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signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 21 January 2014

To: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European  
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Brussels, 21.1.2014  
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PART 3/14

**COMMISSION STAFF WORKING DOCUMENT**

**Employment and Social Developments in Europe 2013**  
**Key employment and social trends in the face of a long delayed and fragile recovery**

**Introductory chapter**  
**Volume 2/2**

## Table of Contents

<b>3</b>	<b><u>Challenging EU employment and social context.....</u></b>	<b>25</b>
3.1	Protracted stagnation coming to an end?.....	25
3.1.1	A double dip recession over last five years.....	25
3.1.2	Labour markets have been weak in most Member States: long-term unemployment climbing to all-time highs.....	27
3.1.3	Labour incomes coming further under pressure.....	36
3.2	The threat to the future of young people.....	40
3.3	Longer-term impact on labour markets.....	44
3.3.1	The crisis is challenging the Europe 2020 employment rate targets.....	44
3.3.2	Continuing improvements in female employment.....	46
3.3.3	Older workers' employment has weathered the crisis well.....	49
3.3.4	New labour migration trends may soften labour market pressures in the short term.....	50
3.4	Further deterioration of poverty and inequality.....	53
3.4.1	Poverty and social exclusion on the rise, affecting primarily the working age population and children.....	53
3.4.2	Poverty in working age: joblessness and in-work poverty.....	56
3.5	Increased pressure on social spending.....	58
3.5.1	The stabilising effect of social spending on household incomes lessened after 2010.....	58
3.5.2	The structure and evolution of social spending in the crisis, and their impact on effectiveness.....	59
3.5.3	Old age poverty and the sustainability and adequacy of pensions.....	60
3.5.4	Access to health care and long term care.....	61
<b>4</b>	<b><u>Conclusions .....</u></b>	<b>62</b>
<b>5</b>	<b><u>References .....</u></b>	<b>64</b>

## 3 Challenging EU employment and social context

### *3.1 Protracted stagnation coming to an end?*

GDP rose by 0.4% in the EU and by 0.3% in the Euro area during the second quarter of 2013 compared with the previous quarter. The highest GDP growth among Member States was in Portugal, Germany and Lithuania while Cyprus, Slovenia and Italy and the Netherlands registered the largest decreases. Exports rose 1.7% in the EU and 1.6% in the Euro area, while imports increased by 1.2% and 1.4% respectively. External trade thus made a small positive contribution in both the EU and euro area.<sup>1</sup>

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

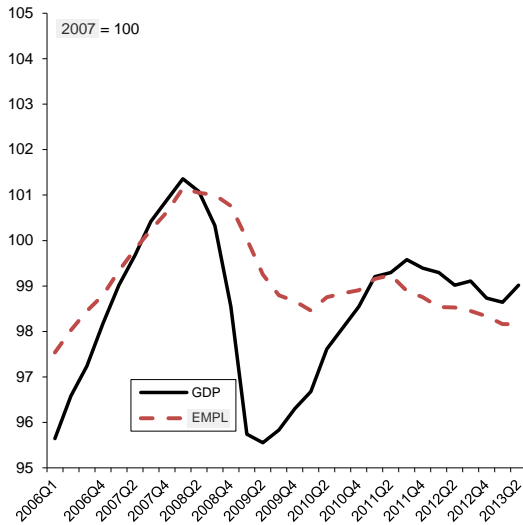
#### *3.1.1 A double dip recession over last five years*

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

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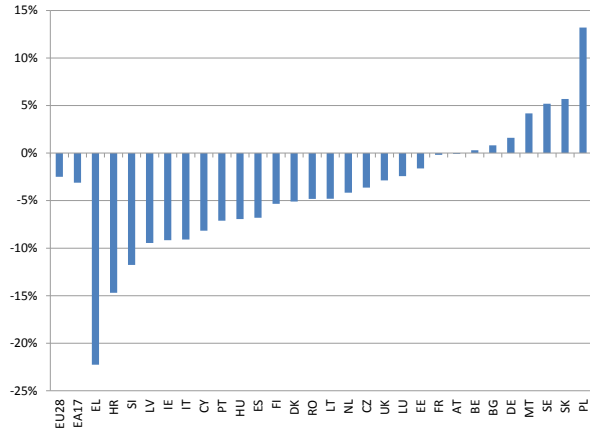
<sup>1</sup> Eurostat Newsrelease 130/2013 - 4 September 2013

**Chart 1: Real GDP volumes in the EU**



Source: Eurostat, National Accounts, [namq\_gdp\_k and namq\_aux\_pem], data seasonally adjusted

**Chart 2: Change in GDP – Second quarter 2013 compared to second quarter 2008, in percentages**



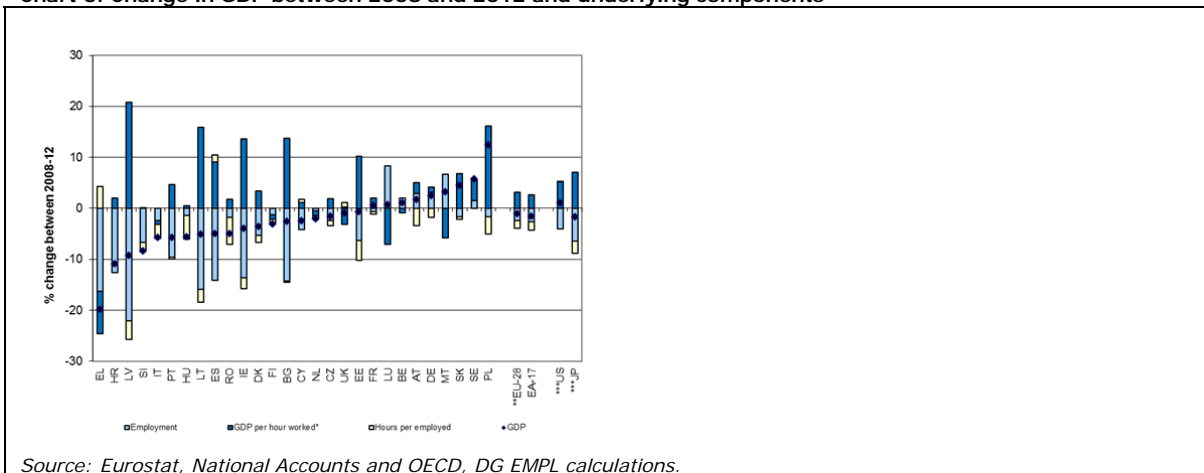
Source: Eurostat, National Accounts [namq\_gdp\_k]. Note: Non seasonally-adjusted data; IE, HR, IT, LU, PT: 2008q1-2013q1.

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

**Box 2: Decomposition of growth into employment, hours worked and hourly productivity**

Between 2008 and 2012, while GDP at EU-28 level receded by 1.1% (-1.6% at EA level), employment was hit harder (-2.4% in EU and -2.6% in EA, see Chart 3). On the other hand, hourly productivity made headway (+3.1% and +2.6% resp.) while the number of hours worked decreased more moderately (-1.6% in both areas). The latter phenomenon mainly stems from working-time reduction policies put in place in countries such as Germany, Austria and Belgium in the first years of the crisis.

**Chart 3: Change in GDP between 2008 and 2012 and underlying components**



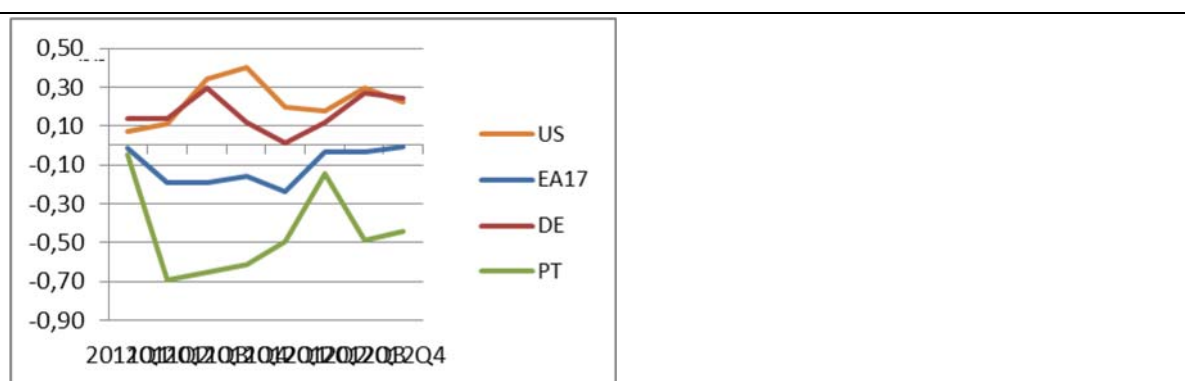
Source: Eurostat, National Accounts and OECD, DG EMPL calculations.

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

Over the four years to 2012, GDP growth was mainly driven by employment growth in Germany, Austria, Belgium, Luxembourg and Malta and by productivity gains in Poland, Sweden, Slovakia and France without major losses of employment. In countries which experienced severe falls in GDP (by more than 3%), these translated mostly into employment declines, as in Greece, Croatia, Latvia, Slovenia, Portugal, Lithuania, Spain, Ireland and Denmark. Strong reductions of employment were avoided by a decline in the number of hours worked per employed and/or in hourly productivity in Italy, Hungary and Romania. In comparison, in the US, GDP growth between 2008 and 2011 was supported only by a growth in hourly productivity, while employment fell significantly and the number of hours worked per employed remained unchanged.<sup>2</sup>

Similarly, estimations of Okun residuals indicate that, during the past two years, unemployment seems to have increased less than expected in the US and Germany (see Chart 4). On the other hand, unemployment increased more than expected in the euro area, particularly in Portugal.

Chart 4: Residuals of Okun estimations since 2011 (US, the euro area, Germany and Portugal)



Source: Commission services' estimations and OECD.  
Note: Estimates calculated over 1998Q1 – 2007Q4.

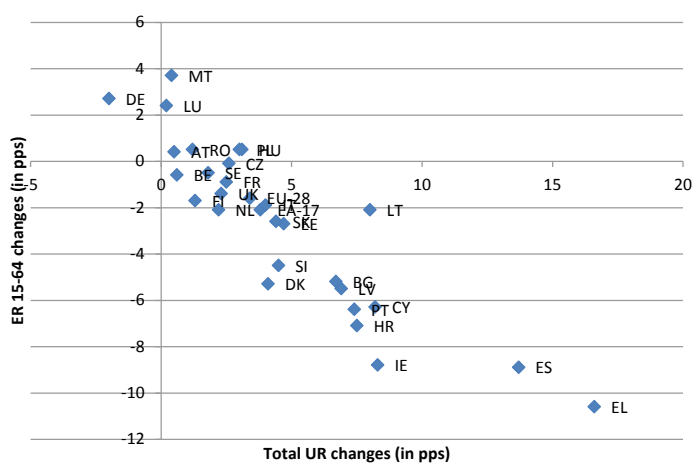
The decline in the US unemployment rate was 'helped' by a fall in the participation rate to a historically low level, possibly due to worker discouragement. In the case of Germany, structural unemployment has probably declined as a result of the reforms of the last decade. On the other hand, in Portugal,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

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

In the four years to 2012, Greece, Spain, Ireland, Portugal, Croatia and Cyprus all experienced massive reductions in employment and increases in unemployment (see Chart 5) while employment rates increased in Germany, Austria, Poland, Romania, Hungary, Luxembourg and Malta.

<sup>2</sup> For US, JP, OECD data were used. As productivity and hours worked data are missing for 2012, this piece of analysis is limited to the 2008-11 period.

**Chart 5: Changes in unemployment rates (15-74) (UR) and employment rates (15-64) (ER) from 2008 to 2012 in EU Member States, EU-28 and EA-17**

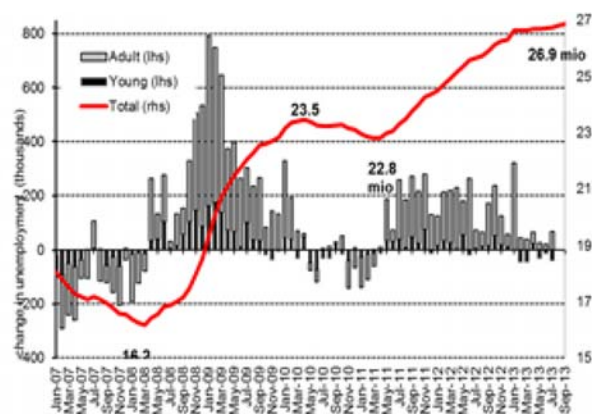


Source: Eurostat, LFS [une\_rt\_a] and [lfsa\_ergan], DG EMPL calculations.

### Unemployment rates have risen

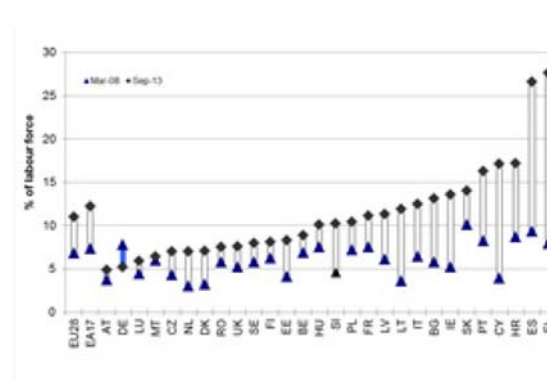
The overall picture for unemployment is one of severe deterioration since 2008, with a short-lived reduction in the year to mid-2011 and a further worsening since then. The number of unemployed in the EU has again risen in recent months, hitting a new historic high of 26.9 million in September 2013 (see Chart 6).

**Chart 6: Monthly change in youth, adult and total unemployment in the EU (Jan 07–Apr 13)**



Source: Eurostat, series on unemployment [une\_nb\_m]. Data seasonally adjusted.

**Chart 7: Unemployment rate development by Member State since the low of March 2008 and July 2013**



Source: Eurostat, series on unemployment [une\_rt\_m]. Data seasonally adjusted.

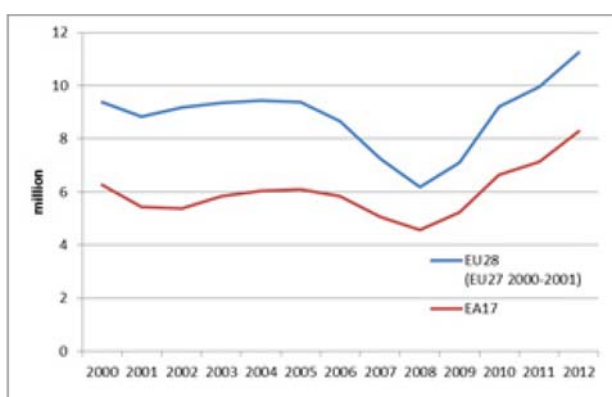
The second dip in output saw a steady increase in unemployment in the EU over the past two years, with 4 million more people out of work. The crisis has, since the spring of 2008, created some 10.5 million additional unemployed in the EU to reach a total of 19.4 million in September 2013. Between May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

Since the historic low level of unemployment recorded in March 2008, the largest increases have been in Greece (+19.7 pps to 27.6%), Spain (+17.3 pps to 26.6%), Cyprus (+13.2 pps to 17.1%), Croatia (+8.5 pps to 17.2%) and Portugal (+8.1 pps to 16.3%), see Chart 79. Only one country has seen the overall unemployment rate fall over the last five years, namely Germany (-2.6 pps, to 5.2% in September 2013).

