Benchmarking Working Europe 2016
The European Trade Union Institute (ETUI)

The ETUI conducts research in areas of relevance to the trade unions, including the labour market and industrial relations, and produces European comparative studies in these related areas. It also provides trade union educational and training activities and technical support in the field of occupational health and safety.

The ETUI places its expertise – acquired in particular in the context of its links with universities, academic and expert networks – in the service of workers’ interests at European level and of the strengthening of the social dimension of the European Union. Its aim is to support, reinforce and stimulate the trade union movement.

The ETUI is composed of two departments:
— A research department with three units: Europeanisation of industrial relations; Economic, employment and social policies; Working conditions, health and safety
— An education department

The ETUI’s work is organised in accordance with the following five priorities:
— The crisis and the reinforced economic governance system
— Worker participation and industrial relations
— Sustainable development and industrial policy
— Working conditions and job quality
— Trade union renewal.

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Benchmarking Working Europe 2016

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Foreword

Europe, over the past nine years, has gone from crisis to crisis: from a financial crisis, to a protracted economic and social crisis, to a political crisis. This atmosphere of destabilisation is compounded by an economic outlook that remains at best bleak with a diverging Europe and stagnating world outlook. Though employment has begun to show timid signs of growth, unemployment remains unacceptably high and investment alarmingly low. Within this context Europe needs to establish the fundamentals for a sustainable economic and social path into the future. The challenges on the way ahead are daunting; not only is there an urgent need to take climate change seriously and ensure that the right incentives are put in place and appropriate action taken to enable the European economy to undergo the requisite transformation for fulfilment – or even surpassing – of the COP21 commitments; there is an equally urgent need, in the face of digitalisation of the economy, to engage in the debate about how to meet and shape the tremendous economic and technological changes entailed by this revolution and the accompanying paradigm shift, all of which will inevitably have deep and dramatic implications for the European social model.

While none of these debates are new, they are becoming daily more pressing just at a time when economies are highly fragile, inequality is increasing, and efforts to devise appropriate and timely policy responses are fraught with difficulty.

Worrying problems identified in previous issues of Benchmarking working Europe have not gone away. Europe still needs a higher level of public and private investment, and growth is still hampered by a chronic lack of domestic demand in some regions of Europe. Though new initiatives have been placed on the table, the net impact appears minimal. As a trade-off for a slight loosening of the formerly tight fiscal stance, deregulatory structural reforms remain high on the agenda. Against this background the net effect of policy endeavours to promote sustainable growth and quality job creation appears barely perceptible.

With this year’s chosen focus – ‘prepared for the future?’ – the new edition of Benchmarking working Europe sets out to assess and analyse the state of working Europe with the aid of a multi-level and multi-dimensional set of indicators. This 2016 edition is thus intended as one contribution to an assessment of what the current policy stance has achieved, or above all – as will emerge from a reading of the following chapters – what it has not achieved, and hence as an assessment of the extent to which Europe is prepared for the future.

All four chapters of this report conclude on a negative note, and each puts forward suggestions for some appropriate policy changes. The macro-economic indicators point to a slight increase in GDF that would set it, in 2015, at just 2% above the pre-crisis level. Meanwhile, we have witnessed a reorientation of the economy towards external demand such that Europe, in economic terms, has become more dependent on developments elsewhere in the world. With growth slowing down elsewhere, this new orientation could well threaten the stability of the EU economy. While the fiscal stance has moved from restrictive to neutral, accompanied by a warning to accelerate structural reforms, this shift is unlikely to give the economy the stimulus it desperately needs. In practice it signifies a continuing degree of austerity, thereby limiting the effect of the timid attempts to increase investment and much needed R&D spending. The uncertain world outlook and the fragile recovery of the EU economy are bound to lead to a situation where the ratio of public debt levels to GDP will continue to increase, investment levels will remain too low, and deflationary trends will persist. Yet, as bluntly stated in the conclusions of the first chapter – ‘Dangers ahead without new policies’ – it is essential to counter these trends, if the EU is to engage, in any sustainable manner, with the challenges posed by climate change and digitalisation of the economy.

Insofar as this dire macro-economic context shapes and sets the framework conditions for labour markets, it is hardly surprising that several alarming trends are apparent here too. Unemployment remains unacceptably high and employment, while it grew between 2014Q2 and 2015Q2, did so at a slower pace than during the previous period. Temporary employment continues to form a growing share of job creation, and part-time employment is increasingly concentrated among low-paid workers. These too are alarming trends insofar as they seem to indicate a growing polarisation of the workforce and social exclusion of the lower-skilled. With ‘Professionals’ being the fastest growing occupational group in the EU, it seems vital that more attention be paid to how to limit the social and educational divide in Europe and ensure that future developments in the labour market and economy at large are fairly distributed across populations. Meanwhile, attention needs to be focussed also on the quality of jobs; recent trends indicate that highly skilled workers are employed below their qualification levels, that young workers still have difficulty in making quality transitions into the labour market, and that, with the postponement of the retirement age and low employment rates among older workers, steps are needed to ensure that quality jobs are available for all age groups and all skill levels. Job quality is also key
in the context of the latest debates and developments with regard to migrant and refugee flows. The neglect of job quality in favour of quantity (‘a poor job is better than no job’), will jeopardise sustainable development of the European Union. While demographic and technological changes are clearly pointing up some of the challenges faced by European labour markets, there is a paucity of debate and action on issues the implications of which are liable to exert such strong pressure on the future of the European social model. That the market will automatically come up with a sustainable solution appears highly unlikely; it will take regulations, negotiations and action to ensure that the changes and challenges facing Europe can be shaped for the benefit of all workers rather than acting as factors of polarisation, increasing inequality and downward spiralling social standards.

