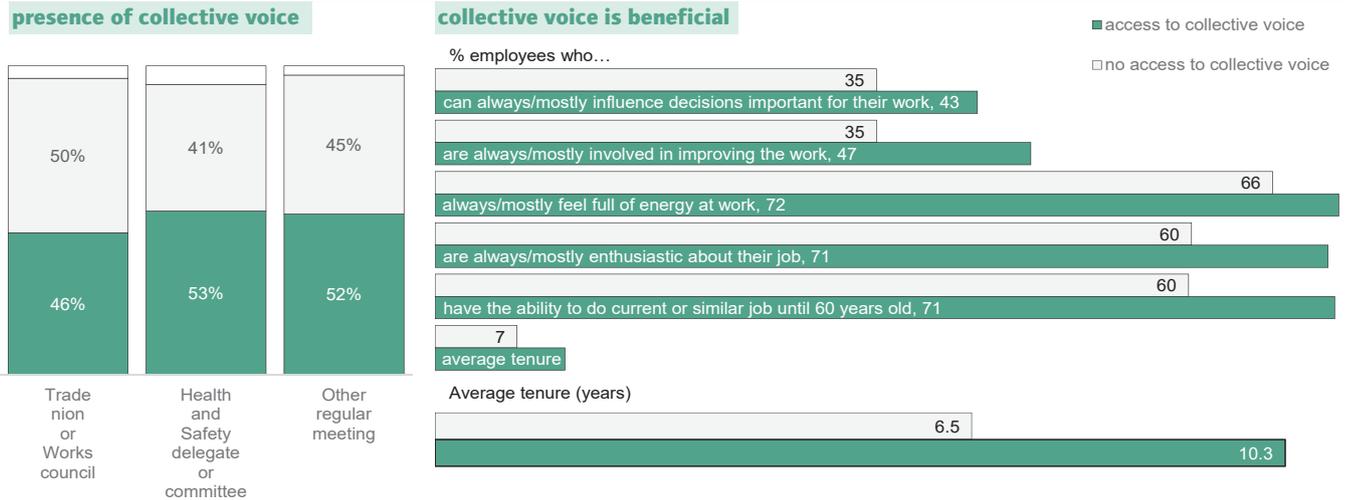
Of those agreements which do have rules, most provide for the application of the subsidiary requirements laid down in the law. But over 10% of the agreements require the current agreement to remain in force, effectively locking EWCs into the results of negotiations which might be decades old.

The analysis further shows that renegotiation and termination clauses in Article 6 EWCs are generally more detailed than those found in pre-Directive EWCs. Despite some signs of convergence towards Article 6 agreements, the persistent lack of any robust rules in pre-Directive agreements underscores the need to make all EWC agreements subject to the EWC Recast Directive.

While there has been a welcome increase in the share of EWC agreements which at least mention termination and renegotiation, essential provisions concerning the actual terms of renegotiation are still missing in a worryingly large share of agreements. The fact that EWCs must decide whether to improve their lot in the face of such legal uncertainty is a significant impediment to their ability to improve their functioning by formalising good practice or taking up legislative improvements.

# Workers' voice

Figure 5.10 Presence and benefits of collective voice



Source: European Working Conditions Survey. Data for EU 29.

## Collective voice: an asset for all

Demanding higher pay, safer workplaces or changes in work organisation is a challenge. Individuals putting forward these demands risk provoking a conflict and recriminations. Even if the individual's situation is improved, it is not necessarily improved for all. So why should individuals take these risks? If all employees reason the same way, then the employer may have no way of knowing if anything is going wrong, and the organisation (and the employees) might suffer.

To this typical problem of collective action there is a simple solution: collective voice. Employees elect representatives who can voice ideas and complaints on behalf of the workforce. Unions, works councils and similar institutions serve to provide such a collective voice, to the benefit of both the employees and the companies.

Already in 1984, Freeman and Medoff described this role of trade unions and works councils and predicted that having such an institution would have beneficial consequences: (1) more employees would be willing to voice their ideas and concerns about what is happening in the company, (2) employees

would be more motivated and (3) employees would be more likely to stay in the company.

Using data of the 2015 European Working Conditions Survey of the European Foundation for Living and Working Conditions in Dublin we can check whether this is correct, and the results look promising.

As can be seen in Figure 5.10, employees with access to collective voice are 35% more likely to say they are involved in improvements in their work and 22% more likely to say they can influence decisions in the workplace. So where employees have the opportunity to voice ideas and concerns collectively, they also tend to share them more as individuals. Collective voice and individual voice go hand in hand.

Employees with access to collective voice also seem to be more motivated. More than 70% of the employees with access to collective voice say they are mostly or always full of energy at work and feel enthusiastic about their job. For those without access to collective voice this is only 66% and 60% respectively.

Whether or not employees with access to collective voice are less likely to leave the company is more difficult to check using the European Working Conditions Survey. The only two questions related to somebody's intention to leave is one on whether or not the employees think they could do

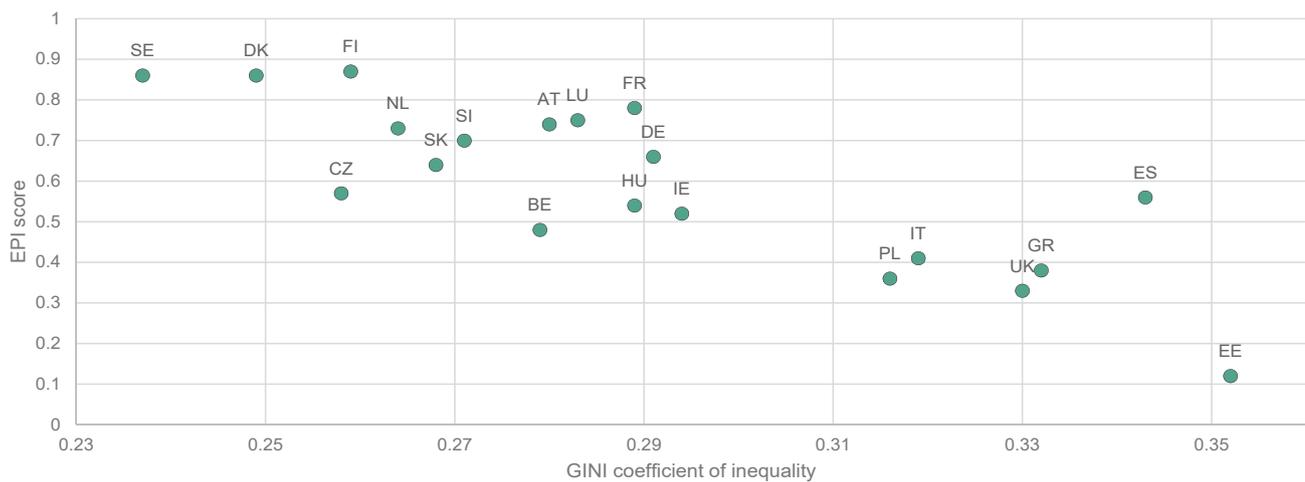
the same or a similar job until they are 60 years old, and a second question about the length of their tenure in the company.