### *Uninterrupted rise in long-term unemployment*

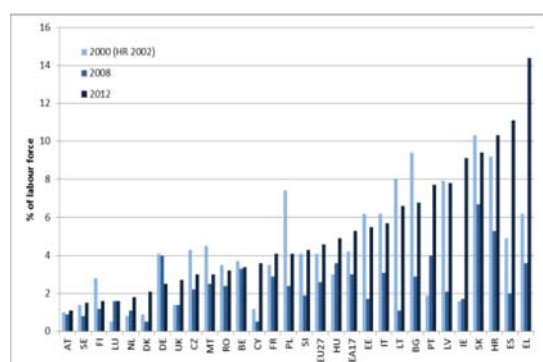
Long-term unemployment (unemployed for 12 months or more, not living in collective households) has risen throughout the crisis, apart from a brief period following the short-lived recovery of 2010, reached an all-time high of 11.3 million in the EU at the end of 2012, accounting for nearly 5% of the active population. Since 2008 the number of long-term unemployed has almost doubled in the EU27 and in the EA17 (+ 5.1 million and +3.7 million respectively, see Chart 8), which contrasts with the steep decline between 2005 and 2007 and the minor increase following the 2001-3 recession. Developments by Member State broadly reflect movements in overall unemployment (see Chart 9).

**Chart 8: number of long-term unemployed people EU28 and EA17, annual average 2000–12**



Source: Eurostat, LFS [lfsa\_ugad].

**Chart 9: Long-term unemployment rates for the EU27, EA17 and each Member State 2000, 2008 and 2012**



Source: Eurostat, LFS [une\_ltu\_a]. Data non-seasonally adjusted.

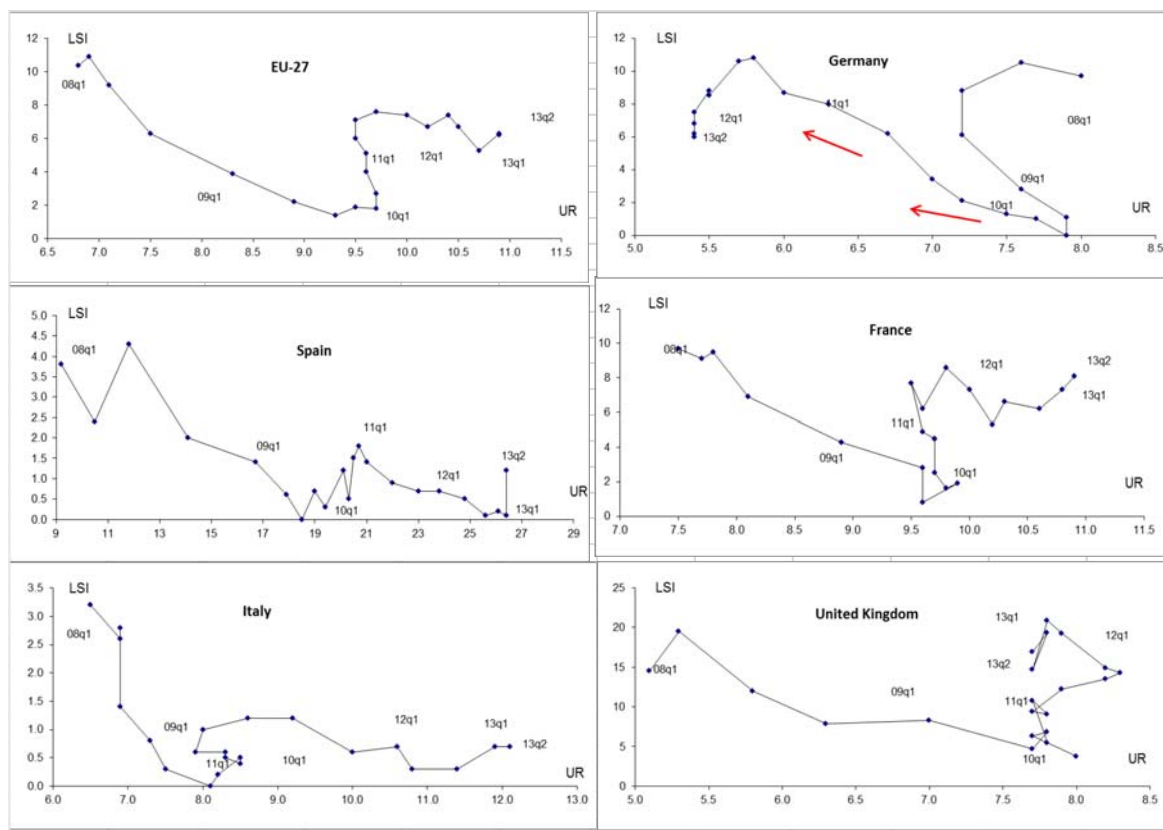
### *Signs of rising labour market mismatches: rising structural unemployment after the first downturn*

Some understanding of the changing structural nature of unemployment can be seen on the basis of the Beveridge curve, which reveals the extent of labour market mismatches by juxtaposing unemployment rates and unfilled job vacancy rates<sup>3</sup>. Shifts along the curve represent cyclical changes in the demand for labour, typically implying higher vacancies and lower unemployment in upturns and lower vacancies and higher unemployment in downturns. On the other hand, an increase or decrease in the number of vacancies for a given rate of unemployment is indicative of structural changes, with an increase typically implying a higher level of mismatch (described as a move of the curve outwards, or to the right), and vice versa.

<sup>3</sup> An alternative indicator for the job vacancy rate is the labour shortage indicator. The indicator is derived from EU business surveys results. The indicator is seasonally adjusted and fully harmonised across Member States, but covers only manufacturing. See also [http://ec.europa.eu/economy\\_finance/db\\_indicators/surveys/documents/userguide\\_en.pdf](http://ec.europa.eu/economy_finance/db_indicators/surveys/documents/userguide_en.pdf). See March 2013 issue of the EU Employment and Social Situation Quarterly Review (European Commission, 2013b) for more details.



Chart 10: Beveridge curves in the EU and the five largest Member States



Sources: Eurostat, LFS [une\_rt\_q] and ECFIN Business and Consumer Survey [bsin\_q\_r2]. Seasonally adjusted

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

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

In the second period - from the first quarter of 2010 to mid-2011 - the unemployment rate remained fairly stable, while the labour shortage indicator increased significantly (see Chart 10). Such movement is indicative of labour market mismatches in a recovery, due to very diverse developments by sector (for example, construction boom and bust), insufficient labour mobility, and a possibly inadequate skill supply (see also 'The skill mismatch challenge in Europe', Chapter 6 in European Commission (2013)<sup>4</sup>).

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

In conclusion, the outwards movement of the Beveridge curve seems to have predominantly occurred in the period 2010-2011, suggesting that mismatches and structural unemployment mainly rose during the first downturn. An analysis of national Beveridge curves<sup>5</sup> shows that this was the case in Bulgaria, France, the Netherlands and Poland, but not in Member States with the highest increases in unemployment. In

<sup>4</sup> European Commission (2013c), "Employment and Social Developments in Europe 2012" (ESDE 2012).

<sup>5</sup> See more details in March 2013 edition of ESSQR (European Commission, 2013b)

contrast, a better matching associated with a leftward shift in the Beveridge curve was seen notably in Germany.

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

Over the five years to the first quarter of 2013, 2.8 % of jobs disappeared in the EU across all sectors, although the intensity of net job losses was less in the second downturn (after Spring 2011) than it has been during 2008-2009. Furthermore, while the manufacturing and construction sectors were most hit during the first downturn, services and the public sector saw heavier job losses during the second downturn. According to the European Restructuring Monitor (see box), announced job losses still outnumber job gains in the large majority of sectors.

Box: European Restructuring Monitor reveals continued net job destruction

In the twelve months between 1 September 2012 and 31 August 2013, the European Restructuring Monitor (ERM) recorded a total of 1436 large-scale restructuring cases (those generally involving at least 100 job losses or job gains) at national, regional or local level, and 102 cross-national cases<sup>6</sup>.

These restructurings involved approximately 391,000 announced job losses and 190,000 announced job gains. In every quarter since 2008q1, announced job losses in ERM cases have outnumbered job gains. The Member State with the largest announced job losses was Germany (56,084) but large job losses were also recorded in France (54,384), the United Kingdom (43,770) and Spain (34,949). The country reporting the largest job gains was France (32,554).

The majority of announced job losses (67%) were attributable to internal restructuring and a quarter (25%) to bankruptcy or closure. The share of bankruptcy / closure-motivated job losses has been higher in 2012/13 than at any time in the last decade, including the trough years of the crisis, 2008-9. On the other hand, levels of offshoring/outsourcing/relocation remain very subdued (4% of total job losses compared to 10% in 2006 and 2007).

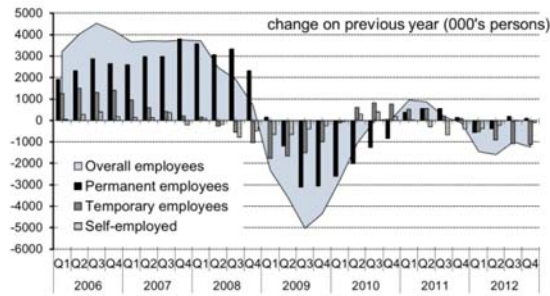
The main broad sector affected by restructuring job loss was manufacturing though this reflects, in part, the large firm bias of ERM due to its size thresholds. There were over 144,000 job losses reported in 471 manufacturing cases in the twelve month period, representing 37% of total ERM-announced job losses. Other sectors accounting for a large share of job losses included financial services/insurance (17%) and information/communication services (11%).

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

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

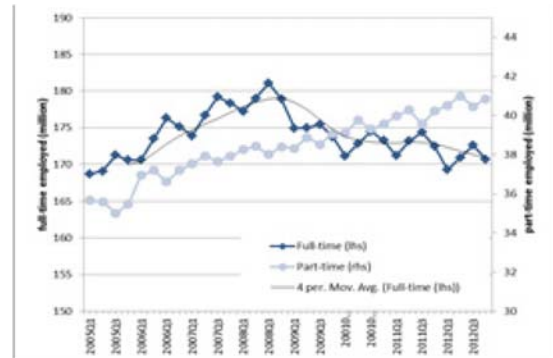
<sup>6</sup> Data are based on an extraction from the ERM restructuring events database on September 6th 2013  
[www.eurofound.europa.eu/emcc/erm/index.htm](http://www.eurofound.europa.eu/emcc/erm/index.htm)

**Chart 11: Employees in permanent and temporary work, self-employment and total employment (15-64 years) (1 000 persons), 2006-2012, y-o-y change**



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

**Chart 12: Part-time and full-time employment in the EU (millions), 2005-2012**



Source: Eurostat, LFS. Data non-seasonally adjusted [lfsq\_epgaed].

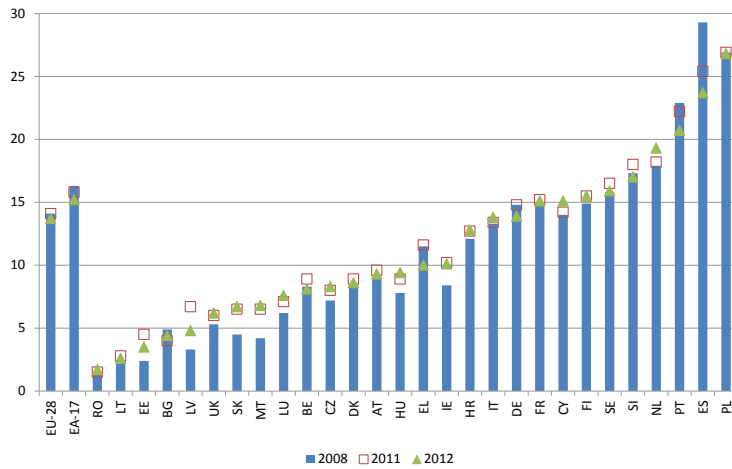
While the severity of the first downturn resulted in massive destruction of permanent jobs, the greatest burden of adjustment has fallen on temporary jobs. During the timid recovery in 2010 and the first part of 2011, continuing business uncertainty tempered the hiring on permanent contracts in favour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

While the share of temporary employees has developed cyclically, tracking the overall ups and downs of the labour market, Chart 13 shows the extent of the divergence between Member States in terms of the percentage of employees holding a temporary contract in 2008-2012. In 2012, the countries with the highest share of employees on temporary contracts were Poland, Spain, Portugal, the Netherlands and Slovenia, with rates of 17% or more. The shares were lowest in Romania, Lithuania, Estonia, Bulgaria and Latvia - all below 5%.

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

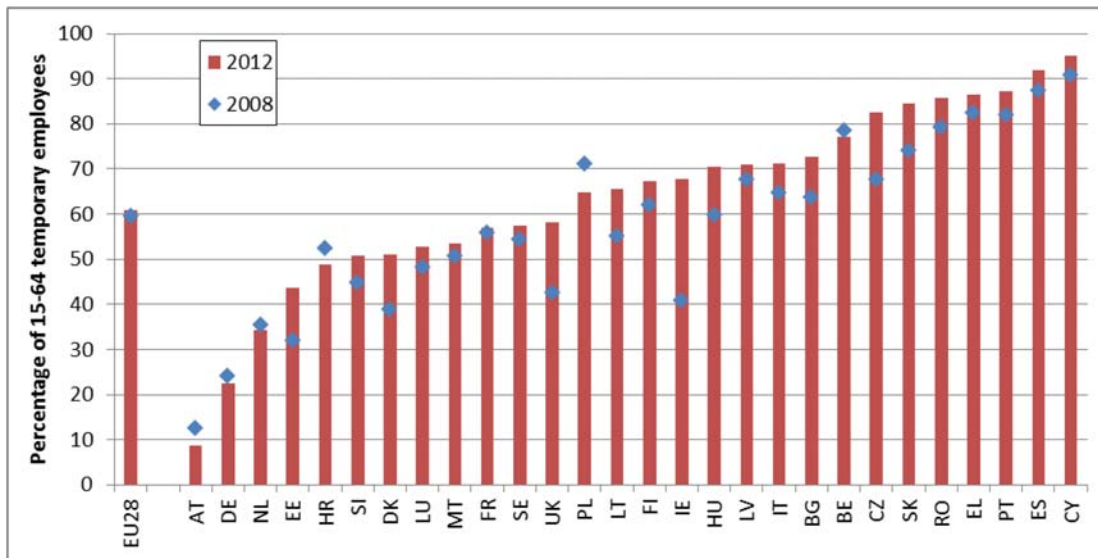
Attention should be focused on employees who hold temporary contracts involuntarily: some 60% of temporary employees in the EU want, but cannot find, a permanent job. This is a particular challenge in Spain and Portugal (the countries with the highest shares of temporary employment) where around 90% of temporary contract are involuntary, but more than 80% of employees are in this position in Member States with medium rates of temporary employment (i.e. Cyprus, the Czech Republic and Greece) and low rates (i.e. Romania and Slovakia) as can be seen in Chart 14.