Inextricably linked to developments on the labour markets, the strategy of internal devaluation and its spill-over effects on countries that did not themselves pursue this strategy – compounded by an undermining of workers’ rights – have exaggerated the subdued levels of domestic demand. After real compensation per employee had lagged behind productivity gains from 2008 until 2014, 2015 saw real wages catching up with productivity and curbing the vicious spill-over effect of internal devaluation; real minimum wage developments also displayed new dynamism. For a sustained EU recovery, wage developments should continue in this encouraging direction. There is a need, simultaneously, to reassess current minimum wage levels in several countries in order to ensure that the amounts paid are actually high enough to keep workers out of poverty and constitute a ‘living wage’.

The foregoing developments have taken place in a climate of attacks on trade union rights and a deliberate weakening of collective bargaining institutions, thereby raising questions with regard to the capacity of trade unions to continue to ensure a fair distribution of productivity gains for workers in all EU member states. Trade unions are aware that a diversified repertoire of action is needed to counter these trends, in particular in the light of attempts to restrict the right to strike. In recent years there has been an increase in demonstrations and legal action geared to enforcement of economic rights as a means of countering deregulation, austerity and restrictions of the right to strike. In the light of the changes gripping or looming above European Union economies, it is alarming to see that institutions and actors that habitually frame and manage change are being sidelined, leaving ever greater scope for inequality and polarisation within populations.

Compounding these challenging economic circumstances on the labour market itself, structural reforms aimed at increasing flexibility and imposing wage restraint are exacerbating the vulnerability of many categories of workers in Europe, further widening the many forms of inequality observed over the past decade, and even more so with the recent emergence of new forms of work such as ‘crowdworking’. One mechanism that has, in the past, been instrumental in managing various forms of divergence is the system of national as well as European-level worker participation. Recently, however, and in spite of an overall increase in cross-border business activity and the ensuing cross-border implications for workforces, this mechanism too has come under pressure at both European and national levels. A well-functioning and well-articulated system of worker participation contributes to European integration by respecting information and consultation as a basic right for workers. Failure to respect these rights is tantamount to disregard for basic concepts of democracy.

The findings reported here point to a lack of engagement with some of the fundamental issues that need to be tackled in order to get Europe back on to a sustainable path that will lead to an upward harmonisation of standards and outcomes. The current trend towards ever greater economic as well as social divergence across the European Union cannot form a viable basis for the future of European integration; nor can it form a foundation upon which to engage with the tremendous challenges currently facing the economy, labour market and social protection systems. The conclusions of this report draw attention to numerous deeply disturbing trends and call for a genuine reassessment of the direction currently followed by both EU and national policy-making: not only must a suitable policy mix include a fully-fledged investment strategy for the future, with a genuine focus on research and development; it must also halt the deregulatory process, allowing fiscal policy to come fully into its own, consolidating and enhancing social protection and committing to a Europe characterised by high social standards including in the field of health and safety. This is the agenda to be followed in seeking to engage with the challenges and paradigm changes emerging in the wake of climate change and digitalisation of the economy.

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

We hope you will derive both interest and benefit from your reading of this year’s edition of Benchmarking working Europe.
Only a hesitant recovery with risks for the future

Introduction

The European Commission’s Annual Growth Survey 2016 (European Commission 2015a), published in November 2015, predicts GDP growth of 2.0% in 2015, with employment increasing by 0.9%. A very slight further acceleration is expected in 2017. These modest forecasts are threatened by economic difficulties elsewhere in the world, while the European Commission’s vision of how to boost long-term recovery is based on a strategy which promises disappointingly little. Its emphasis is on an investment plan, accelerating structural reforms, and ‘growth-friendly fiscal consolidation’. The ECB is also offering a contribution to economic recovery, in the form of quantitative easing, but it has not, and will not, provide much of a stimulus.

The proposed investment plan is taking shape as a weak and unconvincing response to the depth of the problem, bringing little benefit to countries that need it the most. The key to sustained recovery should be fiscal policy, both to stimulate internal demand and to create the basis for a more serious investment plan. The scope is there, as indicated by comfortable budgetary positions of some countries and the minimal rates of interest at which they can borrow. The need is also there, in the shortfall in research and development spending, in the weakness of European infrastructure, and in the need for a much more vigorous approach to energy conversion. Strict insistence on existing eurozone rules has depressed demand in the short term while also contributing to forced reductions in spending in precisely the areas that are essential for the future.

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Economic developments: modest recovery under way

A weakened internal stimulus

Figure 1.1 shows the growth rates for the EU and eurozone compared with the USA and the world as a whole over the period from 2008, when the financial crisis spread beyond the banking sector in the USA, to 2015. Much of the world weathered the crisis with a slight drop in growth rates and a secular deceleration in subsequent years. The EU too showed recovery after 2009 but, as Figure 1.1 shows, it diverged from the USA and the rest of the world from 2010, falling back into depression. Recovery from that second dip was slow and uncertain, leaving GDP in real terms barely 2% above its 2007 level in 2015. The eurozone has performed slightly worse than the EU as a whole, but the difference is small.

The European Commission did not foresee the second downturn, confidently asserting in its 2010 autumn forecast that ‘the economic recovery ... is making progress’ (European Commission 2010: 9) and foreseeing a growth rate of 2.0% in 2012 while the reality was to be -0.3% for the EU as a whole and -0.6% for the eurozone. The policies of austerity applied in this period also contributed to a shift in economic orientation. Domestic demand was held down, increasing between 2010 and 2015 by only 1.6% (falling by 0.5% for the eurozone), while exports increased by 21.6% (22.2% for the eurozone). Thus exports relative to GDP increased from 40.9% to 47.4% from 2010 to 2015 (from 41.2% to 49.0% for the eurozone). In other words, the EU had become more dependent on economic developments elsewhere in the world.

Higher external demand and gradual recovery in internal demand should drive some growth in the coming years. The ECB policies, discussed below (page 12) are expected to contribute very little. The European Commission (2015d: 154) is predicting GDP growth of 2.0% and 2.1% for 2016 and 2017. These would not be impressive figures when set against pre-2008 performance or that of other parts of the world. They are also at the upper end of what can be expected.