Although these are not perfect indicators, the results also show that employees with access to collective voice are more likely to intend to stay in their current (or a similar) job: 71% compared to 60%. They also have significantly longer tenure than employees without access to collective voice (10.3 years vs. 6.5 years).

As Freeman and Medoff already said in 1984, employees can react differently to issues in their jobs, although one reaction (voice) is clearly preferable to the other (exit). Collective voice in the form of a union or a meeting in which representatives of employees can (collectively) voice concerns is beneficial. It is associated with more employees individually voicing ideas for improvement, being more motivated and being less inclined to leave the job. Even when controlling for possible effects of the company size, the country, the employee's occupation and the sector, the shown relations still stand: collective voice in the shape of a trade union, a works council or similar institution is an asset for employees and therefore also for companies.

## Workers' voice

Figure 5.11 European Participation Index and GINI coefficient of income inequality, by country (mid-2010s)



Source: Vitols (2018b) and LIS Cross-National Data Center in Luxembourg (<http://www.lisdatacenter.org>).

## Countries with stronger 'worker voice' are more cohesive

Increasing income inequality around the world has become a major source of concern. While reducing the wage gap has always been an issue for trade unions, accelerating inequality in recent years has led many international organisations to also voice concern. For example, the World Economic Forum's 2017 Global Risks Report ranked rising inequality as the greatest risk to the world economy (WEF 2017).

Unfortunately, these organisations rarely, if ever, call for the strengthening of collective bargaining and worker representation to help reduce inequality. This is despite the fact that extensive research shows that declining union density and collective representation is one of the main factors driving this trend (Janssen 2016).

One indicator of the importance of collective representation for social cohesion is the strong relationship between the European Participation Index (EPI) and the Gini coefficient, one of the most frequently used measures of income

inequality. The EPI, which has been calculated by the ETUI for the late 2000s and mid-2010s, is a three-part measure of the strength of 'worker voice' in different European countries (Vitols 2010; 2017). The first component measures the strength of worker representation on company boards. The second component measures the percentage of the workforce with formal collective representation at the establishment level. The third component measures collective bargaining influence, which is an average of the percentage of the workforce covered by a collective agreement and the percentage of the workforce that are trade union members. Countries receive a score between 0 (no worker voice) and 1 (strong worker voice) on the EPI. The vertical scale on Figure 5.11 indicates the EPI score of different European countries.

As seen in Chapter 3, there are multiple factors shaping income inequality as measured by the Gini coefficient: the effectiveness of social protection is one, and workers' voice is another and is used here to measure income inequality.

The Gini coefficient can vary between 0 and 1, with higher levels indicating greater levels of inequality, and lower levels more equality. As can be seen in the horizontal axis in the figure above, the Gini coefficient in Europe varied between 0.23 and 0.35 in the mid-2010s.

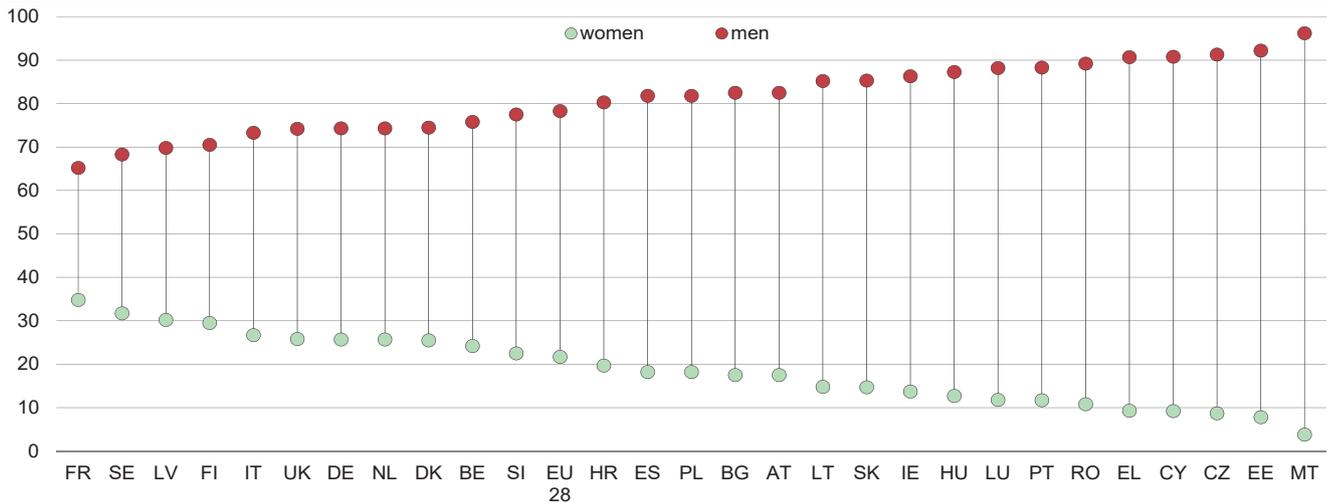
The figure indicates a very strong relationship between the strength of

worker voice, as indicated by the EPI, and inequality, as indicated by the Gini coefficient. The Nordic countries, in the upper left part of the figure, have a particularly strong level of worker voice and the lowest levels of income inequality in Europe. At the other end of the scale, Estonia has both the lowest level of worker voice and the highest level of inequality, followed by the UK and Greece. Since not all European countries participate in the Luxembourg study, it was not possible to include all Member States in this analysis.