**Chart 13: Temporary contracts in the Member States as a percentage of the total number of employees in 2008, 2011 and 2012, in the working-age group (15-64)**



Source: Eurostat, LFS [lfsa\_etpga].

**Chart 14: Involuntary ("Could not find a permanent job") temporary work in selected countries**



Source: Eurostat, LFS [lfsa\_etgar].

Note: Some countries present unreliable data EU28, BE, BG, DE, EE, EL, IE, NL, SE, UK

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

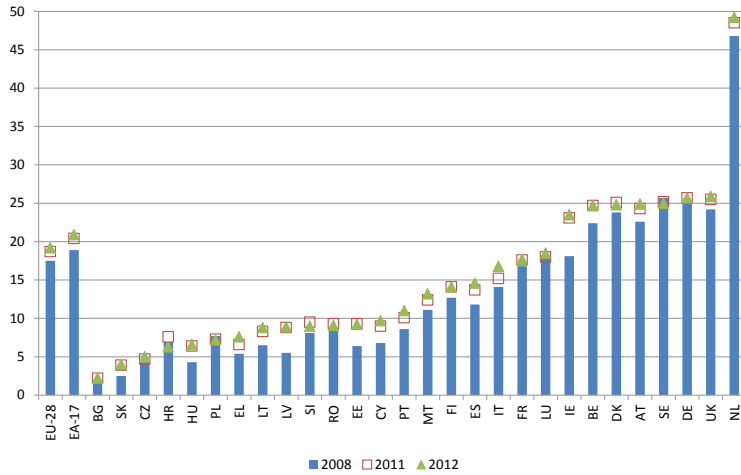
*Full-time employment falling but part-time rising...*

Full-time employment is in its fourth consecutive year of contraction, down by 8.3 million (-4.6%) since the last quarter of 2008, after having stabilising briefly during the first semester of 2011 (see Chart 17). Conversely, there has been steady growth in part time jobs with 2.5 million more since the last quarter of 2008, a rise of 6.4%.

Chart 15 depicts the relative developments of part-time work in the Member States since 2008. In 2012, its share within total employment was the highest in the Netherlands (49.2%), followed by the UK, Germany, Sweden, Austria, Denmark and Belgium, all at 25% or above. Shares were lowest in Bulgaria, Slovakia, the Czech Republic and Croatia, at 5% or below. At EU-28 level, the percentage went up by 1.7 pps to 19.2% over the four years to 2012 (+0.5 pps since 2011). It increased in all Member States except in Croatia,

Poland and Sweden, with major increases noted between 2008 and 2012 in Ireland (+5.4 pps), Latvia (+3.4 pps) and Cyprus (+2.9 pps) - all countries that have experienced serious labour market and social difficulties in recent years.

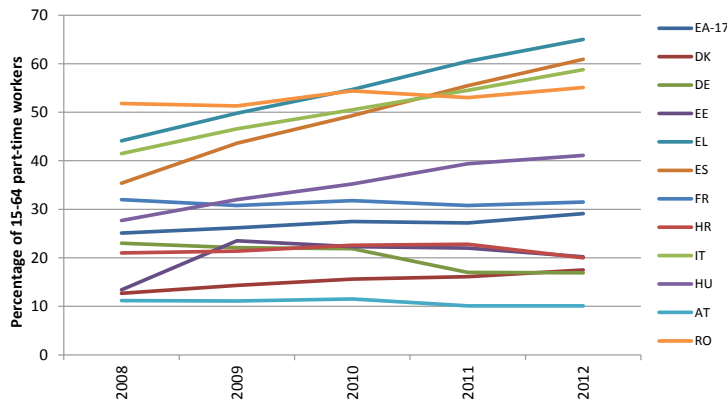
**Chart 15: Part-time contracts in the Member States as a percentage of total employment in 2008, 2011 and 2012, in the working-age group (15-64)**



Source: Eurostat, LFS [lfsa\_eppga].

Reducing working time was considered an appropriate option by both employers and workers in the first phase of the crisis, helping to significantly reduce the risk of redundancies in many cases. However the long term acceptance of this should not be taken for granted, with many part-time workers wishing to work more hours, as can be seen in Chart 16 for a selection of Member States for which reliable data is available.

**Chart 16: Involuntary part-time work**



Source: Eurostat, LFS [lfsa\_eppga].

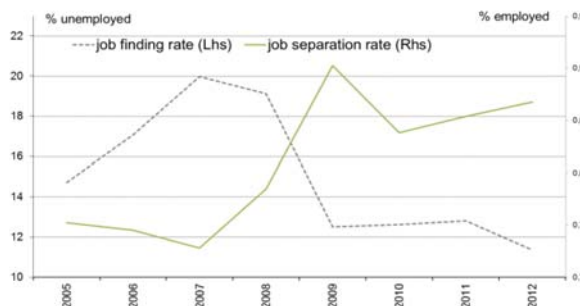
*... and declining prospects of finding permanent work*

The ratio between the number of people starting new jobs and those who are unemployed (the job-finding rate)<sup>7</sup> in the EU27 increased from 14.7% to 20% between 2005 and 2007 but fell back after 2008, falling to 11.4% in 2012 (see Chart 17). The ratio of the number of people who left their job to the number of people

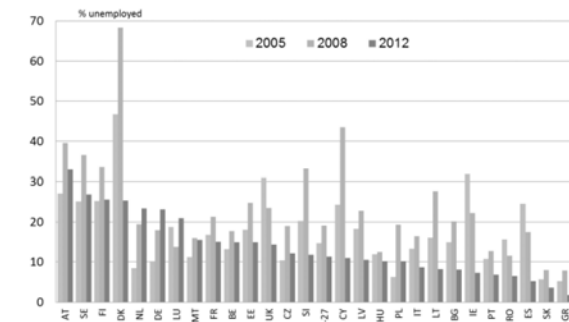
<sup>7</sup> Annual average of the monthly ratio of the number of people starting new jobs to those who are unemployed. People starting a job include those previously in work and those changing jobs (employment to employment flows), those previously unemployed (unemployment to employment flows) and those that had previously not been in the workforce (inactivity to employment flows).

in employment, known as the job separation rate<sup>8</sup>, rose sharply after 2008 across EU27 (by 0.12 pp) to reach 0.90% in 2009 and 0.87% in 2012.

**Chart 17: Job-finding rate and job separation rate in the EU27, annual average 2005-2012**



**Chart 18: Job-finding rate in the EU27 and in each Member State, annual average in 2005, 2008 and 2012**



Source: Eurostat, LFS. DG EMPL calculations.

Source: Eurostat, LFS. DG EMPL calculations..

Between 2005 and 2008, the job finding rate rose in 22 Member States and fell in five with the highest rises recorded in Poland, Cyprus and Denmark, and the sharpest falls in Spain, the UK ( and Ireland. From 2008 to 2012, this job finding rate fell in 24 Member States and increased only in three. As shown on Chart 18, the highest increases were recorded in Luxembourg, Germany and the Netherlands, while Denmark, Cyprus and Slovenia saw the steepest falls.

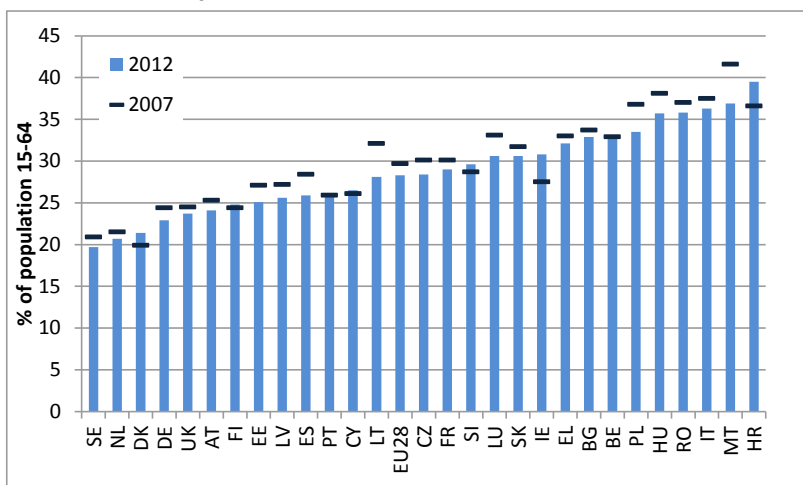
*Labour market difficulties hardly affected labour market participation*

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

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

<sup>8</sup> Annual average of the monthly ratio of the number of people who leave their jobs to the number of people in employment.

Chart 19: Inactivity rates for EU Member States, 2007 and 2012



Source: Eurostat, LFS. [lfsa\_argan].

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

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

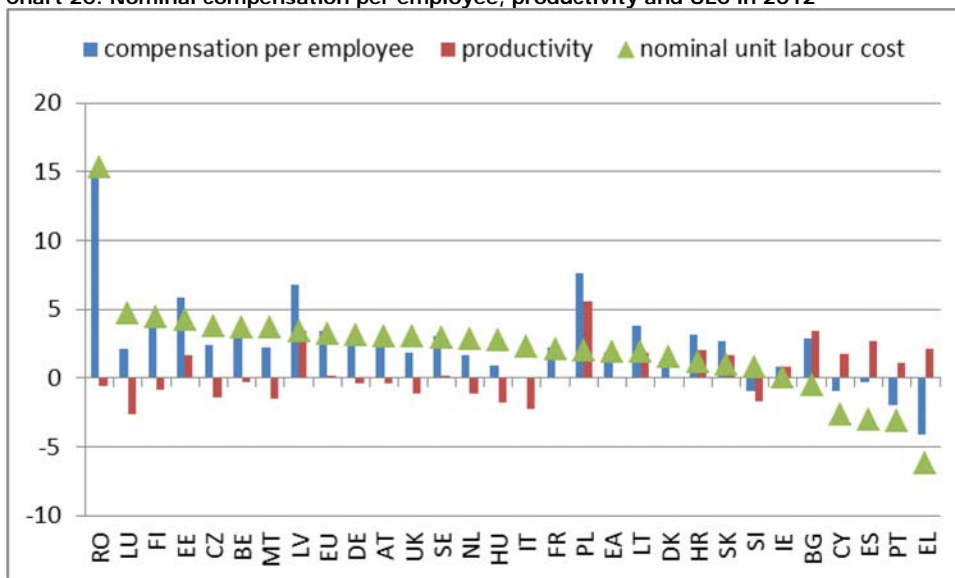
### 3.1.3 Labour incomes coming further under pressure

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

In 2012, Greece<sup>9</sup>, Portugal, Cyprus and Slovenia recorded notable decreases in nominal compensation per employee, while the euro area Member States with a strong external position recorded strong growth (including Germany, Austria and Finland). See Chart 20.

<sup>9</sup> In Greece, this was accompanied by a sizable decrease in the minimum wage (-22% between the first half-year 2012 and 2013).

Chart 20: Nominal compensation per employee, productivity and ULC in 2012



Source: Eurostat, National Accounts [nama\_aux\_lp],[nama\_aux\_ulc], DG EMPL calculations.

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

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

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

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

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

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

In 2012 nominal unit labour costs (i.e. compensation per employee adjusted for labour productivity growth) decreased in Greece, Portugal and Spain, while remaining stable in Ireland. At the same time nominal unit labour cost grew significantly in the core Member States of the euro area, notably in Belgium, Finland , Luxembourg, Austria, Germany and France.

Substantial increases in nominal unit labour cost can be a source of cost-push inflationary pressures and may affect a Member State's international cost competitiveness (especially in a monetary union with irreversible fixed nominal exchange rates). As such, the decreases in the nominal unit labour cost in the periphery of the euro area, and the increases in the core Member States, may have the potential to promote adjustment in cost competitiveness and absorb the external imbalances accumulated in the past. [Box 3](#) puts developments in 2012 in a broader context by comparing them with cumulative growth rates in the euro area over the 2001-12 period.

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

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



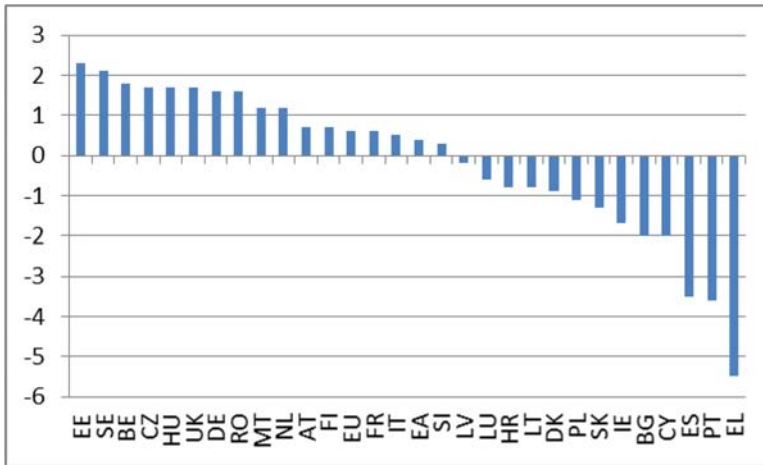
*The labour income share decreased sharply in Greece, Portugal and Spain*

Chart 21 shows the annual growth rates of real unit labour costs (RULC) in the EU in 2012 where real unit labour cost measures the discrepancy between real wages and labour productivity<sup>10</sup>. As such, the RULC is also a measure of the labour income share<sup>11</sup> in that a rise in the real unit labour cost implies a rise in the labour income share.

Real compensation per employee<sup>12</sup> grew at a stronger pace than labour productivity in most EU Member States in 2012, inducing a rise in the real unit labour cost. Estonia and Sweden showed the strongest increase, followed by Belgium, the Czech Republic, Hungary, the United Kingdom, Germany and Romania.

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

**Chart 21: Real unit labour cost in 2012 (annual % growth)**



Source: Eurostat, National Accounts [nama\_aux\_ulc]

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

<sup>10</sup> I.e. the real unit labour cost is equal to the nominal unit labour cost adjusted for the GDP price deflator.

<sup>11</sup> The capital income share is one minus the labour income share.

<sup>12</sup> I.e., nominal compensation per employee adjusted for GDP price deflator, which is a measure of gross earnings of workers.