The European Commission is foreseeing a continuing rapid growth in exports, but that is threatened by slowdown elsewhere in the world. Three factors are important here. The first is the slower growth and uncertainty in China and a number of other developing countries. The second is the uncertain effect of lower commodity prices, and especially of the price of oil and gas. That leads to reduced demand from commodity exporters. There should be a compensating benefit from lower domestic prices stimulating domestic demand, but that will be hampered by continued fiscal and wage restraint within the EU. The third important factor is the uncertain effects of political instability. Exports to Russia fell in 2014 possibly by as much as 14.5%, with continuing decline likely following the fall in oil and gas prices. Separating out effects of the various sanctions applied by both sides is very difficult, but the estimated overall effect is likely to be a reduction in EU GDP of 0.3% in 2014 and 0.4% in 2015.

Prospects would be better with a stronger orientation towards domestic markets. In fact, total domestic demand is predicted to grow no faster than total GDP. Faster growth is foreseen within domestic demand for investment, primarily in machinery. The seriousness of the situation has been recognized by Jean-Claude Juncker with his warnings of the existential threat to the EU if economies do not recover. His method for stimulating investment, and some reasons for doubting its effectiveness, will be discussed in a later section.
Figure 1.2 shows differing GDP growth performances across countries. All countries, apart from Greece, were returning to some degree of growth in 2015, but with considerable differences in how they had fared over preceding years.

Diverging economic recoveries

There is no easy division between east and west, between north and south, or between the eurozone and the rest of the EU. There have been good and bad performances from all of these categories such that overall the crisis and its aftermath have not significantly reduced divergences within the EU. Some lower-income countries have moved up. Between 2007 and 2015 IMF data show Poland moving from a per capita GDP, measured by purchasing power parity, of 55% to 70% of the EU average. Portugal and Greece declined in the same period from 78% and 93% respectively to figures of 73% and 68% of the EU average (http://www.imf.org/external/pubs/ft/weo/2015/02/weodata/index.aspx).

Differences between countries’ performances reflected three influences. The first was the extent of exposure to the effects of the financial crisis of 2008. The second was the scope for increasing exports as a basis for growth in a period of depressed internal demand. The third was the policies chosen by, or imposed upon, the country in question. Thus the crisis of 2008 hit hardest those countries that had become dependent on inflows of credit from abroad. The collapse of construction booms in Ireland, Spain and the Baltic Republics cut out significant parts of GDP. The downturn after 2010 was most marked in countries pushed into the severest austerity measures after facing sovereign debt problems, mostly following crises in private banking.

Poland was something of a star with GDP that increased by 23.0% between 2008 and 2015 – not that this appears such a feat when set against this country’s previous growth performances. It was not severely hit by the banking crisis of 2008 – it had not been dependent on credits from outside – and it continued with planned public investment projects while others were cutting back.

Recoveries in other countries, such as the Czech Republic, Slovakia, Ireland and Spain, were all helped by exports. However, domestic demand was held in check and none of these reached pre-crisis growth rates. The three Baltic Republics had been heavily dependent on financial inflows supporting domestic construction booms. They experienced exceptionally deep initial depressions followed by reasonably strong recoveries, helped by public investment financed to a great extent from EU sources, which slowed down from 2013.

The UK experience was rather different. Its export performance was weak, but it had pursued less vigorous austerity policies than eurozone members and continued to run budget deficits that would not be allowed within the eurozone rules. Plans for coming years include further cuts in public spending, aimed at achieving a balanced budget, which may threaten continuation of its current growth rates.

A remarkable feature of 2014 and 2015 was the slowness of recovery in core eurozone countries. Germany’s post-2008 growth had depended heavily on higher exports. Determination to achieve a budget surplus inevitably depressed domestic demand, the most important element in total demand, and hence GDP. There was some change in 2015, with private consumption expenditure rising slightly faster than GDP (by 1.9% compared with 1.7%) and at its highest rate in all but one year since 2001. This stimulus from domestic sources is likely to continue with the effects of the newly introduced minimum wage, of higher disposable incomes following fuel price reductions, and of increased immigration. Germany will thereby, albeit belatedly and half-heartedly, offer a little stimulus to demand across the EU. In view of its budget and balance of payments positions, discussed in the next section, it could do much more.

Economic developments: modest recovery underway

**Figure 1.2** Change in real GDP, 2008 to 2015 (%)

Source: Calculated from AMECO database, GDP at 2010 constant prices. Note: 2015 figures are estimates.
Asymmetric rebalancing leads to weak demand

The significant divergence in current account balances among member states with which the EU but in particular the euro area entered the crisis in 2008 has been reduced with the elimination of the previous large deficits in several member states, as shown in Figure 1.3. Although current account balances are often identified with trade balances (that is, the difference between exports and imports), they can also be understood as the result of an economy consuming and investing more (deficit) or less (surplus) resources than it produces domestically.

However, as Figure 1.3 suggests, this reduction of the current account deficits in some member states (Greece, Portugal, Spain, Ireland) was not matched by a reduction of surpluses in countries previously in surplus, such as Germany and the Netherlands. On the contrary, their current account surpluses rose since 2008 to reach 8.7 and 10.5% of GDP respectively. Thus, there were policies that led to lower demand in deficit countries without being matched by policies to stimulate demand in surplus countries.

Overall, the euro area moved from a near-balance (0.3) or slight current account deficit (0.7) in 2007-8 to a rising surplus of 3.7% of GDP in 2015. Taking the interpretation of current account balance given above, this means that consumed and invested resources in the eurozone as a whole are lower than those produced, or that domestic demand is too low compared to supply. A current account surplus is likely to put pressure on the euro to appreciate, especially when the ECB decides to abandon its currently expansionary policy stance, making euro area exports to the rest of the world more expensive.

This asymmetric external rebalancing and its consequences for the euro area and, thanks to the close interconnection, the EU economy as a whole have not gone unnoticed even by the European Commission in its most recent Alert Mechanism Report (European Commission 2015e). In fact, the acknowledgement that the fiscal stance in the euro area as a whole should be taken into account in addition to national policies is a welcome development (European Commission 2015b; European Commission 2015a), although the view that a neutral fiscal stance is currently appropriate is not (on which more below).