Although income inequality is influenced by many factors, including tax and other governmental policies, the strength of worker voice and collective representation is certainly one of the main explanatory factors for the level of inequality. Increasing worker voice through extending collective bargaining and strengthening worker representation at the workplace and in company boards should thus be among the top measures implemented in the interests of reducing income equality and increasing social cohesion in Europe and beyond.

## Women on boards

Figure 5.12 Gender gap in supervisory boards or boards of directors of large listed companies, by share of members and sex



Source: EIGE, 2018, Gender Equality Index – Domain of power- Sub-group Economic Power (data for 2015).

## Gender inequality in the boardroom

Data from the European Institute for Gender Equality (EIGE) reveal persisting gender inequality in powerful corporate positions. The 'domain of power' indicator measures gender balance in decision-making positions across the political, economic and social spheres. For the economic sphere, Figure 5.12 shows the proportion of women and men sitting on a representative number of the largest listed company boards in the EU28 (EIGE 2018); these figures apply to both the 'shareholders' bench' and the 'employees' bench', where these exist.

In comparison to men, women are broadly underrepresented (21.7% women against 78.3% men on average: a gap of 56.7 points). No country reaches parity, and most are far below the 40% target that the European Commission seeks to achieve. France has the smallest gender gap (30%) while Malta has the biggest (over 92%). With some exceptions (i.e. Latvia, Italy, Ireland, Austria and Luxembourg), post-socialist and southern European countries generally have greater gaps than the EU28 average, while Nordic and western European countries score better in terms of equality.

The reasons behind this profound gap are diverse and intertwined. The underrepresentation of women on corporate boards is only one aspect of gender inequality in the labour market. Different attitudes about and national measures for board-level representation also play a role, and the adoption and implementation of public regulation has visibly contributed to reducing the gap in certain countries (see Figure 5.13).

Two main arguments converge in the public discourse, supporting the need to increase women's representation on corporate boards (WoB). The first draws on economic, stakeholder and human capital approaches: diversity of gender, age, national origin and education in the boardrooms produces better, more innovative and efficient decision-making due to the variety of perspectives. Countless studies have shown that diversity on boards has positive impacts on performance (e.g. Nielsen and Huse 2010).

The second argument draws on political and legal debates. Article 23 of the EU Charter of Fundamental Rights states that 'equality between men and women must be ensured in all areas, including employment, work and pay', and that 'measures providing for specific advantages in favour of the under-represented sex' do not breach the equality principle. Article 20 of the European Social Charter recognises the 'right to equal opportunities and equal

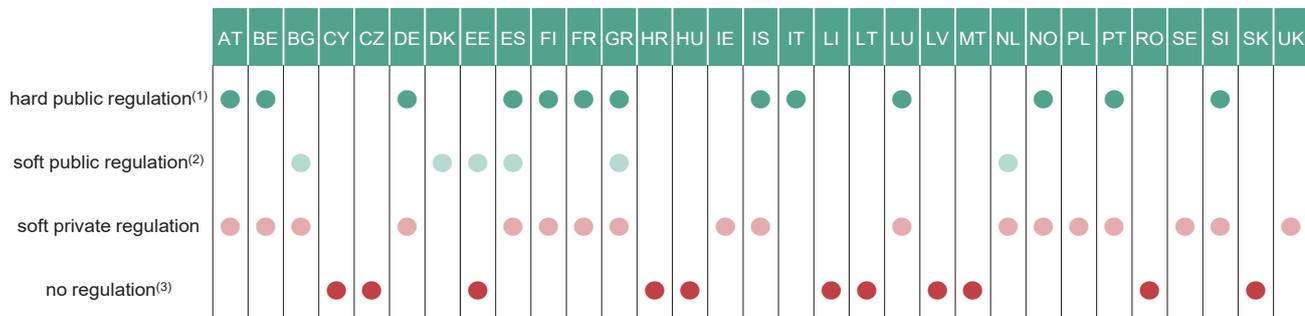
treatment in matters of employment and occupation without discrimination on the grounds of sex' and compels signatory countries to take measures to ensure and promote gender equality in 'career development, including promotion', among other areas.

In 2012, the European Commission proposed a Directive to promote gender-balanced company boards (the GBB Directive) which would require 40% of non-executive board members or 33% of all directors to be of the underrepresented sex by 2018 in public undertakings, and by 2020 in large listed private companies. It also proposed an obligation to report on WoB; this is least partly covered by the obligation for non-financial reporting in Directives 2013/34 and 2014/95.

However, while the European Parliament backed the proposal, the proposal was blocked in the Council: several Member States (i.e. Denmark, the Netherlands, Poland, Sweden, the UK and Czechia) opposed it, arguing that it did not comply with the subsidiarity principle, but also displaying conflicting views on quotas. However, it has gone through several amendments (Council of the European Union 2017) and remains one of the European Commission's top priorities in its larger strategy to break the glass ceiling and combat vertical segregation (European Commission 2017e). WoB is thus still inching along in the EU legislative pipeline.

## Women on boards

Figure 5.13 National regulations on women quota in company boards (EEA)



Source: Based on Waddington and Conchon, 2016; Deloitte, 2017; Senden and Krusinga, 2018 and own research.

<sup>(1)</sup> ES, FI, GR, LU, SI: only public sector. <sup>(2)</sup> EE: only public administration, GR: credit institutions. <sup>(3)</sup> EE: only private sector.

## National rules on 'diversity' converging?

The underrepresentation of women on company boards (WoB) is widely interpreted as a social problem that should be addressed, yet EU Member States have very different policy approaches to tackling the issue (Senden and Krusinga 2018: 9; Deloitte 2017; Terjesen et al. 2015).