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

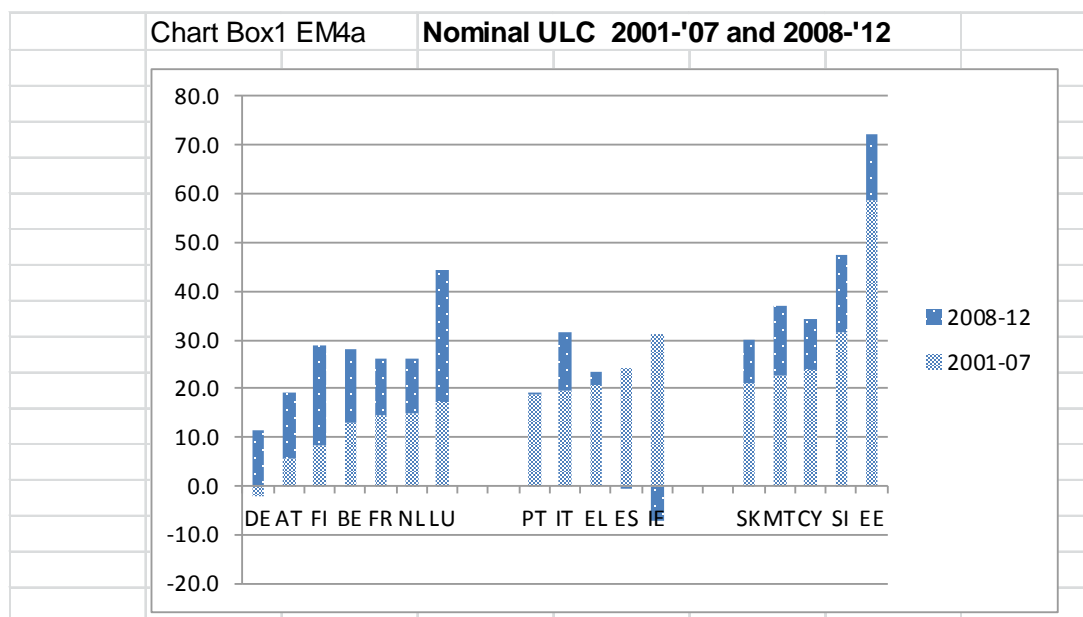
A sustained asymmetric correction of divergent developments in nominal unit labour cost during the run-up to the crisis was the driving force behind developments in the nominal unit labour cost of the Member States of the euro area in 2012. Chart 22 shows three groups of countries: the core countries; the original euro area countries in the periphery; and the countries that joined after 2007.

Among the original members of the euro area, Ireland had the largest cumulative nominal unit labour cost growth between 2001 and 2007, followed by Spain, Greece, Italy, Portugal and Luxembourg - all of whom tabled cumulative growth of just below 2% per annum<sup>13</sup>. By contrast, several other Member States tabled very low nominal unit labour cost growth; Germany (actually recording negative growth) together with Austria and Finland - all well below a cumulative growth of 2% per annum.

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

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

**Chart 22: Nominal ULC 2001-2007 and 2008-2012**



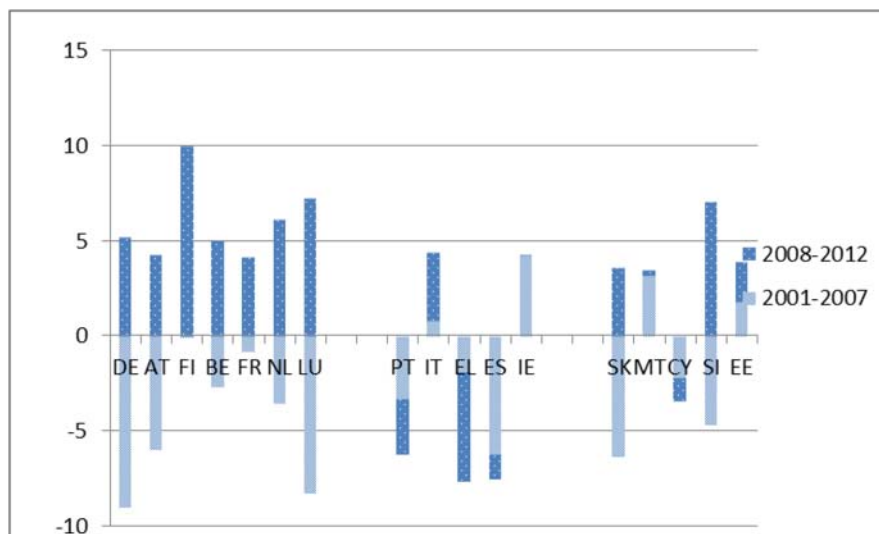
Source: Eurostat, National Accounts [nama\_aux\_ulc]

By contrast, after correcting for inflation (which yields the real unit labour cost<sup>14</sup> - see Chart 23), adjustments since the crisis appears to have affected the 'periphery' (with the exception of Italy), while real unit labour cost grew nowhere else, other than in Cyprus. Countries in the periphery tended to be those facing current account and external debt challenges, but the cumulative growth over the 2008-12 period was primarily driven by sharp increases at the peak of the downturn (in 2008 and 2009) when output contracted much more strongly than the total wage bill.

<sup>13</sup> Noting that the nominal unit labour cost is a measure of cost push inflationary pressures and that the ECB has set an inflation target of just below 2% per annum.

<sup>14</sup> The real unit labour cost is also a measure of the labour income share (or "wage share"): a rise in the real unit labour costs indicates a rise in the labour income share.

Chart 23: Real ULC 2001-'07 and 2008-'12



Eurostat, National Accounts [nama\_aux\_ulc]

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

### 3.2 The threat to the future of young people

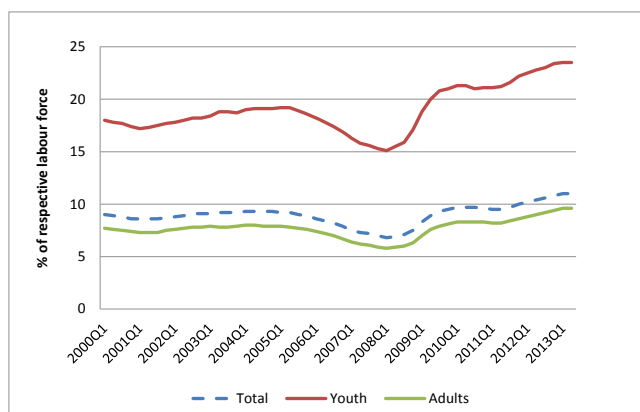
#### *Rising unemployment and falling employment*

Chart 24 clearly demonstrates just how rapidly the youth unemployment rate has developed compared to that for adults since mid-2008, rising by 9.3 pps within five years to reach 24.2% in 2013q2, while that of adults rose by 3.8 pps, to 9.6%.<sup>15</sup> This means that, with 5.5 million young unemployed (in July 2013), close to one in four economically active young people cannot find a job in the EU.

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

<sup>15</sup> See Eurostat's Statistics Explained with definitions of various concepts (unemployment rate, unemployment ratio, etc.): [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=Youth\\_unemployment](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Youth_unemployment).

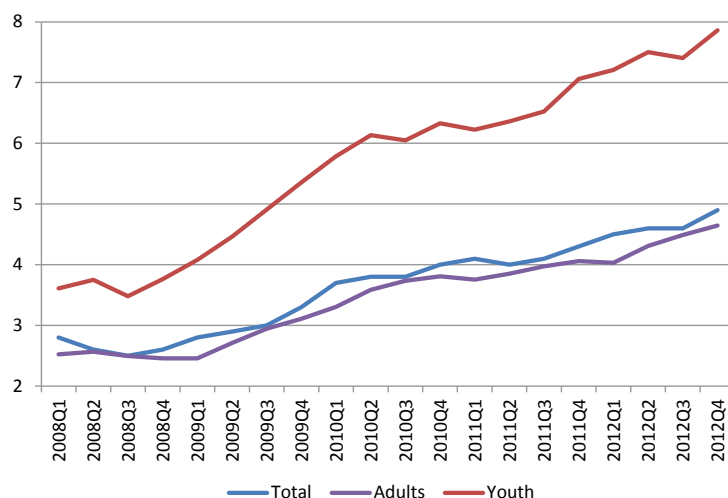
**Chart 24: Developments of unemployment rates since 2000 in the EU-28, total, adults (25-74) and young people (15-24), in percentage of active population**



Source: Eurostat, LFS [une\_rt\_q]. Data seasonally adjusted.

Likewise the long-term unemployment rate for youth has increased fast recently, as Chart 25 illustrates, with long-term unemployment accounting for 7.9% of active youth in 2012q4 (against 4.6% for adults and 4.9% in total). In other words it has more than doubled over the last five years, while it went up by roughly 2 pps for adults. There is thus a clear risk of labour market detachment for the younger generation, as the proportion of long-term jobless has increased faster than the overall unemployment rate of the age group.

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

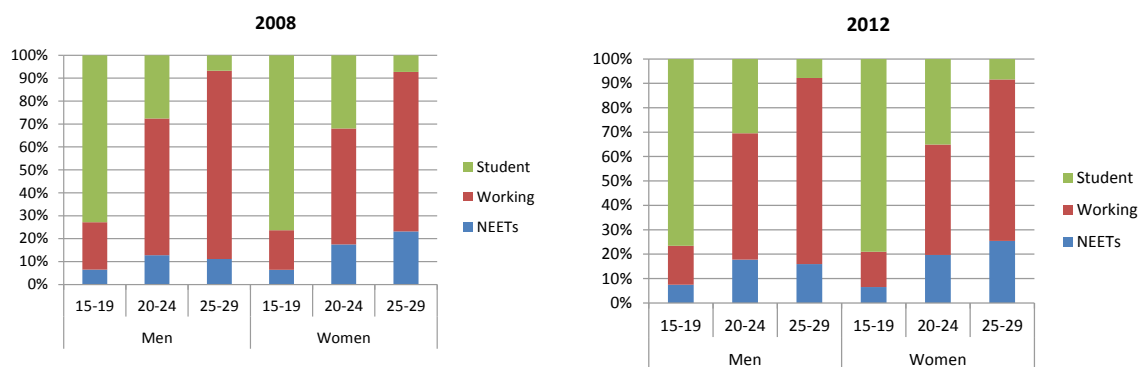


Source: Eurostat, LFS [lfsq\_upgal]. Data non-seasonally adjusted.

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

Given the high proportion of students among the younger generations (close to 80% of the age group, 15-19, and one-third of those aged 20-24), the low activity rate of young people should not be the major concern as such. Of much greater concern is the proportion of young people who are neither in employment, education and training (NEET). Chart 26 provides an overview of the respective shares of students, workers and NEETs by gender and sub-age group. Comparing the situation in 2008 and 2012, the proportion of students has indeed risen with the crisis across all sub-age groups, for both young women and men, as has the percentage of NEETs (see analysis below). On the other hand, the percentage of young workers fell substantially.

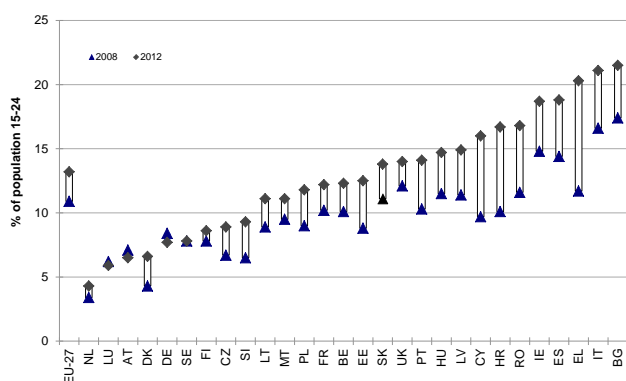
**Chart 26: Share of students, workers (in education or not) and NEETs at EU-28 level, by gender and in various sub-age groups (15-19, 20-24 and 25-29)**



Source: Eurostat, LFS [edat\_lfse].

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

**Chart 27: Total NEET rate in the Member States for 15-24, in 2012 as compared to 2008**



Source: Eurostat, LFS [edat\_lfse\_20].

Note: EU-28 aggregate not available.

Chart 28 shows that the NEET phenomenon is mainly the result of an increase in unemployment, rather than in non-education linked inactivity, with the latter also referred to as 'bad inactivity' i.e. not in education and training and not even looking for a job. Between 2008 and 2012, the unemployment component saw a rise of 2 pps to 6.9%,<sup>16</sup> while the rise for the inactivity component, was up by 0.4 pps to 6.3%, meaning that the same proportion of young people are continuing to look for jobs or to invest in education.<sup>17</sup>

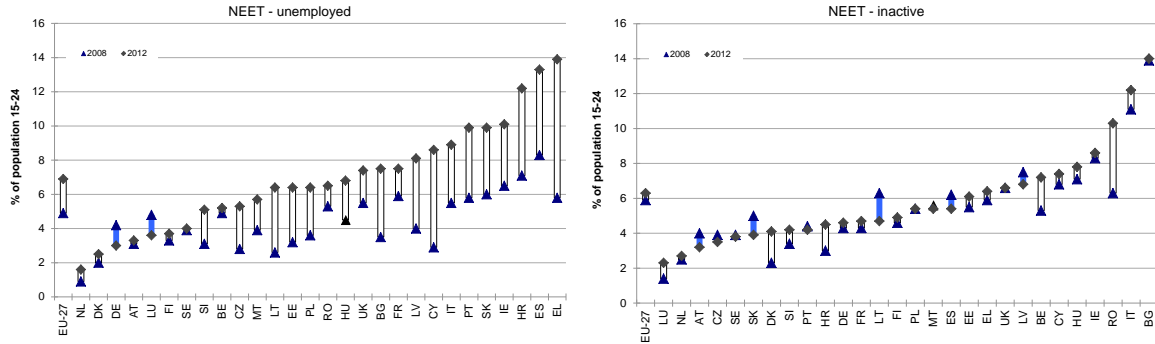
This rather reassuring observation hides major differences across Member States, however, with significant hikes in youth inactivity seen in Romania, Belgium, Croatia, Denmark and Italy. Falls were recorded in Lithuania, Slovakia, Latvia, Austria and Spain. Major rises were seen in youth unemployment,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

<sup>16</sup> This percentage is lower than the 9.8% of youth unemployment ratio referred to above, since these 6.9% represent those young unemployed people who are not registered in formal education, while the 9.8% may include students.

<sup>17</sup> See also

[http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php?title=Participation\\_of\\_young\\_people\\_in\\_education\\_and\\_the\\_labour\\_market](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php?title=Participation_of_young_people_in_education_and_the_labour_market).