However, the economic governance tools in place, that is, the EU fiscal rules and the Macroeconomic Imbalances Procedure, do not provide much leverage to enforce developments in national fiscal policies that would deliver the necessary stimulus in aggregate demand. The Macroeconomic Imbalances Procedure treats current account surpluses less strictly than current account deficits, thus placing the onus of adjustment on deficit countries.
Restoring external balance by cutting demand

Figure 1.4 shows the growth in exports and imports of goods and services from 2008 to 2015 that lies behind the current account changes discussed above (page 10). Exports, which had grown by 18.6% for the EU as a whole, were well in excess of imports, leading to the EU’s overall surplus. The European Commission had wanted to see improved current account positions in a number of member states, so this could appear as a good result. However, it was only the drop in imports that followed from policy choices. Rising exports had quite different causes and the resulting surplus was linked to depressed demand within the EU.

A key argument was that exports could be increased by holding down labour costs, so that unit labour costs became a target for judging countries’ performance. Variation between countries is enormous. A number saw rapid growth, as established markets recovered from the crisis. This often came with higher unit labour costs and higher export prices (for example rising by 4% and 1% respectively for Estonia from 2008 to 2014). Ireland saw exports still expanding strongly in 2015, with much lower unit labour costs for the whole economy, following public-sector pay cuts, but higher pay in exporting sectors and higher export prices. The key here, as in other cases, was a shift to higher quality products (Myant et al. 2016 for country evidence).

Two dramatic failures in terms of exports were Greece and Finland. Unit labour costs were reduced by 13% in the former case, but this led to no export boom because Greece lacked the necessary base in modern, export-oriented industries. Unit labour costs in Finland increased by 8% between 2008 and 2014, but export prices fell by 3.4%, ostensibly increasing its cost competitiveness. In fact, the key issue was the failure of Nokia, leading to less exports and also lower quality exports. Reducing wages and imposing economic austerity did little beyond depressing overall demand and causing depression across the Finnish economy.

Imports follow a more consistent pattern across countries: those undergoing the severest austerity suffered lower domestic demand and hence big import reductions. The biggest deficit by 2015, at 4.3% of GDP, was found in the UK, a country which had seen little change in either exports or imports compared with pre-crisis levels. Not being a member of the eurozone, the UK had not been required to implement the most vigorous austerity policies which would presumably have restored external balance by cutting domestic demand and hence imports.

Export growth not due to policy choices

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Also because competition is much more a matter of product quality which is poorly taken into account in the unit labour cost measure (as discussed with country examples in Myant et al. 2016). In fact, changes in this measure clearly explain very little of the export performances shown in Figure 1.4.

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Macroeconomic developments and policies: deflation and monetary policy

Figure 1.5  Headline and core inflation in the EU and the euro area (Harmonized Index of Consumer Prices - All Items and excluding energy, food, alcoholic beverages, tobacco and oil) (annual % change)

Source: Eurostat (prc_hicp_manr series).

Inside the liquidity trap

Figure 1.5 shows the falling rate of inflation using different possible measures. The headline inflation rate (Harmonised Index of Consumer Prices-HICP) in the EU and the euro area turned negative around the end of 2014/first quarter of 2015, having started to decline from the target of 2% back in 2013. The EU-average core inflation – the overall price index excluding energy and unprocessed food whose prices tend to change according to seasons and which is thus more likely to reflect expectations about inflation – fluctuated between 0.7 and 0.8% between December 2014 and June 2015. In 2015, core inflation was negative or below 1% in 18 out of 28 member states, with Bulgaria and Cyprus experiencing core deflation, that is, negative core inflation rates. In late 2015 the vast majority of eurozone member states had core inflation rates below the target of 2% and in most cases lower than 1%.

These developments (as well as others on indicators not mentioned here, see European Commission 2015e; European Commission 2015f; Theodoropoulou 2015 for more) suggest that the objective of stable price increases at around 2% per year is currently not being met. Inflation is well below the rate it is supposed to be. This is problematic insofar as expectations about inflation are shifted downwards below the target of 2%. Lower inflation leads to higher real debt burden and makes relative real wage adjustments across sectors or countries harder.

The effect of the recent negative oil price shocks and the earlier appreciation of the euro notwithstanding, the hovering of core inflation in the EU and the euro area well below 2% is yet another indication of the persistently low demand and anaemic growth in the European economy and especially the euro area.

Following early years of rather reticent responses, the ECB’s main interest rate was lowered to 0.05% in September 2014. The Bank had announced earlier in 2013 that it expected interest rates to remain at low levels for the foreseeable future. As of March 2015 the ECB, in the context of its ‘Expanded Asset Purchase Programme’, started buying euro area public sector securities thus strengthening its programme of quantitative easing whose purchases had begun in autumn 2014. Quantitative easing is an unconventional monetary policy whereby the central bank buys financial assets using money it has created and which thus is injected into the economy (see ETUI and ETUC 2015). Up until now, the total amount of money that has been injected amounts to 700 billion euros (equivalent to about 7% of eurozone GDP). The latest phase of the QE policy is due to last at least until March 2017 and may be extended further if inflation is not on a path to reach the target of 2%.

However, monetary policy is not averting the threat of deflation. So far, the most tangible effect of the QE has been the depreciation of the euro with respect to other important currencies, which may have helped exports although, as indicated above, other factors are also important (page 11). In general, as indicated above, growth has failed to pick up. This should not come as a surprise, given that the European economy seems to have fallen into a so-called ‘liquidity trap’, whereby, with interest rates at zero and demand prospects weak, households and firms are reluctant to put any cash they hold (including the newly injected cash by the ECB) into consumption or investment and instead hoard it. As the next section shows, this prolongation of economic depression is not solving the problems of debt, neither public nor private.
Macroeconomic developments: the debt overhang in the public sector

The limits of fiscal austerity

Figure 1.6 shows the evolution of gross public-debt-to-GDP ratios from 2010, when the shift to fiscal austerity took place in most of Europe (with the exception of the Baltic states where adjustment had taken place earlier), the change in the ratio between 2010 and its peak value in the period 2010-2015, and its value in 2015.