As Figure 5.13 shows, some have established public binding regulation with mandatory obligations for companies to either set or have a target for a gender quota as the most suitable way to foster an increase of WoB. Hard law has proven more efficient in bringing about such change (Waddington and Conchon 2016: 214). Other countries, however, prefer soft law or voluntary approaches. Soft rules, such as recommendations of targets, guidance or comply-or-explain rules are found in public regulations, but most typically rely on codes of corporate governance. In some cases, countries apply mandatory rules for the public sector, but soft regulations for the private sector. Finally, a third group of countries has not addressed the issue of WoB at all

from a regulatory perspective; these are mostly post-socialist countries.

This categorisation of regulations does not show the diverse range of measures, sanctions and procedures developed to redress the lack of WoB presence (Seierstad et al. 2017). Regulations (either hard or soft) are different in scope, and may affect state-owned enterprises, public administration, and/or large (often listed) companies in the private sector.

Defining employee figures and company-size thresholds provides hard criteria to define the scope: it avoids the risk of companies escaping WoB regulations simply by changing company form (Seierstad and Huse 2017: 28-29). Some regulations introduce direct obligations (or recommendations) for a gender quota in the composition of boards (usually from 30% to 40%), while other measures set obligations for targets, zipped lists, and/or stricter non-financial reporting to include data on women's representation in corporate decision-making bodies.

In some cases, regulations establish transition periods or are even adopted for a limited period, at the end of which a change in board composition is expected (e.g. Italy or the Netherlands).

The approach to sanctions varies greatly. Those proposed in hard and soft public regulations range from strong and enforceable financial sanctions for

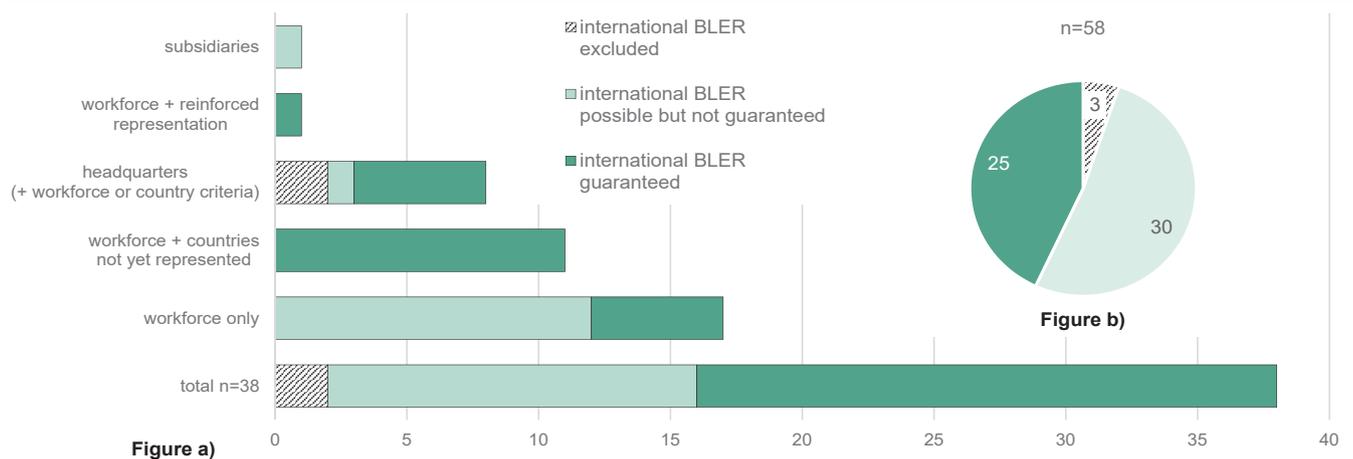
non-compliance, to comply-or-explain procedures, or simply no sanction at all. This renders the categorisation of regulations as 'binding' particularly difficult.

Finally, some regulations concern the whole board, while others apply to only certain members of the board (e.g. non-executive directors or shareholders). In countries with systems of board-level employee representation, these rules may or may not affect the composition of the workers' bench on the board (Waddington and Conchon 2016: 79).

Despite the diversity of approaches, most country regulations converge around the belief that positive action and gender quotas are an appropriate means for achieving more diversity and equality in corporate decision-making. Still, quotas should not become the final upper limit, the real objective being a broader cultural and social change requiring complementary and comprehensive policies on gender equality at other levels (Levrau 2017: 167). Boiling down gender inequality to board diversity may hide multiple underlying dimensions. On the other hand, reducing diversity to a 'women quota' could downplay other dimensions of gender, ethnic or cultural discrimination (Constantinescu 2016: 177), while the combat against gender inequality also risks being blurred when integrated into more mainstream diversity policies.

## European board-level employee representation (BLER)

Figure 5.14 SE agreements' allocation criteria and internationalisation of BLER seats



Source: ETUI database on SE agreements' BLER provisions, 2018 (as of 1 February 2018).

### BLER in SE agreements

As a rule, in the case of European Companies (SEs), management must negotiate with employees about their involvement in the future SE. Negotiations always concern information and consultation rights, but can also include participation rights (i.e. the right for employees to appoint, recommend or oppose members with full voting rights to the SE board), if such rights existed before an SE conversion or applied to 25% or 50% of the workforce before an SE is established by a merger, as a holding or a subsidiary, respectively (Conchon 2011).

To establish an SE, negotiations must lead to an agreement, otherwise standard rules apply as transposed in applicable national law. SE agreements thus constitute the first governing rules for board-level employee representation (BLER) in SEs where participation rights are established. In such cases, SE agreements must specify the number of employee representatives sitting on the SE board, their appointment procedure, and their rights.

ETUI research demonstrates that these decentralised rights to negotiate company-specific arrangements give rise

to a bewildering array of solutions.

74 SEs have negotiated BLER rights (ETUI, 2018a). The few studies which exist have only explored the provisions for BLER in SE agreements based on German law (Rose and Köstler 2014; Eidenmüller et al. 2012). To fill this gap, the ETUI analysed in depth the BLER provisions contained in 62 available SE agreements (ETUI 2018b).

In the sample, most SEs are based in Germany (53) but others are based in France (6), Austria (2) and Cyprus (1). They mostly have two-tier corporate structures and are active in different sectors, ranging from metal to financial services. Most SEs result from conversions (49) or mergers (16), and are group parents, while only 8 SEs are subsidiaries. This affects the composition and functioning of codetermined boards.