**Chart 28: NEET rate for 15-24 in the Member States: unemployed vs inactive**

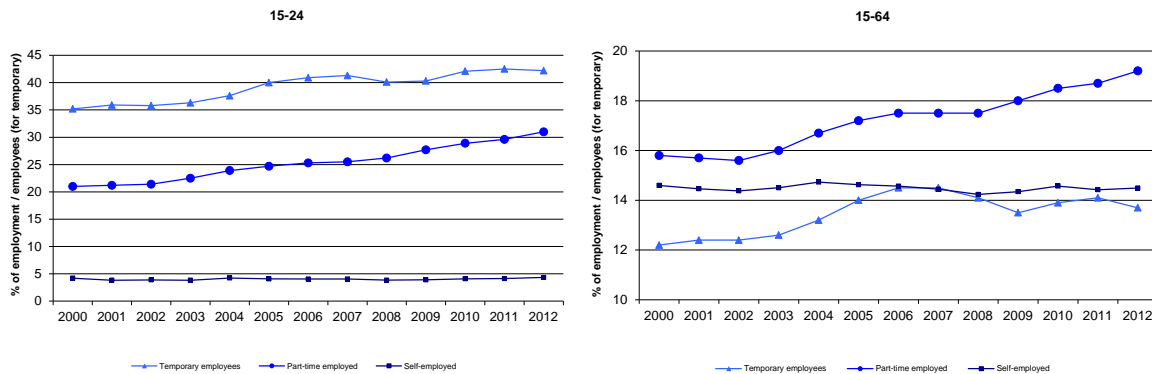


Source: Eurostat, LFS [edat\_lfse\_20].  
 Note: EU-28 aggregate not available.

*A generation increasingly confronted with labour market segmentation...*

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

**Chart 29: Part-time, temporary contracts and self-employment in the EU-28 since 2000, for young people (15-24) vs the whole working-age group (15-64)**



Source: Eurostat, LFS [lfsa\_etpga], [lfsa\_eppga] and [lfsa\_esgan2]. DG EMPL calculations.

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

The proportion of temporary employees has also tended to grow but with fluctuations in line with changes in economic activity. The percentage of young employees holding a temporary contract is close to three times that of those of working-age in total. In 2012 it amounted to 42.2% against 13.7% against 35.2% and 12.2% respectively in 2000. However, comparisons across and between Member States need to be made with caution. While temporary contracts have a connotation of job insecurity and precariousness in some

Member States, in others they include a significant portion of apprenticeship/training contracts, which are generally seen as providing effective stepping stones into regular and secure employment.<sup>18</sup>

The crisis has not helped young entrepreneurs fulfil their entrepreneurial dreams<sup>19</sup> and the starting up of one's own business remains the exception with the percentage of self-employed among young workers being about one-third that of the working-age group in total, at less than 5%.

*... especially among the less educated*

Over the year to the fourth quarter of 2012, employment fell by 3.4% among young people with the less-educated being hit the hardest (-7.2%) while those with higher education have been spared (+6.7%).<sup>20</sup> The overall 3.4% fall was driven essentially by a decline in the number of temporary contracts (-5.3%, against -2.2% for permanent jobs) with the biggest impact again being greatest for those with a lower level of education.

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

### ***3.3 Longer-term impact on labour markets***

#### ***3.3.1 The crisis is challenging the Europe 2020 employment rate targets***

The Europe 2020 employment rate target of 75% (for those aged 20-64) is becoming increasingly difficult to achieve in view of the recent standstill, and even loss of employment, in the majority of Member States. As Chart 30 shows, while major progress was achieved in the period up to 2008 at both EU and euro area levels, a significant part of that progress has been wiped out by the crisis. In effect the gap relative to the Europe 2020 target fell from 8.5 pps in 2000 to 4.7 pps in 2008 before rising to 6.5 pps in 2000-11 and 6.6 pps in 2012

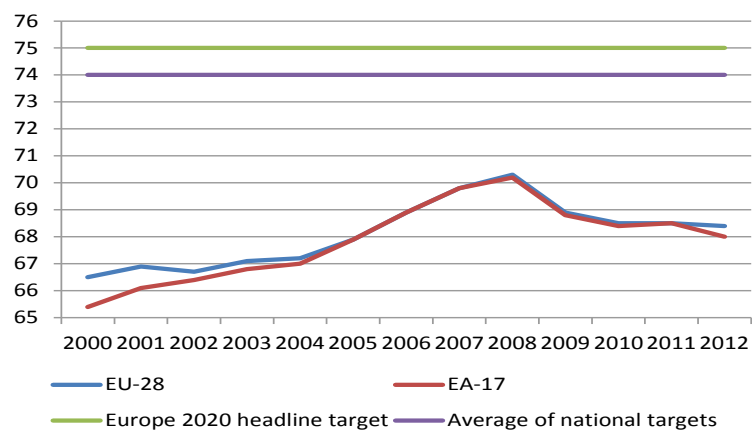
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<sup>18</sup> See <http://ec.europa.eu/social/main.jsp?langId=en&catId=113&newsId=1923&furtherNews=yes> for more details.

<sup>19</sup> See OECD report on inclusive entrepreneurship

<sup>20</sup> ISCED classification: Pre-primary, primary and lower secondary education (levels 0-2); upper secondary and post-secondary non-tertiary education (levels 3 and 4) and first and second stage of tertiary education (levels 5 and 6).

**Chart 30: Developments of EU-28 and euro area employment rates with regard to Europe 2020 targets (20-64 age group)**



Source: Eurostat, LFS [*lfsa\_ergan*] and Europe 2020 objectives.  
 Note: ER for 2000 and 2001 are for EU-27 instead of EU-28.



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

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

Source: Eurostat, LFS [lfsa\_ergan][demo\_pjan], Europe 2020 objectives (see [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)) and Europop 2010 demographic projections for 2020 [proj\_10c2150p], DG EMPL calculations.

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

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

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

Table 1 contains an updated projection of the employment growth needed in order to meet the national employment rate targets (see last column) and the EU headline target rate, taking account of demographic

trends. According to these forecasts, an average annual growth in the number of jobs of about 0.75% would be required to achieve the national targets (with nearly 3% a year needed in Greece and Spain) and roughly 0.9% to achieve the EU level headline target.<sup>21</sup> The number of people of working age (20-64) currently employed in EU-27 – namely 209 million in 2012 – represents a shortfall of between 13 and 16 million jobs compared to the 2020 targets set at national and EU level respectively.

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

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

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

Source: Eurostat, LFS [*lfsa\_ergan*] and [*lfsa\_ergaed*].

Note: \* 2000: data for EU-27 instead of EU-28

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

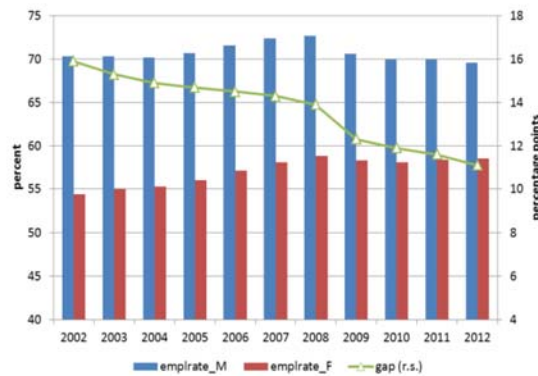
### **3.3.2 Continuing improvements in female employment**

In 2012, the employment rate for women aged 20 to 64 stood at 62.3%, i.e. 5 pps above the level recorded in 2000, and only 0.4 pps below that of 2008. In contrast that of men was 1.3 pps below the rate seen twelve years earlier, and down by 3.4 pps compared to 2008. This difference has to be seen against the background of the continuous long-term increase in female labour market participation, and the impact of the first downturn on male dominated sectors of the economy which, together, led to a narrowing of the unemployment gender gap (see Chart 32).

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

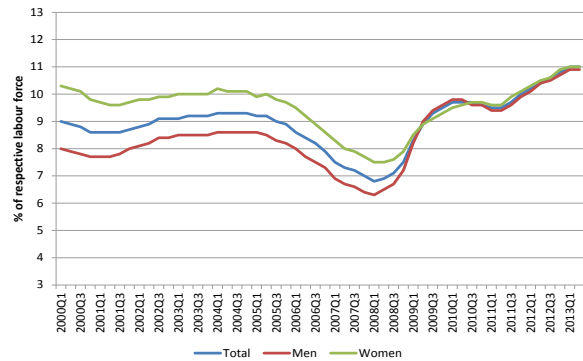
<sup>21</sup> To that end, some 16 million jobs should be created by 2020 in the EU-27 (i.e. 2 million per year) to reach the 75% headline target. No population forecast available for Croatia.

**Chart 31: Employment rate of men and women aged 15-64 and employment rate gap in the EU28**



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

**Chart 32: Developments of unemployment rates in the EU28 by gender, in percentage of total active population (15-74)**



Source: Eurostat LFS [une\_rt\_q]. Data seasonally adjusted.

#### *Narrowing gender employment gaps often due to composition effects*

The employment rate of females has been traditionally lagging behind that of males but, as Chart 31 shows, the gender gap between male and female employment rates in the EU28 narrowed markedly during the first stage of the crisis (from 13.9 to 11.9 pps between 2008 and 2010) and contracted somewhat further during the second stage between 2011 and 2012 to 11.1%. This reflects a relative larger drop in the male employment rate between 2008 and 2012 (from 72.7% to 69.6%), while female employment rate almost rebounded to its 2008 level of 58.8% in 2012 (reaching 58.5%) following a distinct rise compared to 2010 (58.1%)<sup>22</sup>.

Sectoral factors have had a strong impact on the respective trends in male and female employment during both phases of the recession.<sup>23</sup> While men bore the brunt of the employment fallout in both stages, largely due to their much greater presence in manufacturing and construction, the more subdued female employment adjustment has been largely concentrated in manufacturing and trade.

Both genders have seen a rather pronounced decrease in the public administration sector between 2011 and 2012. Nevertheless, female employment continued to increase in both the health and education sectors<sup>24</sup> during both stages of the recession, although in both sectors the employment growth has been more restrained in the second part of the crisis indicating inter-alia some effects of fiscal consolidation measures on labour turn-over in the public sector.

However, the crisis has not only impacted on the gender composition of employment through sectoral effects. Several studies suggest the possibility of an 'added worker effect' as a result of the crisis, in which females in couples increased their employment and/or their working hours so as to counteract the job loss of their partners<sup>25</sup>. Some indication of this can be seen in the employment rates of adult males and females living as a couple, with the employment rate gap between two such adults decreasing noticeably between 2007 and 2010 from 20.4 pps to 17.6 pps and then down to 17 pps in 2012.

This evidence would seem to give some credence to the notion of an 'added worker effect' although it should be noted that the employment rate gap for single individuals also decreased (from 7.3 pps in 2007 to

<sup>22</sup> Nevertheless, the increase in female employment rate between 2010 and 2012 partly stems from the decrease in the working age population (age 15-64), that has contracted by almost 0.5 percentage point between 2010 and 2012.

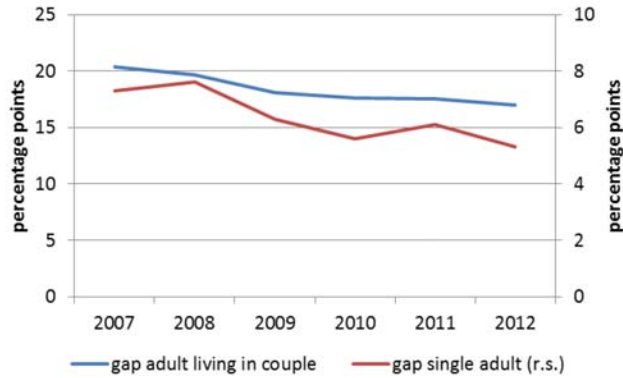
<sup>23</sup> Similarly, there were impacts on the gender pay gap (ref. to ESSQR of December 2012, European Commission, 2013e)

<sup>24</sup> See ESDE 2011 (European Commission, 2012) Chapter 1 p.47 arguing that almost all the employment growth in the top quintile in the EU-27 during the crisis has gone to women. This has resulted largely from the continued expansion of professional grade jobs in the health and education sectors.

<sup>25</sup> See for instance OECD: Closing the gender gap, p. 217. (OECD 2012b)

5.6 pps in 2010 and then to 5.3 pps in 2012). In both cases the decrease of the gap was the result of a decrease in the male employment rate and an increase in the female employment rate between 2007 and 2012 suggesting that women have simply fared somewhat better during the crisis (see Chart 33).

**Chart 33: Employment rate gap between male and female adults living in a couple and male and female single adults in the EU28**

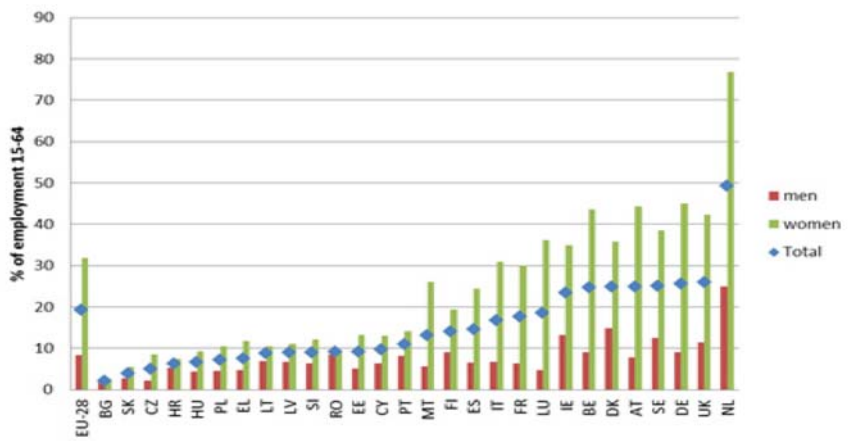


Source: Eurostat, LFS [lfst\_hheredy].

While gender employment gaps are tending to narrow, the female employment rate still lags well behind the male employment rate, and this difference is even larger if one considers full-time equivalents (the gap in employment rates has been 11.1 pps in 2012, but it rises to 21.2 pps when calculated in full-time equivalents, see Chart 35). This results mainly from the fact that females are still concentrated in jobs associated with lower total hours worked and part-time positions (in 2012, 8.4% of male employees worked part-time as against 31.9% of females, see Chart 34 presenting the situation in each Member State).

Though part-time work or lower hours can help resolve the trade-off between inactivity and participation at certain stages of a person's life, such as during studying, before retirement, or when having care duties, it can lead to difficulties in moving to full-time work over the longer term, implying negative consequences from both a personal and societal perspective, as well as reproducing pre-determined gender roles<sup>26</sup>.

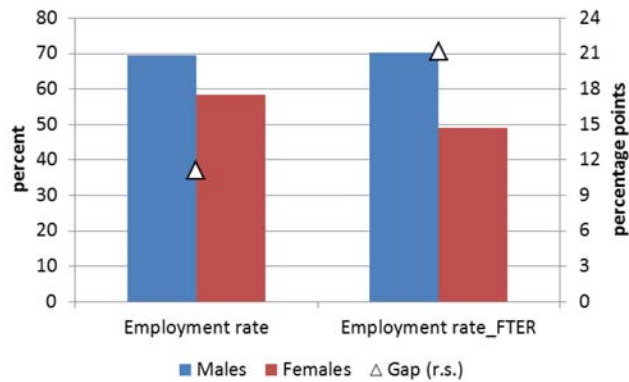
**Chart 34: proportion of part-time workers by gender among the working-age group in 2012**



Source: Eurostat, LFS [lfsa\_eppga].