In the vast majority of member states, public debt/GDP ratios continued to rise even after 2010 when the fiscal policy stance became restrictive. The largest increases were in fact observed in the member states that faced sovereign debt crises and received bail-outs and/or suffered deep recessions.

In only 12 member states was the public debt/GDP ratio in 2015 below the highest point it had reached in any year after 2010; in only 6 countries was the 2015 ratio lower than that of 2010.

On average, in both the EU and the euro area the public gross debt/GDP ratio increased by 10 percentage GDP points between 2010, when it stood at 79% (EU) and 84% (EA), and its peak in 2015.

In 2015, Greece and Italy were the two countries with the highest debt/GDP ratios, at 195% for Greece and 133% for Italy, which was closely followed by Portugal at 127. At the other end of the spectrum, Estonia with 10% and Luxembourg with 22% had the lowest ratios.

Overall in 2015, 11 member states had debt/GDP ratios at or below 60% which is the limit of the EU fiscal rules, a limit which reflected the average debt/GDP ratios in the EU when the Maastricht criteria were set (de Grauwe 2014), while another five, including Germany, the Netherlands and Finland, were below 80%.

The evolution of the public debt/GDP ratios suggests the limits of fiscal austerity in putting public finances on a sustainable path as, in spite of a significantly restrictive fiscal stance, debt has not been coming down due to the weak output growth.
Only a hesitant recovery with risks for the future

Macroeconomic developments:
private sector debt and non-performing loans

Figure 1.7 Private sector debt (consolidated) as share of GDP (%), 2008, 2014 and peak 2008-2014

Source: Eurostat (tipspd20 series), own calculations.

Figure 1.8 Bank non-performing loans as share of total gross loans*, EU member states

Source: World Bank Development Indicators. *gross value of loan reported in bank balance sheet, not just the part that is overdue

Private sector debt overhang

Figure 1.7 illustrates that private sector debt is still high in several member states and has been falling as households and firms have been trying to reduce it (‘deleverage’) following the crisis and the uncertainty it has brought with it. When this happens, it means that increases in the amount of money in the economy are unlikely to be taken up and used for consumption and investment when households and firms are more preoccupied with reducing their debt and/or are uncertain about economic prospects.

On the other hand, Figure 1.8 shows the share of non-performing loans as a share of total loans in EU member states. There has been an increase on average and a substantial increase in several member states which faced the deepest recessions since 2008. This means that financial institutions in these member states are less likely to extend credit as they receive more liquidity in order to improve their balance sheets.

These developments further underline the fact that, under the current circumstances, monetary policy alone is unlikely to bring about recovery and that what is needed instead is a coordinated fiscal expansion in the EU with emphasis on public investment.
The year 2015 marked a turn of fiscal stance in the EU from restrictive to neutral. That is, whereas the balance between those public revenues and expenditures that are at the discretion of governments had previously been in surplus, it now moved in the direction of a slight deficit; in other words, discretionary spending began to slightly exceed revenue. This turn comes at the tail of a six-year period of fiscal consolidation in the face of the greatest post-war recession in Europe and in particular in the euro area. The change in fiscal policy stance is observable even in member states that faced sovereign debt crises and had to be bailed out, such as Portugal, Greece, Ireland, Cyprus, Spain and Romania.

In the latest Annual Growth Survey, the European Commission (2015b) called once more for ‘responsible fiscal policies’ which it defines as, among others, policies of fiscal consolidation that is growth- and equity-friendly (on which see Chapter 2) and social protection systems that can efficiently respond to risks throughout the lifecycle while remaining sustainable (again, see Chapter 2).

Is this neutral stance an appropriate fiscal policy stance for growth? Although it is arguably better than further tightening (that is, revenues being larger than discretionary spending), the EU and in particular the euro area need and should have more fiscal expansion. On the one hand, the output gap, that is, the difference between actual demand and what the euro area can produce, is still negative. On the other hand, we have seen that the euro area as a whole has a high and rising current account surplus, which means that consumption and investment absorb less than what the area produces. There is therefore a clear need to stimulate demand.

Moreover, monetary policy at the moment is not capable of delivering this stimulus. This is why under the current circumstances of weak demand and near zero interest rates, fiscal policy has to take a more active role than usual in stimulating the European economy.

What is more, several governments (for example Germany) can at the moment borrow at virtually zero interest rates. This is a unique opportunity for borrowing to finance spending on public investment, the need for which is clear as discussed below in relation to climate change, to the need for more investment in research activities and, in general, for a more substantial investment plan at the European level.

The current fiscal rules cannot force a national government to spend more rather than less, as they have an asymmetric focus on deficits. However, recent proposals of the European Commission for taking into account the situation in the euro area as a whole (European Commission 2015e; European Commission 2015b) in determining national fiscal policies could be used for putting stronger pressure on member states with fiscal space to adopt more expansionary fiscal policies.

Moreover, it would not be possible to interpret eurozone rules more creatively to accommodate some expansion. For example, a ‘Golden Rule’ for public investment, which would exclude public expenditure for net public investment from the calculation of government budget deficits, could be incorporated into the application of the Stability and Growth Pact rules (see Feigl and Truger 2015 for a detailed proposal) and combined with an expanded conception for an EU investment plan (see below page 16).
Renewing growth through investment

An EU plan promises too little

Figure 1.10 shows that investment fell dramatically in the aftermath of the crisis and by considerably more than GDP (see page 9). Its 2015 level was 15% below the peak of 2007, using 2010 prices. Total fixed investment fell from 22.0% of GDP in the 2004-8 boom period to 19.8% in 2015. In some countries – notably Germany, Austria and Sweden – there was little net change over this period. For some, by way of contrast, the drop was enormous: Cyprus, Ireland, Greece, Latvia and Spain all saw falls in investment equivalent to over 10% of their GDPs. Most of the decline was in private investment, including housing construction and industry, but in Ireland, Spain and Greece public fixed investment too fell by more than 50%.