The SE agreements do not always comply with the minimum content the SE Directive requires. They hardly ever fully lay out the applicable regime and can only be understood in relation to national laws. Furthermore, the SE agreements reveal not only the power relations underlying negotiations but also the impact that these have on the structural features of BLER. Particularly relevant in this respect are the allocation of BLER mandates and the procedural rules for appointment.

The analysis shows the diversity of solutions found. Leaving aside possible deviations in the *de facto* implementation

of the rules laid down in the agreements, most agreements do secure the representation of more than one country in the BLER delegation. Still, the findings suggest increasing divergence between individual SEs, as well as between and within Member States, particularly so for German SEs (Keller and Werner 2012: 638). This seems the obvious consequence of having to devise a tailor-made and nationally adaptable solution to regulate an institution which touches upon the

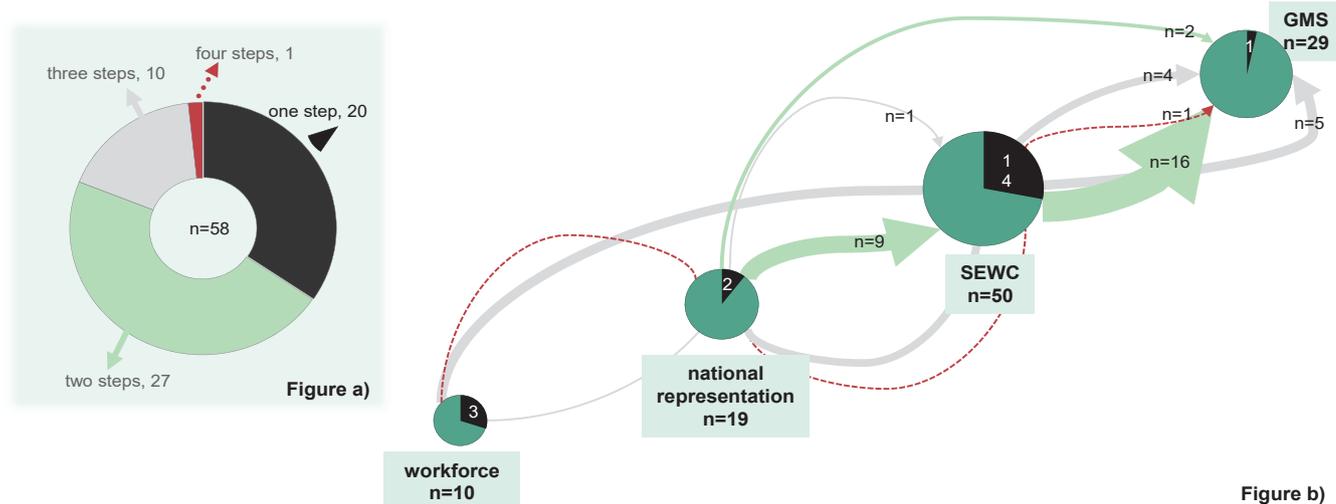
### Seat allocation and internationalisation

company's heart of power: the board. When agreements provide for seat allocation rules (43 cases), this allocation is left entirely to the SE-WC (5 cases) or SE agreements to define specific criteria to allocate seats across countries (38 cases).

Proportionality according to workforce distribution across countries is the preferred criterion (17). However, this alone may not suffice to mathematically allocate the seats; hence, in 11 cases, an additional seat is granted to a workforce not yet represented if only the proportionality rule was applied, echoing the German transposition law.

## European board-level employee representation (BLER)

Figure 5.15 SE agreements' BLER appointment procedures, by actors and network involved



Source: ETUI database on SE agreements' BLER provisions, 2018 (as of 1 February 2018).

Some cases deviate from this rule by granting reinforced representation to countries (1) or by specifically reserving seats for the headquarters country (8). Finally, seats are specifically distributed across group subsidiaries (rather than countries) in one case (Figure 5.14a).

As for the international composition of BLER delegations, SE agreements can either exclude multinational BLER, render it possible, or prescribe it. Out of 58 SE agreements (4 were excluded, because they either failed to cover the size of the BLER delegation or there was only a single BLER foreseen), 25 cases require that BLER come from at least two countries. In 30 cases, the agreements render it possible for the BLER to be international, but do not require it. BLER internationalisation is only excluded in three cases, mostly as a transitional provision (see Figure 5.12b).

In practice, however, mono-national BLER is far more common than these SE agreements would suggest. For the same sample, the EWPC database identifies 21 cases in which all employee representatives in the board hail from the same country. 24 SEs have international BLER, while no data are available on mandates' nationalities for 13 SEs (ETUI 2017).

### Many roads to BLER

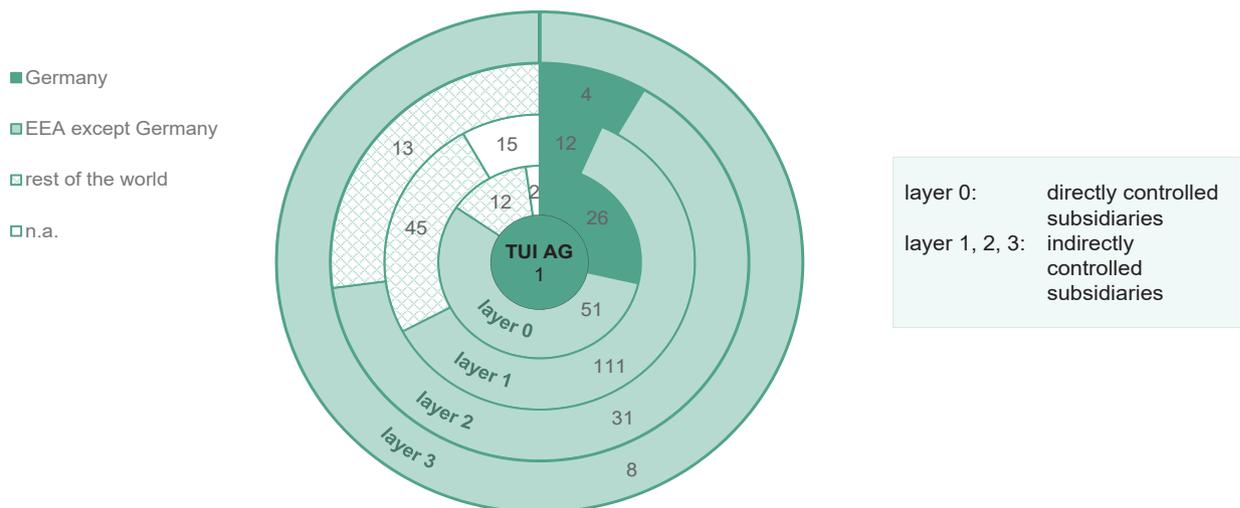
Another source of very wide variation is the procedures whereby BLER are appointed. This is particularly interesting because it demonstrates the clear need to secure the legitimacy of BLER in a multinational setting. The procedures laid down in 58 SE agreements combine up to four steps and foresee the intervention of different actors with different roles.