<sup>26</sup> On the drivers and implications of gender gaps in total hours worked see Employment and Social Developments in Europe – 2013 (forthcoming)

Chart 35: Employment rate gap and full-time equivalent employment rate gap in 2012 in the EU28



Source: Eurostat, LFS [lfsa\_ergan] [lfsa\_ewhun2], DG EMPL calculations.

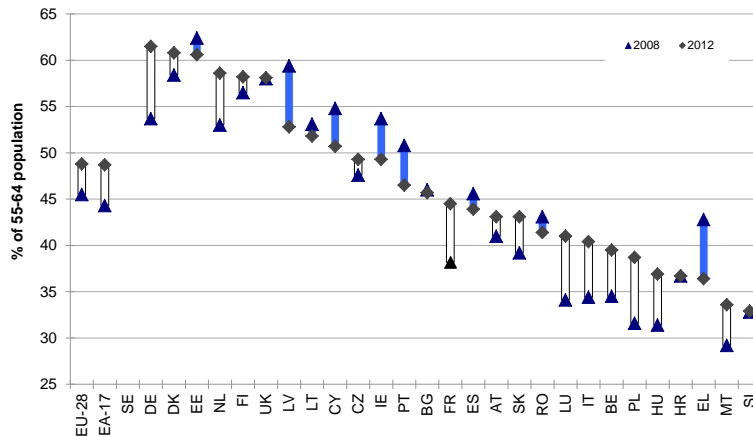
Note: FTER is calculated as the employment/population ratio, multiplied by the average usual hours worked per week per person in employment, then divided by 40. OECD (Closing the gender gap) OECD (2012).

See also **Error! Reference source not found.** & in Annex 1.

### 3.3.3 Older workers' employment has weathered the crisis well

The EU employment rate of older workers has increased by 12 pps since 2000, and by 3.3 pps since the beginning of the crisis, reaching 48.8% in 2012. The increase since 2008 was highest in Germany, but also substantial (5 pps or more, and gathering momentum) in Poland, Luxembourg, France, Italy, the Netherlands and Hungary (see Chart 36). However, some other Member States saw a decrease, notably those hit most by the crisis (such as Greece, Ireland, Portugal and Spain).

Chart 36: Employment rate development in the 55-64 age group by Member State between 2008 and 2012



Source: Eurostat, LFS [lfsa\_ergan].

There are many reasons for this upward trend, which was already underway before the crisis. These include a continuing rise in levels of educational attainment, an increase in the female share of workers aged 55-64, the higher level of legislation induced employment protection enjoyed by older workers, the impact of tax/benefit reforms restricting access to early retirement, and changes in age management in workplaces and labour markets. All of these factors have served, to raise the effective retirement age.

Among the countries mentioned above, the financial incentives to continue work at older ages improved most in Italy, the Netherlands, Germany and France.<sup>27</sup>

### ***3.3.4 New labour migration trends may soften labour market pressures in the short term...***

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

#### *Migration from third-countries to the EU on a declining trend*

Migration to the EU appears to be on a downward trend since the onset of the crisis (2008-2009), in contrast with the previous period (2003-2007) when large flows were recorded<sup>28</sup>. The latest Eurostat data indicates that, for the EU as a whole, there was a slight decrease (-2.4%) in migration flows from third-countries in 2011, from 1.75 million in 2010 down to 1.71 million. During 2010, flows had somewhat recovered (+5.2%) from the lowest figure recorded in 2009 (1.67 million). In 2011, the UK reported the largest number of immigrants from outside the EU (362,900), followed by Italy (257,600), Spain (230,500), Germany (211,400) and France (152,900). These five Member States together accounted for three quarters of all immigrants from outside the EU.

Focusing only on flows of third-country nationals<sup>29</sup>, the trend over 2009-2011<sup>30</sup> is one of strong increase in immigration of third-country nationals in Ireland (+5,700 or +87%), Luxembourg (+1,400 or +54%), Austria (+7,000 or +29%), Germany (+32,200 or +23%), Cyprus (+1,400 or +22%), Poland (+7,000 or +20%) and Belgium (+9,100 or +16%). Moderate increase are noted in the inflows towards Finland (+400 or +3%), the UK (+10,400 or +3%), France (+1,600, +2%) and Denmark (+200 or +1%) with declines in Hungary (-600 or -6%), Sweden (-6,200 or -11%), Italy (-30,100 or -11%), Greece (-5,000 or -14%), Spain (-34,300 or -14%), Portugal (-5,100 or -50%), Slovenia (-16,700 or -66%) and the Czech Republic (-30,100 or -78%).

Even if those migration flows also include flows for study, family or asylum purposes, they point to a declining number of economic migrants, in line with the economic and labour market developments observed in the destination countries since the onset of the crisis<sup>31</sup>. The declining number of economic migrants in many EU Member States is confirmed by the analysis of Eurostat statistics on (first) residence permits. The number of permits issued for remunerated activities has shrunk by 50% between 2008 (768,000) and 2012 (385,000)<sup>32</sup>. In 2012, the number of residence permits issued for family reasons in the 27 EU Member States (670,000) was much higher than those issued for remunerated activities (489,000)<sup>33</sup>, followed by the migrants coming as students (457,000). Overall, net migration has remained positive in most Member States and the overall population of immigrants continued to grow, though at a slower

<sup>27</sup> See OECD 2013 Employment Outlook (OECD, 2013b), Figure 1.10 on implicit tax rates.

<sup>28</sup> This is consistent with reports by the OECD (International Migration Outlook 2012 and 2013) and reports by the IOM (International Organization for Migration), in particular the IOM-LINET network, see [www.labourmigration.eu/](http://www.labourmigration.eu/).

<sup>29</sup> The figures mentioned in the previous paragraph are based on immigration data by previous country of residence (Eurostat table *migr\_imm5prv*, extracted on 20 November 2013). It means that they include not only third-country nationals but also nationals or EU nationals previously established in a non-EU country.

<sup>30</sup> Eurostat table *migr\_imm1ctz* (extracted on 20 November 2013). For Belgium, Greece, France, Cyprus and Hungary, the comparison is made over the period 2010-2011 as 2009 data is not available or not comparable over time.

<sup>31</sup> Moreover, if the comparison over time is made with the reference year 2008 (for which data for the pre-crisis period are available and comparable over time, though only for some countries) rather than 2009, the decline in immigration flows by third-country nationals to 2011 is even more pronounced for countries affected by the crisis such as Ireland (-1,300 or -10%), Italy (-43,200 or -15%), Spain (-291,900 or -59%) and Portugal (-10,900 or -68%).

<sup>32</sup> All Member States except Luxembourg (no data in 2008) and Poland (break in series); Eurostat table *migr\_resfirst*, extracted on 13 November 2013.

<sup>33</sup> The figure of 489,000 economic migrants in 2012 includes 103,720 residence permits in Poland, among which 93.5% are issued for less than 12 months.

pace<sup>34</sup>. Moreover, employers have not stopped recruiting migrant workers altogether, and skills shortages continue to exist in both high and low-skilled sectors<sup>35</sup>.

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

Given that the crisis has affected the EU more than other economic areas, a rise in the number of workers leaving the EU for non-EU countries has often been reported by the media<sup>36</sup>. The evidence shows an increase in the number of emigrants (from EU-27) to non-EU countries of around 122,000 (or +11%) between 2010 and 2011 to 1.22 million. This follows a previous rise from 2009 to 2010 of around 36,000 or a bit more than 3%.

Two factors need to be taken into account, however, in interpreting this data. First, it was concentrated in a limited number of Member States: more than 90% of the net increase in migration to non-EU countries (between 2010 and 2011) was from seven Member States (the UK, France, Spain, Ireland, Portugal, the Czech Republic and Poland)<sup>37</sup>. Secondly, much of the rise in migration to non-EU countries was by non-EU citizens (i.e. returning migrants) rather than nationals, with the exception of Ireland. This is not a new phenomenon - many migrants do not stay in their destination countries and eventually go back to their countries of origin. However it has increased markedly since the onset of the crisis, especially in countries with high unemployment and where migrants have been disproportionately affected, as in Spain.

As for EU nationals leaving their country in order to settle in countries such as Canada, Australia and the USA, they mainly originate from Ireland, the UK, France and Germany. From Southern EU countries, there have been strong increase in percentage terms compared to the pre-crisis period, but the overall numbers are limited<sup>38</sup>. Some media coverage has reported a rise in emigration from Southern EU countries rather to Latin America countries because of language proximity and cultural and historical links but, so far, no sizeable trend can be detected in official statistics<sup>39</sup>.

#### *Increased intra-EU mobility reflecting labour market divergences within the EU<sup>40</sup> ...*

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

Chart 37 measures the number of economically active foreigners recently established, showing the further decline in the flows of third-country nationals (-9 % over 2010-2012) after the drop already recorded in 2008-2010 (-34 %). On the other hand, a rebound can be seen in intra-EU mobility (+22 % over 2010-2012) following the sharp decline at the onset of the crisis (-41 % between 2008 and 2010)<sup>41</sup>.

There are, however, some variations according to the countries of origin, see Chart 38. At the onset of the crisis (2009-2010), mobility declined for all groups of EU nationals (compared to 2007-2008), with the exception of the Baltic countries (+8%), possibly due to the deep recession they faced. Then in 2011-12,

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<sup>34</sup> European Commission, 2013f, Commission Staff Working Document Accompanying the document Communication from the Commission to the European Parliament and the Council 4th Annual Report on Immigration and Asylum (2012)

<sup>35</sup> IOM 2013, Policy Highlights, Summary of the research findings of the IOM Independent Network of Labour Migration and Integration Experts (LINET), available at: [www.labourmigration.eu](http://www.labourmigration.eu).

<sup>36</sup> In terms of intentions, the Gallup World Poll confirmed this trend with a (slight) increase, among those interested in moving permanently to another country, of the non-EU countries in terms of preferred destination (*versus* EU countries), see European Commission, 2013a (p.38-39).

<sup>37</sup> Eurostat, emigration by next country of residence (table *migr\_emi3nxt*), extracted on 19 November 2013.

<sup>38</sup> European Commission, 2013a (p.47-50).

<sup>39</sup> For instance, the figures published by the Brazilian Ministry for employment available on: [www.portal.mte.gov.br](http://www.portal.mte.gov.br) concerning the number of European citizens working in Brazil are rather low in absolute terms (a few thousand people). See also OECD, IDB and OAS, *International Migration in the Americas*, SICREMI 2012.

<sup>40</sup> Most of the information presented in this sub-section is derived from the Special Focus on 'Geographical mobility of workers' published in the June 2013 ESSQR (European Commission, 2013a). Note that most of the figures are based (unless otherwise notified) on EU-Labour force survey and DG EMPL calculations, see details in European Commission, 2013a.

<sup>41</sup> This was not only due to the fall in labour demand but also to the decline of the impact of the 2004 and 2007 enlargements on mobility: most of the intra-EU movers were originating in EU-12 countries and there has been a strong decline of mobility flows from the two largest origin countries, Poland and Romania.

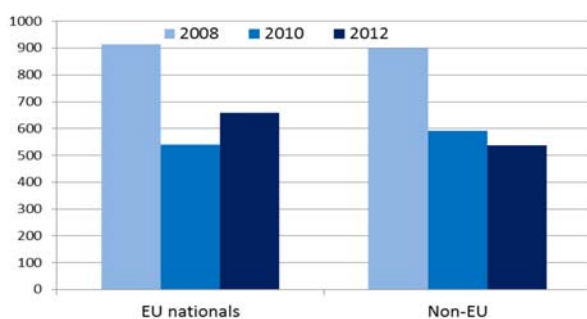


mobility recovered somewhat for all groups (compared to 2009-2010) but rose particularly strongly among southern Member States (+73%) from where it clearly exceeded pre-crisis levels.

At individual country level, mobility flows during 2011-2012 were higher than in the pre-crisis period (2007-08) in only a small number of countries, all severely affected by the crisis: Greece (+170%), Spain (+107%), Ireland (+64%), Hungary (+58%), Latvia (+39%) with a relatively strong (positive) correlation between the changes in the outflows of economically active persons to other Member States and changes in unemployment levels in the countries of origin.<sup>42</sup>

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

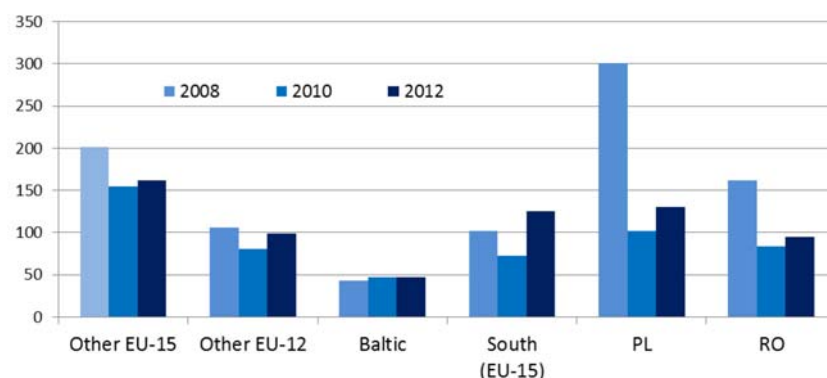
**Chart 37: Economically active EU and non-EU foreigners, residing since < 2 years in an EU country (in thousands)**



Source: Eurostat, LFS, DG EMPL calculations.

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

**Chart 38: Economically active EU foreigners, residing since < 2 years in an EU country, by group of origin countries (in thousands)**



Source: Eurostat, LFS, DG EMPL calculations.

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

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

Overall, despite the strong increase in mobility from southern Member States to other EU countries (e.g.: the UK and Germany) in relative terms, the absolute figures remain low relative to the size of the labour

<sup>42</sup> The coefficient of correlation (for the 18 Member States for which data are available) between the changes (between 2007-08 and 2011-12) in the outflows of economically active persons to other Member States and the changes (2008-2011) in the unemployment rate in the origin countries is 0.68% ( $R^2=0.46$ ).



force (and unemployed segment) in the southern EU countries<sup>43</sup> and also to the much larger mobility flows from the Eastern and Central EU Member States, which remain the main countries of origin of those moving within the EU<sup>44</sup>.

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

Moreover, the qualifications of intra-EU movers are not always being used to their full potential: the over-qualification rate (i.e. the percentage of highly educated workers in occupations corresponding to medium (ISCO 4-8) or low (ISCO9) levels of education) is very high (around 50%) for recent movers from EU-12 countries, and, for recent movers from the South, this has risen from 26% in 2007-2008 to 33% in 2011-2012 (42% in the case of those from Spain).