Though some past investment may well have been misguided, all countries have demonstrable needs for investment to cope with the challenges of the future in transport and communications, education and research, climate change, energy, environment, and ageing of populations. Yet, as Figure 1.10 shows, investment levels are extraordinarily low in a number of EU countries, leaving large numbers of unemployed and much unused capacity.

A revival in investment activity would provide an immediate stimulus to demand. It is also essential for long-term growth and for overcoming divergences and inequality within the EU. In 2013 the ETUC presented a proposal for an investment plan (ETUC 2013) that would increase investment by the equivalent of 2% of GDP every year over a ten-year period.

A more modest plan from European Commission President Jean-Claude Juncker proposed the investment of 2.4% of EU GDP over three years. This was to be built up on an EU guarantee of €21 bn, enabling the EIB to raise finance on commercial markets and increase lending by €63bn. Private finance would then support chosen projects to reach a full level of investment of €315bn. There was not thought to be any problem with raising this finance, in view of exceptionally low interest rates on government borrowing, as indicated above (see page 15).

Reaching of this target – which would be enough to make up for no more than about a third of the fall in investment since before 2008 – was depend-ent on a leverage rate that was conceiv-able only for very safe investment. That would always be difficult for public sector projects in lower-income countries, particularly those constrained by the eurozone rules that restricted state borrowing and budget deficit levels. Indeed, among the first 21 projects approved by the EIB by the end of September 2015, over 90% of investment foreseen was in countries with per capita GDP levels above the EU average.

Thus the plan is making slower progress than originally hoped. Nor is it helping to reduce divergences across the EU insofar as it is primarily benefitting countries that could have afforded the investment even in the absence of special EU help. Improvements to the arrange-ment would include more solid public funding and relaxation of the eurozone rules for all aspects of the investment plan. That would mean allowing repay-ment of debts and permitting current spending such that new public-sector facilities, such as education and research, could function once built.
The ups and downs of Research and Development

Widening gaps in innovation potential

Figure 1.11 shows spending on Research and Development in member states using two measures. The measure of total spending as a percentage of GDP relates to the target set in the Europe 2020 agenda of reaching a level of 3% of GDP, a benchmark that, by 2014, had been achieved by only three countries.

R&D remains an area of great and persistent inequality across the EU. The extent of the differences is shown even more clearly by figures for R&D per capita. Lower-income countries spend much less on research. Sweden spends 49 times as much per capita as Romania. In a few cases, including Romania and Spain, the per capita level even fell between 2007 and 2014. Elsewhere, including in a number of lower-income countries, there were substantial increases.

Concentration of research towards higher-income countries also follows from those differences in income levels, as research workers are generally highly mobile and can move to the country where pay is best. Public spending and support for research and higher education institutions are additional crucial factors and the weakness or absence of this infrastructure places lower-income countries at a massive disadvantage.

Overcoming these obstacles depends on action at the EU level. Structural Funds and EIB investment were essential in practically all public sector development of research infrastructure in central and eastern Europe in the 2007-14 period and hence in improving – sometimes very significantly – the position of a number of those countries. Spending on R&D does not guarantee an innovative economy. That depends on the structure of R&D spending and on the institutional environment that can lead to its productive use. In respect of both these conditions, there are large differences across EU member states.

In countries with higher levels of per capita R&D spending a higher proportion of that spending generally comes from business enterprises. Thus for Estonia and the Czech Republic, two newer member states close to the average level of spending relative to GDP, business enterprises accounted, respectively, for 43% and 56% of R&D spending in 2014. In Germany and Finland, two countries closer to the top of the league, the figure was 68%.

A second issue is the extent of investment in R&D. Capital investment per capita in Estonia and the Czech Republic was higher than in Sweden. This could bode well for the future, but it also means that productive applications are some way away and dependent on funding for running facilities once completed. Construction up to now has depended heavily on EU support. In some countries per capita levels of investment are pitifully low, falling to 5% of the EU average for Bulgaria, thereby pointing to continuing substantial divergence in the future.

The third issue is the ability of a country to convert the results of research into productive activities. Private and public-sector users of research outcomes need to have contacts, knowledge, incentives and sources of finance. This too accentuates the inequalities between countries, encouraging a continued concentration of innovation. A wider strategy for restoring sustained growth through a knowledge-based economy, extending beyond the established core of the EU, needs to include means to bring expertise and capital to those who can develop innovative ideas in all countries. An expanded investment plan, beyond the limited version currently being developed by the European Commission and the EIB, could make a significant contribution.
The 21st annual session of the Conference of the Parties (COP) to the 1992 United Nations Framework Convention on Climate Change (UNFCCC), the COP21 Paris, was presented as a last chance to reach a global agreement to control climate change caused by human activity. The agreement that was signed by 187 countries in December 2015 contained four important pillars:

– **Long-term goal**: To keep global temperature increase ‘well below’ 2°C and to pursue efforts to limit it to 1.5°C.

– **Differentiation**: Industrialised countries are expected to reduce greenhouse gas emissions at a faster rate than developing nations and are also expected to provide financial assistance and technology transfer to help developing countries transition to a low-carbon economy.

– **Reviewing targets**: Going forward, targets will be reviewed every five years, supported by an accountability system to track progress.

– **Transparency**: In the absence of penalties for countries that fail to meet their targets, signatories are invited to report on their emissions and steps taken to reduce them.