As shown in Figure 5.15a, the appointment procedures consist of one, two, three, or even four steps. 20 agreements simplify the procedure entirely, by making a single actor, usually the SE-WC, solely responsible for BLER appointments. But most cases foresee a more complex procedure and design a balance between the roles of different actors to strengthen the legitimacy of this collective cross-national mandate. Figure 5.15b illustrates these 'two-step', 'three-step' and 'four-step' arrangements with corresponding green, grey and red arrows. For instance, 16 SE agreements define a 'two-step' process, in which the SE-WC nominates BLER members who are then formally appointed at the general meeting of shareholders (GMS).

Overall, while the role of national representatives is crucial in a quarter of all cases, it is the SE-WC which ultimately has the decisive role in the multi-level process of BLER seat allocation and final appointment in two thirds of all cases. Yet the procedures exhibit great diversity and organisational complexity. The involvement of several actors and articulation of different levels of representation reflects an attempt to secure the legitimacy of the members appointed. A decentralised procedure ensures that national constituencies (trade unions or representative bodies in the company) can retain control over the process. Nevertheless, the legitimacy chain is in most cases relatively short, the task being directly delegated to the SE-WC; the principles of efficiency and delegated legitimation thus prevail.

## Board-level employee representation

Figure 5.16 Companies of the TUI Group, by layer of control and country of HQ (number of subsidiaries)



Source: Based on CapitalIQ, 2018, TUI AG (XTRA:TUI1) Corporate tree information, as of 18 January 2018.

## Territoriality and BLER rights

In the light of the Commission's vigorous company mobility strategy, nationally-bound workers' participation rights risk cracking under the principle of territoriality applied to MNCs. While capital benefits from freedom of movement and the freedom to do business across the EU, workers are not equally entitled to such pan-European collective and individual labour rights.

This mismatch is illustrated in Case C-566/15 *Erzberger*, in which the European Court of Justice rendered its judgment assessing whether workers from foreign subsidiaries controlled by a German MNC were discriminated against when excluded from the elections to the Supervisory Board of the German parent company. Was this exclusion compliant with EU law principles of equal treatment and free movement of workers? The CJEU declared full compliance: in the absence of EU-level coordinated or harmonised rules on workers' codetermination rights, Member States are free to apply their national models, which may in effect exclude workers in foreign subsidiaries from exercising participation rights vis-à-vis the parent company.

The German Co-determination Act of 1976 entitles workers in public limited corporate groups to elect (and be elected as) representatives in the parent corporate governance structure. If the group has more than 2,000 employees, workers from all controlled subsidiaries can elect half of the members of the parent supervisory board. Academics and German courts have discussed at length whether and how this should apply to MNCs headquartered in Germany (Pütz and Sick 2015). Most German case law reserves representative rights to the workforce in Germany, thus making the territoriality principle of international private law prevail.

Here, for the first time, the CJEU ratified this national case law, by interpreting current EU free movement and equal treatment rules in a restrictive manner. But the question remains whether the relationship between a parent company and the workers in its subsidiaries really differs depending on the geographic location of the latter. Workers of controlled subsidiaries may well be equally affected by group policies and strategic decisions, irrespective of the jurisdiction in which their company is located (Lafuente Hernández and Rasnača, forthcoming). Restricting voting rights to the workforce employed in the home country may seem disproportionate.

The concentric circles in Figure 5.16 represent the TUI group corporate

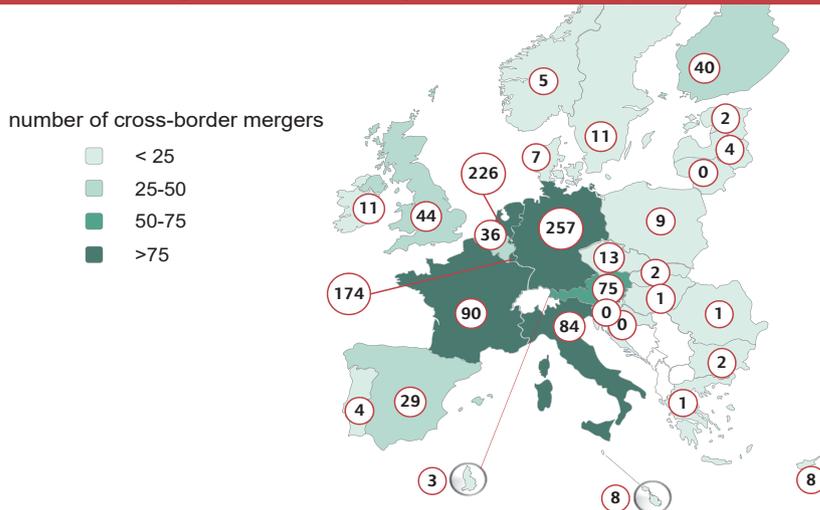
organisation. The TUI group consists of 332 companies, represented here by layers of control and location (based on data of Capital IQ 2018). The controlling company, TUI AG, is visualised as the core inside several distinct layers of subsidiaries. Subsidiaries represented in Layer 0 are directly controlled by TUI AG (i.e. TUI AG owns at least 50% of their shares), while those represented in layers 1, 2 and 3 are indirectly controlled by TUI AG via different links of the control chain. Control is here only based on capital share ownership (i.e. shareholder pacts or extraordinary voting rights are not considered).