### ***3.4 Further deterioration of poverty and inequality***

The most recent data points to a severe deterioration of social trends in a number of the EU countries<sup>45</sup>. It is largely driven by deterioration among the working age population, which had been affected the most

#### ***3.4.1 Poverty and social exclusion on the rise, affecting primarily the working age population and children***

Between the onset of the crisis in 2008 and 2012 the number of Europeans at risk of poverty or social exclusion (AROPE) has increased by 7.4 million (excluding HR), and now affects nearly a quarter of the population (or 125 million in EU-28). The continuous increase in the numbers of people at the risk of poverty (AROP) has been accompanied by the more recent striking rise in severe material deprivation (SMD, see Chart 39).

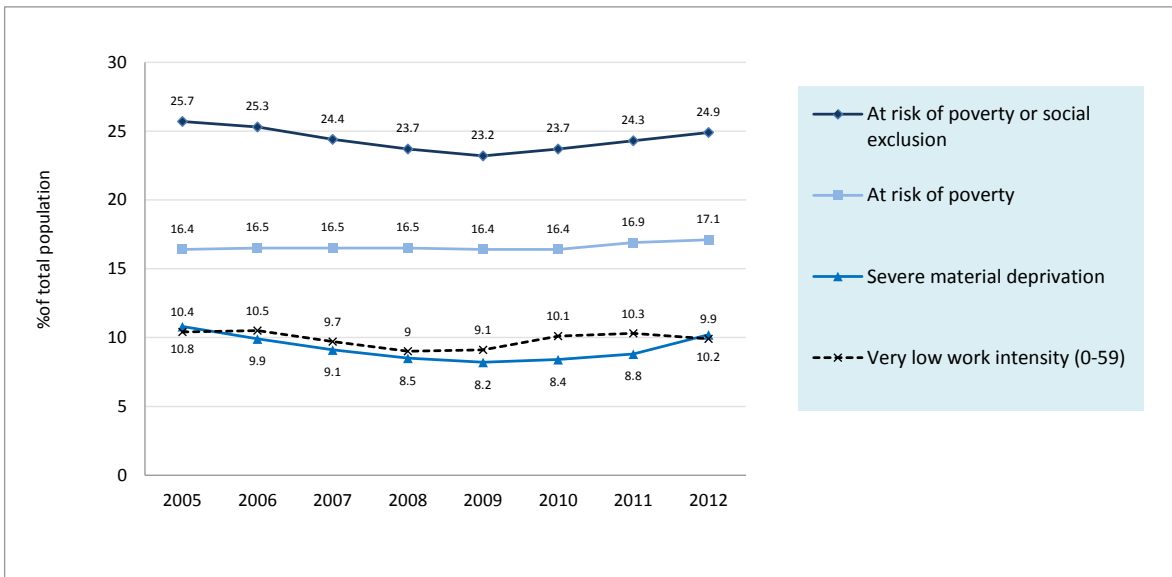
#### **Chart 39: Developments in the risk of poverty or exclusion in the EU-27, 2005-2012**

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<sup>43</sup> See also Holland *et al* (2013).

<sup>44</sup> Overall, 56% of recent intra-EU movers in 2011-2012 came from the EU-12 countries (the countries that joined the EU in 2004 and 2007) compared to 68% in 2007-2008, while almost a fifth (19%) came from southern European countries (compared to a low 11% in 2007-2008).

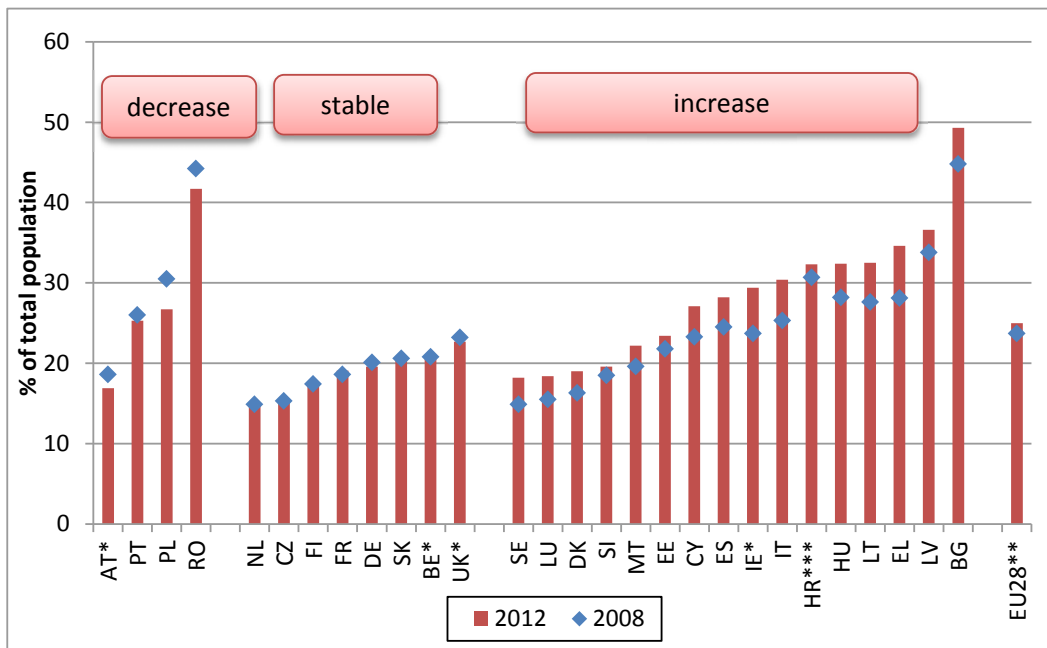
<sup>45</sup> see Minty and Maquet-Engsted (2013).



Source: Eurostat, EU-SILC [t2020\_50], [t2020\_51], [t2020\_52], [t2020\_53]

There is a notable divergence across the EU. Most of the Member States registered AROPE rises compared to 2008 (particularly strong - up by more than five percentage points – in Greece, Ireland and Italy). As a result, AROPE rates range from around 15% in the Czech Republic and the Netherlands to nearly 50% in Bulgaria (see Chart 40).

Chart 40: Population at risk of poverty and social exclusion in the EU and in the Member States, 2008 and 2012



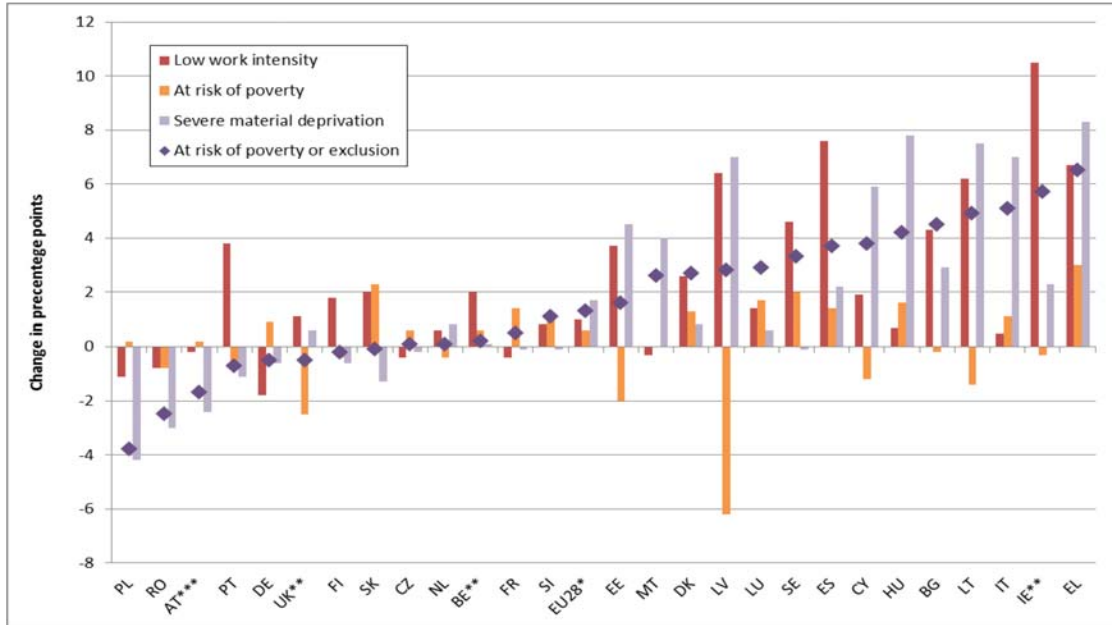
Source: Eurostat, EU SILC [ilc\_peps01]

Notes: \*2011 instead of 2012; \*\* EU27 in 2008

There is no common pattern in the trends in the underlying components of the AROPE indicator. Among the countries that have experienced a sharp rise in the at risk of poverty or social exclusion, the increases in Cyprus, Hungary and Italy resulted mainly from the growing severe material deprivation, the increases in Bulgaria, Ireland and Spain mainly reflected the growing share of the population in jobless households, while in Greece, Latvia and Lithuania they reflected a deterioration in severe material deprivation combined

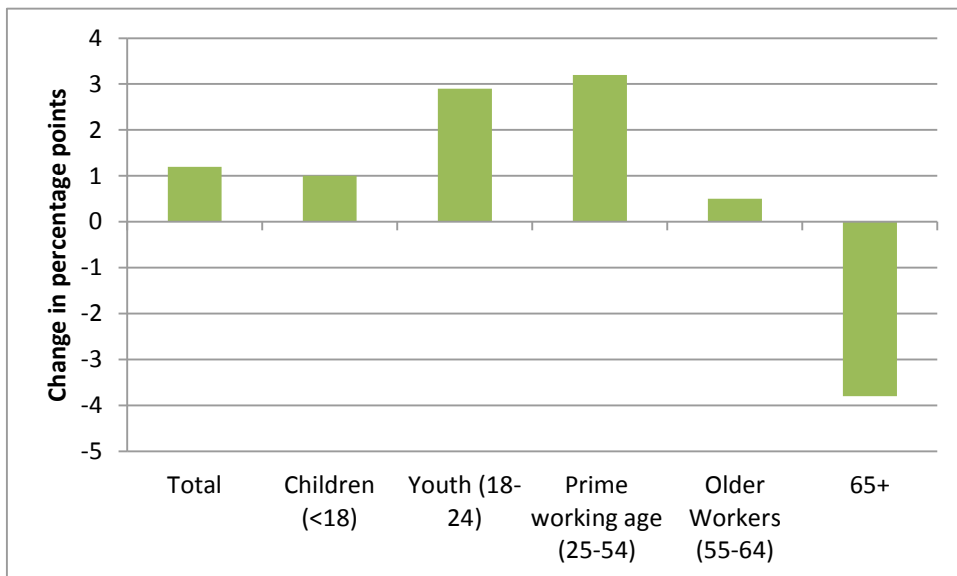
with a marked rise in the number of people in jobless households. Among the four countries that recorded reductions in AROPE, this mainly reflected falls in SMD, most evident in Poland and Romania.

**Chart 41: Developments in the risk of poverty or social exclusion and its components in the EU and Member States, 2008-2012**



Source: Eurostat, EU SILC [t2020\_50], [t2020\_51], [t2020\_52], [t2020\_53]  
 Notes: \* EU27 in 2008, \*\* 2011 instead of 2012, \*\*\* 2011 instead of 2012 in AROPE and AROP

**Chart 42: Developments in the risk of poverty or social exclusion in the EU-27 by age groups, 2008-2012**



Source: Eurostat, EU SILC [ilc\_peps01]

The crisis has not impacted uniformly across populations groups.

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

The older age group (65+) has been relatively less affected and the rising levels of AROPE. For the elderly AROPE rates actually declined in most Member States between 2008 and 2012 (down 3.8 pps for the EU-27). Given the changes in the total income distribution, this relative improvement does not necessarily reflect a positive change in real terms but rather the fact that while the incomes of others have declined, pensions have largely remained unchanged during the crisis<sup>46</sup>. Women, however, continue to be more affected by old-age poverty than men.

Conversely, the risk of poverty or social exclusion for children has increased (up 1 pps in the EU-27 between 2008-2011), ununiformly across EU countries. Child poverty has risen in 21 Member States since 2008, sometimes to a significant extent: in Hungary and Latvia it affects now 40% of children, while Bulgaria joined Romania where half of children live at risk of poverty and social exclusion. This situation of children is mostly driven by the situation of their parents, as working age adults were the one most directly hit by the crisis. Between 2008 and 2012, working age adults (25-54) in the EU experienced an increase in the risk of poverty or social exclusion of 3.2 pps(see Chart 42).

### ***3.4.2 Poverty in working age: joblessness and in-work poverty***

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

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

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

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

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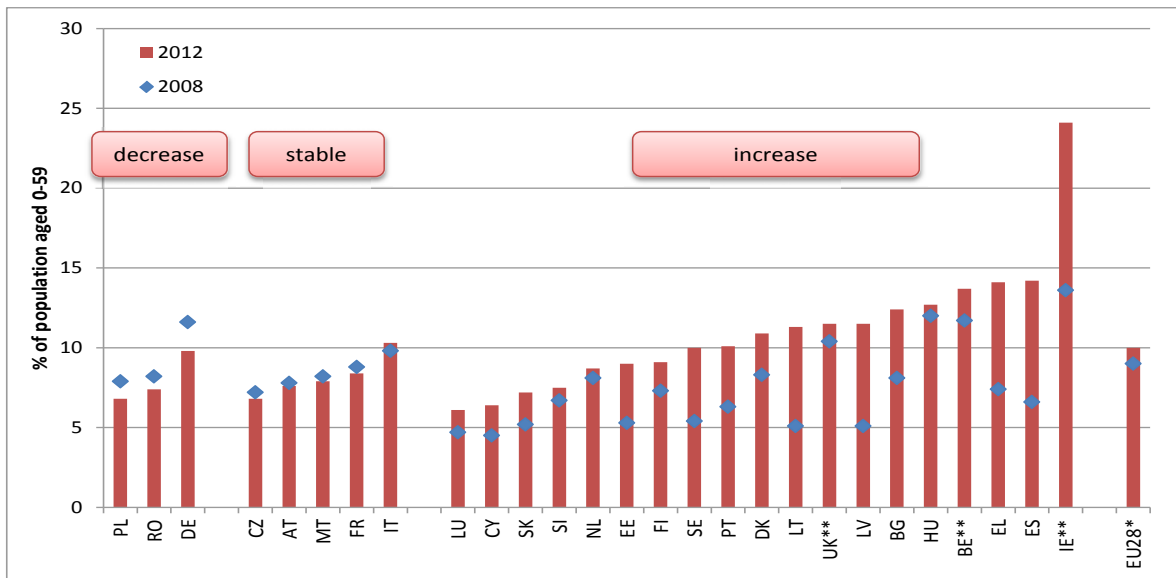
<sup>46</sup> And the consequent change in the poverty threshold have in some cases moved below the pensioners' income.

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

After 2008 the share of jobless households increased in many countries, and increased sharply in countries that has been hit hardest by the crisis (Greece, Ireland, Latvia, Lithuania and Spain, ). This indicator reflects one the most severe forms of labour market exclusion in which joblessness affects all household members (see Chart 43).