The fact that 187 countries made commitments with the aim of limiting the world temperature increase to 2°C (and possibly 1.5°C) must be judged positively. However, the targets will not be achieved without very substantial policy changes. The ‘Nationally Determined Contributions’ (NDCs) – the commitments made by individual national governments – do not add up to enough of a reduction in carbon emissions to reach that goal, even assuming that they will be achieved. Figure 1.12 shows what would be needed set against what has been promised. The EU is committing to cutting greenhouse gas emissions to 40% below their 1990 level in 2030. The USA is committing to slightly less, while China will be allowed an increase. These three together accounted for 43.7% of global greenhouse emissions in 2010 and will still be responsible for approximately 38% by 2030. In relation to the Paris target, this will be inadequate. These and other individual commitments mean that the world will still be running well above the trajectory leading to the goal of a temperature increase of no more than 2°C. Figure 1.11 shows how much the world will be falling behind. Total world emissions from 2010 to 2030 will have increased from 48.6 gigatons (Gt) to 57.8Gt while following the target path would signify a reduction to 42Gt. Thus the more difficult adjustments have been pushed further into the future. Calculations show that global carbon neutrality (net-zero emissions) needs to be achieved between 2055 and 2070. Carbon neutrality, or having a net zero carbon footprint, refers to achieving net zero carbon emissions by balancing the amount of carbon released with an equivalent amount removed from the atmosphere. As industrialised countries are expected to reduce greenhouse gas emissions faster than developing countries, the EU this means net zero emissions by as early as 2050. Policies are currently not in place to achieve this, as indicated in the following section.

### Huge emissions gap after Paris

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### Figure 1.12 Annual emissions to 2030 for the EU, US and China, global COP21 pledges and the 2°C pathway

<table>
<thead>
<tr>
<th>Emitter (COP21 pledges)</th>
<th>Annual emissions (Gt CO₂e*)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1990</td>
</tr>
<tr>
<td>EU (40% below 1990 levels by 2030)</td>
<td>5.4</td>
</tr>
<tr>
<td>US (28% below 2005 levels by 2025)</td>
<td>5.4</td>
</tr>
<tr>
<td>China (peaking emissions by 2030)</td>
<td></td>
</tr>
<tr>
<td>Total (EU-US-China)</td>
<td></td>
</tr>
<tr>
<td>Rest of the world</td>
<td></td>
</tr>
<tr>
<td>Total global emissions</td>
<td></td>
</tr>
<tr>
<td>Global emissions path needed for the 2°C target by 2100</td>
<td>42</td>
</tr>
<tr>
<td>Emissions gap between pledges and the 2°C path</td>
<td>15.8</td>
</tr>
</tbody>
</table>

On the basis of the UNEP (2015) Emissions Gap Report, Figure 1.13 (left side) summarises the main policy scenarios between 2010 and the end of the century. The ‘baseline’ (no policy intervention) leads to a very dangerous world temperature increase. While the ‘current policy trajectory’, ‘Paris INDC pledges’ and ‘2°C warming pathway’ point to progressively better outcomes, the gap even from the Paris pledges to the 2°C pathway remains enormous. Figure 1.13 (right side) shows that according to expert calculations by the independent Climate Action Tracker 2015 (http://climateactiontracker.org/), if all COP21 pledges are fully implemented, global temperatures would still be rising too rapidly to the end of the century. The EU needs to reassess its climate and energy targets for 2020 and 2030 and redefine a pathway to net zero emissions by mid-century.

More stringent 2030 climate targets needed

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The EU has already promised to increase its 2020 greenhouse gas reduction to 30% if there is global action on climate change; this condition has now been met. The 2030 targets of 40% ghh reduction could therefore be redefined in accordance with a pathway to reach net zero ghh emissions and an exit from fossil fuel by 2050.

Individual member states have adopted targets based on their capabilities, but performance relative to national targets is uneven. Cyprus, Malta, Spain, Portugal and Ireland have the worst performance, while the new member states (with the exception of Poland) are among the best (EEA 2015). To achieve overall targets, a 27% EU target for the share of renewable energy by 2030 would need to be revised upwards. As shown in earlier reports (ETUI and ETUC 2013), there are a number of underperforming member states, in particular Malta, Luxembourg, the UK and the Netherlands. A comprehensive overview of the EU climate and energy policy targets is thus necessary.

Another area for improvement would be the EU’s emissions trading. This was established in 2005 and allowed enterprises to buy at significant cost the right to greenhouse gas emissions. The hope was that this would prove a flexible means towards reducing emissions overall. These permits can be bought and sold between enterprises. However, the economic crisis led to an over-abundance of permits and their price fell such that the disincentive to emit greenhouse gases was reduced. To counteract these negative effects CO2 allowances need to be withdrawn from the market; and yet a Commission initiative to this end backed by the European Parliament was blocked by a coalition of member states in the European Council. It is high time now to ensure that pre-2020 surplus emissions permits are not carried over to the post-2020 phase of the emissions trading system.

Investment in clean energy could be boosted with the help of an expanded version of the EU’s investment plan, while a proper, substantially higher, carbon price should provide incentives for a speed up of the transition. At historically low fuel prices a levy or tax on fuel should be imposed with revenues channelled into clean energy incentives.

Faster greening and decarbonisation also mean that jobs and skill needs will change at a faster pace than previously thought. Going beyond the Europe 2020 Strategy and also the 2030 Climate Package, the European policy framework on the transformation to a zero-carbon economy needs to be strengthened and to include guidance for member states to develop appropriate education and skills development and labour market policies that facilitate the transition. In this regard there could be an EU-level support mechanism providing assistance to employees from sectors where rapid employment decline is anticipated. Employees in energy-intensive industries cannot be left without support.
Conclusions

Dangers ahead without new policies

The European economy has been slowly and hesitantly pulling out of recession. The peak pre-crisis level, reached for the EU as a whole in 2008, was narrowly exceeded in 2014 and surpassed by 2% in 2015. However, this has come with a reorientation of the EU economy towards external demand, leaving growth more dependent on developments elsewhere in the world. The signs of slowdown in China and a number of other countries, the uncertainty in Russia, and the unpredictable effects of falling oil prices – cutting demand from oil-producing countries – all threaten the future stability of the EU economy.

The European Commission’s rhetoric and the accompanying policy measures suggest no awareness of either the depth of the problems or the extent of policy change required to tackle them. There has been a verbal recognition that past policies had failed and that a big change is needed if GDP and employment growth are to be restored and maintained, but this has led only to half-hearted and uncoordinated responses. The key obstacle remains continued adherence to the eurozone’s fiscal rules.