According to German law, workers in any of these companies would have the right to participate in parent supervisory board elections if they were legally based in Germany. Thus, according to the interpretation of the territoriality principle confirmed by the CJEU, only workers from 43 companies are *de facto* entitled to such participation rights, regardless of which layer of corporate control they are in, while 288 fall out of the scope entirely.

If this may be so according to a restrictive interpretation of current EU law, the European Commission could use its legislative competence under the TFEU to support pan-European participation rights in MNCs.

## Company mobility

Figure 5.17 Cross-border mergers in the EU/EEA, by destination country (2013-2017)



Source: Biermeyer and Meyer (2018).

### Does cross-border mobility favour 'low tax' countries?

One of the main mechanisms used by companies to 'move' to another national regulatory regime without relocating their 'real' operations is the cross-border merger (CBM). In a CBM, one or more companies are 'swallowed' by a company which has its registered seat in another country. The operations of the swallowed company (employees, production, etc.) are then subject to the company law and many other regulations of the country in which the acquiring company is located. The number of CBMs in Europe has greatly increased following the passing of the EU Cross-border Mergers Directive in 2005 (Bech-Bruun and Lexidale 2013).

Not surprisingly, trade unions are quite concerned about the ability of companies to follow 'low road' strategies by using a CBM to, in effect, move their registered seats to countries with less stringent taxation regimes and weaker worker rights.

Data provided by the 'Cross-border corporate mobility in the EU' project indicates that these concerns are not unfounded (Biermeyer and Meyer 2018).

This project has so far only analysed 9 of 31 EEA countries, with a view to mapping the impact of company mobility on workers' rights. This partial data shows that the Netherlands (with 226 incoming CBMs) and Luxembourg (with 174 incoming CBMs) are two of the top three 'destination' countries for CBMs, although they are not among the largest European economies. Germany has the most incoming CBMs (257 cases). At the same time, Germany, the Netherlands and Luxembourg are also among the most important 'exit' countries. Still, the fact that these three particular countries also had the highest scores of all EU/EEA countries on the Financial Secrecy Index (<https://www.financialsecrecyindex.com>) suggests that company mobility may be used to move to regulatory regimes with greater tax secrecy and to reduce tax payments. Company 'exits' into lower tax jurisdictions undermines European cohesion by increasing tax competition and lowering revenues for public services (see also Chapter 1).

An ETUI study on CBMs indicates that taxation is not the only cause for concern regarding this form of company mobility (Cremers and Vitols, forthcoming). Worker information, consultation and participation rights are threatened by CBMs and need to be strengthened, both during and after the CBM. A key trade union demand with regard to the European Commission's

proposed 'company mobility package' is that these rights be strengthened both in CBMs and other forms of mobility including cross-border conversions and divisions. This would ideally take place through a European horizontal directive for information, consultation and board-level employee representation rights (ETUC 2016).

## Company mobility

Figure 5.18 Average effective corporate tax rates, by country (2014-2016)



Source: Vitols (2018a).

## Letterbox firms undermine cohesion in Europe

The Panama Papers, LuxLeaks and the Paradise Papers demonstrate how widespread the use of letterbox companies to avoid taxation is (European Parliament 2017). These are companies registered in countries in which they have no 'real' activities, frequently just a letterbox. The taxing of corporate profits is determined in large part by the laws and practices of the country in which the company is registered, rather than the country where its main activities are located. Owners can take advantage of the large variation in national tax rates by creating letterbox companies registered in countries with lower tax rates than the countries in which their 'real' activity takes place.

An ETUI analysis of 1,860 large European listed companies illustrates the large differences in effective tax rates (ETRs) across European companies (see Figure 5.18). The ETR is measured as the ratio of paid corporate income taxes to before-tax profits (Gebhart 2017). A three-year period (2014-2016) was analysed, since annual tax rates can vary drastically due to the influence of

one-time tax deferrals or deductions. For this analysis, the 'home country' was defined as the country in which the administrative centre of the company was located, rather than its registered seat. Only countries which are home to more than five companies in the sample are shown in the figure above.

The first striking fact is that the highest ETR (Italy with 34%) is almost three times higher than the lowest ETR (Slovenia with 12%). Generally, the countries with the lowest ETRs (under 20%) are located in eastern Europe. However, Ireland is also in this category. Interestingly, three countries hit particularly hard by the crisis (Italy, Portugal and Greece) also have among the highest ETRs.

The analysis also looked at factors other than home country which influenced ETRs, including whether the main company itself (rather than just a subsidiary) was a letterbox company, what industry the company was in, and whether workers were represented on the company board. Letterbox companies, most of which are registered in tax havens such as Jersey, the Isle of Man, and Bermuda, had on average an ETR five percentage points lower. Companies with workers on the board had a slightly higher ETR (up to one percentage point higher, depending on the regression model used).

A recent ETUC study shows clearly how letterbox companies are routinely

used on a widespread basis to not only avoid paying taxes, but also to source 'cheap labour' across borders (ETUC 2017b). Decisions by the European Court of Justice expanding the 'freedom of establishment' have encouraged an explosion in the founding of letterbox companies, now estimated at 500,000 in Europe (LSE Enterprise 2017). In the interests of cohesion, measures in company, labour and taxation law need to be undertaken to reduce the use of letterbox companies.