In-work poverty also increased in most countries, including in Germany with its otherwise resilient labour market. Structurally high in-work poverty rates have persisted in Greece and Romania throughout the crisis, but in Greece hiked notably in 2012 to 15%, while in Romania exceeded 18% in 2011. The continuous increase in Italy and Spain brought the in-work poverty rates above 12%, while recent drop and stagnation in Spain may be due to the relatively favourable income position of those who stay in work compared to the large numbers out of work.

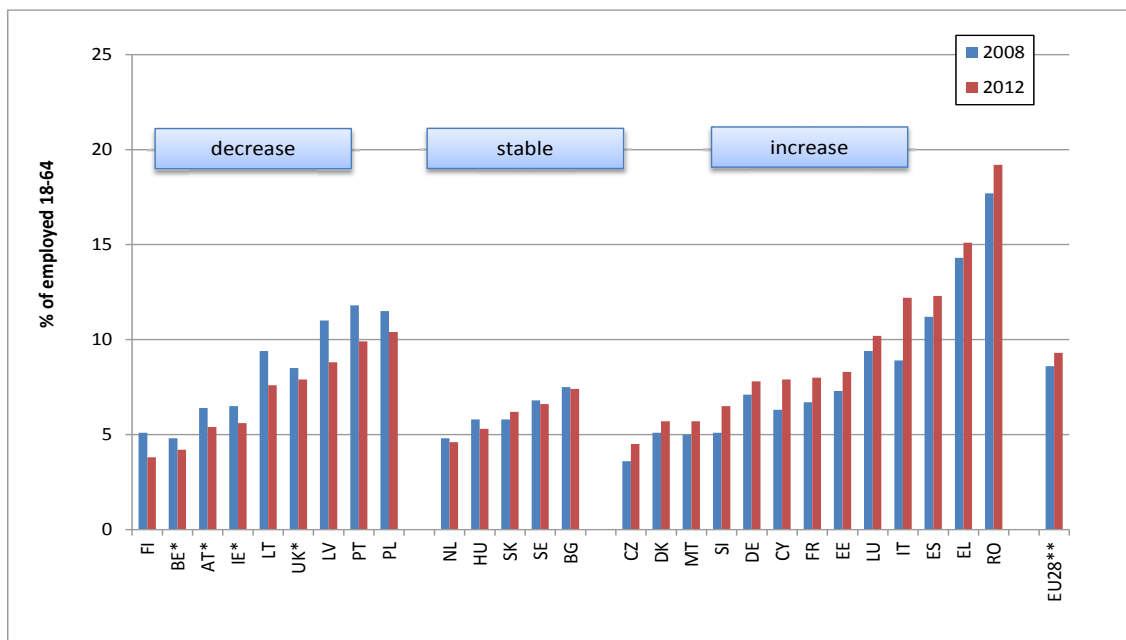
**Chart 43: Developments in the share of people living in jobless/very low work intensity households across EU Member States, 2008-2012**



Source: Eurostat, EU SILC [t2020\_52]

Notes: Notes: \* EU27 in 2008, \*\* 2011 instead of 2012

Chart 44: In-work poverty: at-risk-of-poverty rate of persons employed, change since 2008<sup>47</sup>



Source: Eurostat, EU-SILC [ilc\_iw01].

Notes: \* EU27 in 2008, \*\* 2011 instead of 2012

### 3.5 Increased pressure on social spending

#### 3.5.1 The stabilising effect of social spending on household incomes lessened after 2010

Social spending played a significant role in sustaining gross household disposable income during the 2008-2009 phase of the crisis in most EU countries.<sup>48</sup> In the eurozone, net social benefits and reduced taxes contributed positively to the change in gross household disposable income (GHD) during 2009 and in the first two quarters of 2010 (Chart 55).

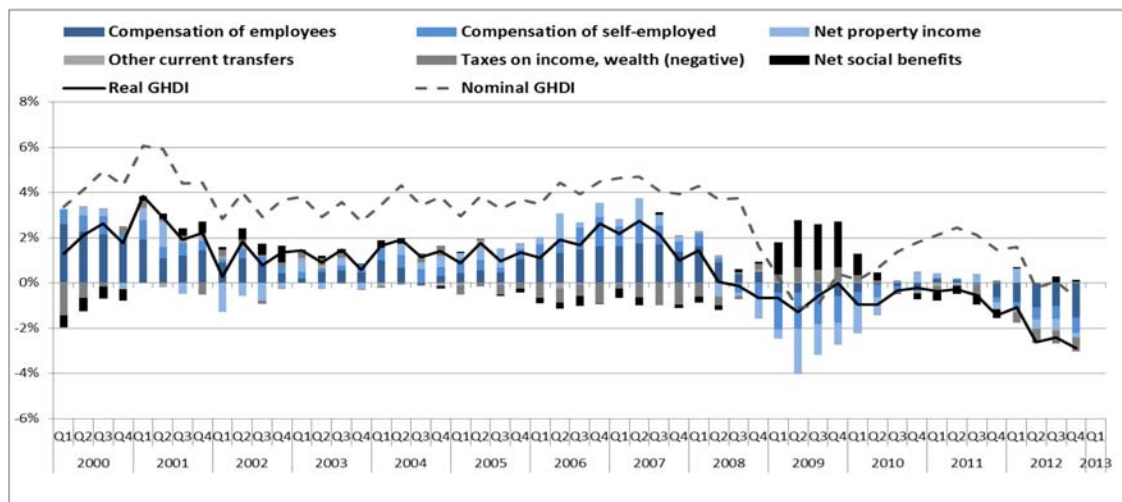
However, at the end of 2010, the contribution of social benefits to the change in gross household income lessened and started to turn negative, up until the first quarter of 2013, despite the further deterioration of market incomes. This may have occurred because of the phasing-out of social entitlements, along with some improvement in the economic outlook in some Member States, but it may also have been due to fiscal consolidation measures that reduced the level or duration of benefits, or changes in eligibility rules that excluded some beneficiaries from some schemes.<sup>49</sup>

<sup>47</sup> The income reference period is a fixed 12-month period (such as the previous calendar or tax year) for all countries except the United Kingdom for which the income reference period is the current year of the survey and Ireland for which the survey is continuous and income is collected for the 12 months prior to the survey. 2010 values instead of 2011 for IE ; EU27 is based on Eurostat estimate for 2011.

<sup>48</sup> See European Commission (2012) *Employment and social developments in Europe 2012*

<sup>49</sup> See European Commission (2012) *Employment and social developments in Europe 2012* key features.

Chart 45: Contributions of components to the growth of nominal gross disposable income of households (GDI) (eurozone)



Source: Eurostat – Sectoral accounts

### 3.5.2 The structure and evolution of social spending in the crisis, and their impact on effectiveness

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

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

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

- In some Member States the orientation of social expenditure appears skewed towards pensions (with a high emphasis in Poland, but a low emphasis in Germany, Denmark, Finland, Ireland and Sweden).
- In only a few Member States is there a strong emphasis on health and disability (as in Ireland and Croatia) against a low emphasis in Cyprus and Italy).
- In a number of Member States the orientation of social expenditures appears skewed towards family expenditure (with a high emphasis in Austria, Bulgaria, Denmark, Estonia, Hungary, Latvia and Lithuania and a low emphasis in the Netherlands and Italy)
- There are differences between Member States in terms of unemployment expenditure (with a high emphasis in Austria, Belgium and Luxembourg and a conversely low one in Italy, Sweden and the United Kingdom).
- In terms of social exclusion and housing expenditure there is a relatively high emphasis in Cyprus, Lithuania, the Netherlands and the United Kingdom against a low one in Italy and Austria.

Furthermore, the dynamics of social expenditure in the first phase of the crisis (between 2007 and 2010) appeared to be somewhat unbalanced across social protection functions,<sup>50</sup> with examples of stronger expenditure increases in areas of already high levels of expenditure levels (but low performance) or, conversely, low expenditure increases in areas of low performance and initial low expenditure levels.

For example, expenditure growth overall seems to have been skewed towards pensions in Austria, Italy, Poland and Portugal, towards health and disability in Germany, Denmark, Ireland and the Netherlands, and towards family expenditure in Luxembourg and Austria.

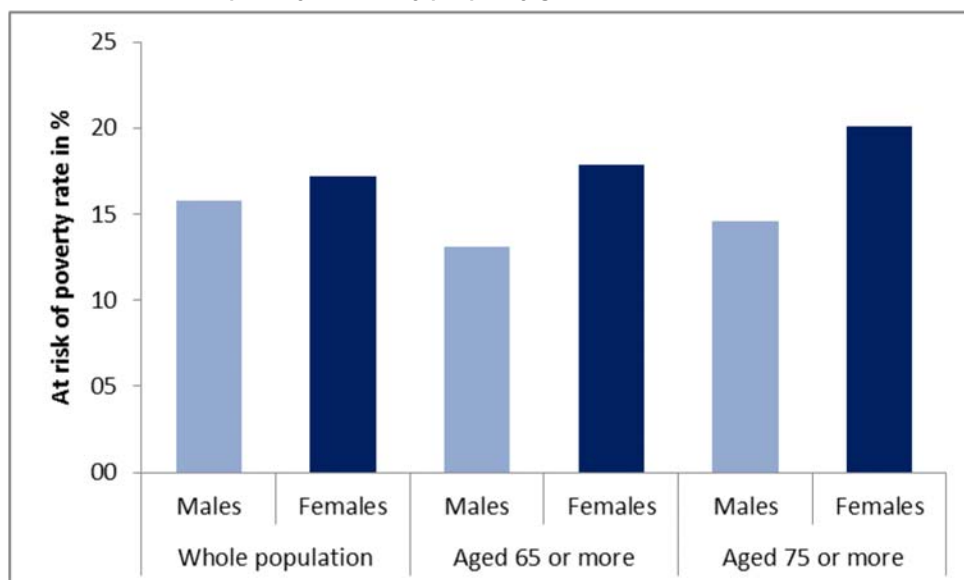
Conversely, expenditure growth seems to have been poorly balanced with regard to health in Hungary, Lithuania and Latvia; towards family in the Czech Republic, Estonia and Italy, towards social exclusion and housing in Bulgaria, Poland, Hungary, Malta and Slovakia; to a lesser extent towards pensions in Ireland and Lithuania.

### 3.5.3 Old age poverty and the sustainability and adequacy of pensions

In half of the Member States, the oldest generations (those aged over 65) face a lower risk of poverty than the population as a whole. But the risk of poverty is relatively high for the elderly in Cyprus, Bulgaria, Greece, the United Kingdom, Slovenia, Spain, Belgium and Portugal. However, this at-risk-of-poverty rate does not take into account housing costs,<sup>51</sup> and might, in some cases, overestimate the extent of poverty among the elderly in so far as they own their own housing.

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

Chart 46: The risk of poverty for elderly people by gender, EU-27, 2011



Source: Eurostat, EU-SILC, 2011

<sup>50</sup> See forthcoming European Commission "Employment and Social Developments in Europe" 2013.

<sup>51</sup> Whether or not to include housing costs in the definition of income underpinning the risk of poverty rate has sparked much debate in past years and will probably continue to do so in the future. The conclusion of the SPC indicator subgroup was that such costs should not be included. Indeed, imputing rents is a difficult exercise, especially at the European level. Real estate prices are so heterogeneous across geographical zones that they could induce more bias than correcting it.



Pensions represent a large share of the total public expenditure in Europe. They currently exceed 10% of GDP and are projected to rise to around 12.5% in 2060<sup>52</sup>. While substantial differences in the share of public spending are found across the Union, most EU pension systems have experienced similar challenges due to ageing populations. Furthermore, the financial and economic crisis has put renewed pressure on public budgets.

Hence, while considerable progress has been made in the past decade in reforming pension arrangements, further adjustments in pension expenditures might be necessary in a number of Member States. At the same time it has to be recognised that pensions are a main source of income for about a quarter of the EU population (about 124 million people)<sup>53</sup> and they also play an important role as an automatic stabiliser of demand in periods of economic downturn. Hence, reforms not only have to ensure the long-term sustainability of the pensions systems, they also have to ensure that they remain adequacy in terms of maintaining household incomes.

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

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

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

#### **3.5.4 Access to health care and long term care**

On average, healthcare coverage in Europe is good with only 3.2% of Europeans reporting unmet medical needs in 2010<sup>54</sup>. However, there is a substantial variation in the effective access to health care across Member States, as well as gaps in access across different socio-economic groups. For example, the percentage of the population reporting unmet needs for care<sup>55</sup> reaches 16.1% in Latvia, while in Denmark, Spain, Slovenia, etc. this proportion is below 1%. Moreover, since 2008, some countries have reported increases in the proportion of unmet health needs, possibly because fiscal consolidation measures and budgetary cuts have affected healthcare budgets in those countries<sup>56</sup>.

Due to increasing life-expectancy, the number of Europeans aged 80+, and at risk of needing long-term care (LTC), is expected to triple over the next five decades<sup>57</sup>. While the exact effects of such changes are not yet clear, public spending on LTC in the EU27 is expected to double between 2010 and 2060 (from 1.8% to 3.6%). At the same time, changes in labour market and family structures mean that the pool of potential

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<sup>52</sup> European Commission (2012n) "2012 Ageing Report"

<sup>53</sup> European Commission (2012q). White Paper on Pensions, Estimates based on Eurostat EU-SILC data for 2009. And ESDE 2012 Key Features (European Commission, 2013c).

<sup>54</sup> European Commission (2013d): "Social Europe: Current Challenges and the Way Forward", p. 69. Estimates based on Eurostat EU-SILC 2010.

<sup>55</sup> Self reported unmet need for health care is defined by Eurostat as the share of people declaring that they did not have access to a GP over the last twelve months either because it was too expensive, too long waiting list or too far to travel.

<sup>56</sup> *ibid.*

<sup>57</sup> Social Investment Package, p. 3

carers (formal and informal) is expected to shrink significantly. Furthermore, a general shortage of facilities, outdated infrastructure, a lack of financial resources, and low standards of service delivery have been found to be reducing the current effectiveness of LTC in some countries<sup>58</sup>.

## 4 Conclusions

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

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

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

After initial resilience to the crisis, labour market performance in the EU has been worsening since 2011 on account of lower economic growth and delayed adjustment. Unemployment has risen rather than fallen, and employment rates have declined. The crisis has also seen poverty increasing when it has been reduced somewhat in several non EU OECD countries, although inequality (the Gini coefficient) fell a little in the EU while it increased slightly in the US.

Social protection expenditure rose, on average, by 12% in the OECD between 2007 and 2011 and by as much as 20% in the USA and Korea. The increase was much more modest in the EU27, at 6%, with a significant decline after 2010. While far from uniform across Member States, public expenditure levels have not only developed differently from other advanced countries but from previous recessions.

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

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

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

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<sup>58</sup> European Commission (2013d), p. 123.

remains acute. The upturn will not remove the need to significantly improve the prospects for young people in many Member States.

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

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

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