## Conclusions

- The chances that the much-vaunted promises of the European Pillar of Social Rights (EPSR) will be fulfilled remain rather slim. Taken together, its non-binding, soft-law character, the lack of legislative initiatives to underpin it, and its still untested link to the European Semester and the Social Scoreboard do not bode well for meaningful and long-lasting developments.
- Notwithstanding these handicaps, if the EPSR were to be backed by a strong political commitment evidenced by a concrete action plan, it could serve to generate a productive consensus around specific principles, which could in turn provide the basis for a legally binding, if fragmented framework. Furthermore, it may serve as a shield against further deregulation and provide an influential reference for future rulings of the European Court of Justice.
- With respect to workers' rights, the EPSR adds little: it reaffirms the already existing rights; the introduction of new rights is strictly limited and/or lacks robust means to enforce them.
- The assessment of the Commission's Regulatory Fitness and Performance (REFIT) programme concludes that though the process may be fundamentally flawed due to its exclusively cost-benefit analysis approach, it has fostered more upwards convergence and unity across the EU's social *acquis* than one would have expected.
- In patient anticipation of the Commission's long-awaited evaluation of the 2009 Recast EWC Directive, an examination of a wide range of research findings on the need for improvement and clarification finds that these are closely reflected in and illustrated by the conclusions drawn by trade unions and EWC members.
- In addition to the by now familiar catalogue of demands for the improvement of the EWCs' legal framework, we shed new light on a significant east-west divide in practice, identify fundamental gaps in the renegotiation clauses of EWC agreements in force, which limit the ability of EWCs to try to improve their own functioning independent of the legal framework, and point to the persistent practical and legal issues which hinder the establishment of new EWCs.
- Exploring relationships between various measures of employee voice in different data sets, we find some interesting links: in the data from the European Working Conditions survey, we find a positive relationship between forms of employee voice and both employee enthusiasm and more sustainable work. We also find that the ETUI's Employee Participation Index (EPI) correlates strongly with the Gini coefficient as regards the measure of inequality.
- A multinational comparison of women on boards shows that despite some variation across countries, a significant gender inequality gap persists across the EU. The stock-taking of policies to address this gap shows a wide range of approaches: there are almost as many Member States with no regulations as those who have introduced hard public regulation, and there is a wide range of softer public and private regulation in between these two poles.
- An analysis of the provisions in agreements about workers' involvement in SEs yields an impressive array of company-specific solutions to the key challenge of the allocation of mandates across countries and the design of nomination, election and/or appointment procedures.
- Comparing the CJEU's ruling in the Erzberger case with a novel way of mapping groups of companies illustrates the inherent mismatch between today's multinational corporate structures and territorial models of governance.
- In anticipation of the Commission's announced company mobility package, we explore some possible links between cross-border company mobility, workers' rights and national taxation regimes. The initial conclusions suggest that great care must be taken to retain a circumspect view of the potential knock-on effects of cross-border company mobility.

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## List of abbreviations

<b>(A)ETR</b>	(average) effective tax rate	<b>EU-SILC</b>	EU statistics on income and living conditions
<b>AGS</b>	Annual Growth Survey	<b>EWC</b>	European Works Council
<b>ALMP</b>	active labour market policy	<b>GDP</b>	gross domestic product
<b>AMECO</b>	Annual macro-economic database	<b>GHG</b>	greenhouse gases
<b>APA</b>	advance pricing agreement	<b>GMS</b>	general meeting of shareholders
<b>AROP</b>	at risk of poverty	<b>ILO</b>	International Labour Organisation
<b>AW</b>	average wage	<b>IMF</b>	International Monetary Fund
<b>BLER</b>	board-level employee representation	<b>IOM</b>	International Organisation for Migration
<b>CCCTB</b>	Common Consolidated Corporate Tax Base	<b>ITUC</b>	International Trade Union Confederation
<b>CEE</b>	central and eastern Europe	<b>LMP</b>	labour market policy
<b>CEEP</b>	European Centre of Employers and Enterprises providing Public Services	<b>MNC</b>	multinational company
<b>CJEU</b>	Court of Justice of the European Union	<b>MS</b>	Member State
<b>CSR</b>	country-specific recommendation	<b>NMS</b>	new Member State
<b>DMC</b>	domestic material consumption	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>EC</b>	European Commission	<b>pp</b>	percentage point
<b>ECB</b>	European Central Bank	<b>PPP</b>	purchasing power parity
<b>ECHR</b>	European Convention on Human Rights	<b>PPS</b>	purchasing power standard
<b>ECSR</b>	European Committee of Social Rights	<b>Q</b>	quarter
<b>ECtHR</b>	European Court of Human Rights	<b>QE</b>	quantitative easing
<b>EEA</b>	European Economic Area	<b>R&amp;D</b>	research and development
<b>EEA</b>	European Energy Agency	<b>REFIT</b>	Regulatory Fitness and Performance Programme
<b>EFTA</b>	European Free Trade Association	<b>RSB</b>	Regulatory Scrutiny Board
<b>EIB</b>	European Investment Bank	<b>SCM</b>	Standard Cost Model
<b>EIGE</b>	European Institute for Gender Equality	<b>SE</b>	Societas Europaea (European Company)
<b>EPI</b>	European Participation Index	<b>SE-WC</b>	Societas Europaea Works Council
<b>EPSI</b>	European Fund for Strategic Investment	<b>SME</b>	small and medium-sized enterprise
<b>ERDF</b>	European Regional Development Fund	<b>SSDC</b>	sectoral social dialogue committee
<b>ESENER</b>	European survey of enterprises on new and emerging issue	<b>TFEU</b>	Treaty on the Functioning of the European Union
<b>ESF</b>	European Social Fund	<b>TCN</b>	third-country national
<b>ESIF</b>	European Structural and Investment Funds	<b>TU</b>	trade union
<b>ETUC</b>	European Trade Union Confederation	<b>UEAPME</b>	European Association of Crafts, Small and Medium-sized Enterprises
<b>ETUI</b>	European Trade Union Institute	<b>UNEP</b>	United Nations Environment Programme
<b>EU</b>	European Union	<b>WoB</b>	women on boards
<b>EU-OSHA</b>	European Agency for Safety and Health at Work		

# The Benchmarking Group

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## Foreword

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## Chapter 1

Growth returns but will have to be sustained in order to heal scars  
and reverse re-emerging divergence

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and Jan Drahokoupil (ETUI)

## Chapter 2

Labour market and social developments

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(ETUI)

## Chapter 3

Developments in social indicators

Sotiria Theodoropoulou and Béla Galgóczi (ETUI)

## Chapter 4

Wages and collective bargaining: a new attempt to ensure fair  
wages and adequate minimum wages

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## Chapter 5

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