There has been a little movement. The overall fiscal stance has moved from restrictive to neutral, meaning that while state budgets are no longer used to depress economic activity across the EU as a whole, nor are they used to stimulate expansion, despite the fact that many countries could comfortably spend more. As a result, existing policies will not be enough to prevent continually increasing public debt levels relative to GDP. Indeed, growing debt levels are an inevitable accompaniment to economic depression, as is fully confirmed by Europe’s post-2008 experience. Gross debt as a proportion of GDP has increased across the EU and, with few exceptions, in every country and every year from 2008 to 2014. There was some improvement in 2015 in a few countries that were experiencing significant GDP growth, such as Ireland, although debt there is still well above crisis levels. Reducing debt levels across the EU as a whole will be possible only with renewed growth, providing higher tax revenues.

Against this background, new elements in EU economic policy have come from two directions. The first is the investment plan proposed by European Commission President Jean-Claude Juncker. Although set to run for three years from 2015, it has been running late and has had no economic impact in its first year. It will not restore investment to its pre-crisis level. Minimal accompanying concessions on budget rules mean that its impact is concentrated in favour of countries least in need of an EU programme. It falls far short of both what Europe could afford and what Europe needs.

The second new element is the European Central Bank’s policy of quantitative easing which had injected the equivalent of 7% of eurozone GDP by the end of 2015. Evidence of any impact is sparse. Quantitative easing has not reversed the trend towards deflation which threatens to become another factor hampering economic recovery. Deflation – meaning a falling price level such as has already occurred in several member states – would make it more difficult to reduce both public and private debt levels, thus adding to banks’ difficulties in lending. Indeed, evidence on private debt levels points to continuing disincentives both for consumers to borrow and for banks to lend, contributing to, and exacerbated in a number of countries by, increasing proportions of debt that are not being repaid.

These two areas of cautious policy change can make little difference when the key issue, namely, fiscal policy and the constraints imposed by eurozone rules, has not been addressed. The slight relaxation referred to above comes with warnings of the need for accelerated structural reforms – vaguely defined but including measures that have cut wages and hence consumer demand – and ‘growth-friendly fiscal consolidation’. In practice that means continuing a degree of austerity in the hope that it will reduce budget deficits and debt levels, whereas it has in fact been leading, and will continue to lead, to their increase.

Continuing tight fiscal policies greatly reduce the already limited effectiveness of Juncker’s investment plan. This is under-financed because no new public resources are available within existing rules. Member states also have limited means to afford the requisite co-financing, to cope with needs for current spending to make use of the results of investment, and to repay credits.

Other policy areas essential for long-term growth are also hit by fiscal rules. Target levels of R&D spending will not be met, with very significant reductions in some countries where the level was already low. Targets for reducing carbon emissions need to be toughened if the aims of the Paris climate change conference of 2015 are to be met. A little help will be forthcoming here from Juncker’s investment plan, but even past targets have been threatened by cuts in public spending such that much of the apparent recent progress in this area has come as a result of economic depression.

It is not difficult to find alternative policies for Europe that could restore growth and employment. Europe, after all, has been performing exceptionally badly in comparison with the rest of the world. Unfortunately, the modest ideas currently proposed are inadequate to counter the effects of continuing cautious fiscal policies and the threatened fall in demand in external markets.
Labour market and social developments

Introduction

Digital economy, the fourth industrial revolution and new forms of work have been much debated developments across the EU and beyond. Whether heralded as drivers of renewed economic growth opening up opportunities for job creation in new and emerging sectors, or dreaded as threats to the European social model and regulated wage labour, these developments undoubtedly pose new challenges to be faced – and, in the coming years, met – by social actors across the EU. In its latest Annual Growth Survey, the European Commission called for ‘social protection systems that should be modernised to efficiently respond to risks throughout the lifecycle while remaining fiscally sustainable in the light of the upcoming demographic challenges’ (European Commission 2015a: 5). This chapter offers an analysis of the main employment and social trends, evaluating them against recent social policy responses. Against this background, it will be asked whether Europe is preparing to face the challenges ahead and successfully tackle the social dimension of European integration.

In order to provide an encompassing picture of recent labour market trends and challenges, the chapter first describes employment and unemployment developments, as well as changes in the skills structure. Secondly, the analysis explores how vulnerable groups are affected by changes in employment and social protection. This applies, in particular, to women – who continue to have much lower employment rates and are overrepresented in non-standard employment with negative implications for their earnings and pensions – as well as to older workers, the lower-skilled and migrants. Finally, we show how spending on labour market and social protection policies has evolved and what consequences this will have for social standards across member states.

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> Patterns of job growth in Europe: skills 26
> Older workers in the EU labour markets 27
> Europe’s refugee crisis 28
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Overview of labour market developments

The unemployment rate in the EU28 has been falling slowly for the second year in a row; in 2015Q2 it stood at 9.6% (22.9 million people) for the working-age population (15-64). This is a slight improvement on the 10.3% recorded a year before, but still way above the 6.9% unemployment rate (16.1 million people) registered before the onset of the crisis (2008Q2). Huge divergence across countries remains, with unemployment rates in Germany and the Czech Republic at or below 5% while in Greece and Spain they are well above 20%.

In the EU28 on average there was no gender difference in unemployment rates in 2015. Yet gender gaps do persist at a country level. In Greece, with the highest overall unemployment rate in the EU in 2015, women’s disadvantage was most pronounced, amounting to nearly 7 percentage points compared to men (28.6% and 21.7% respectively). On the other hand, in 16 EU countries – including Latvia, Lithuania, Bulgaria, Romania, Belgium and Ireland – higher unemployment rates were found among men. In the last year, the most pronounced drops in unemployment rates among women were recorded in Portugal, Croatia, Poland and Greece, while for men they were recorded in Slovakia, Spain, Ireland and Lithuania.
Overview of labour market developments

Figure 2.3 Employment rates by gender in 2015 (second quarter), age 20-64 (ordered by total employment rate)

Source: Eurostat (lfsq_ergaed).

Figure 2.4 Change in employment by gender (in thousands), 2014-2015 (comparison of second quarters), age 20-64 (ordered by overall change)

Source: Eurostat (lfsq_egan), own calculations.

Female employment remains a challenge

In 2015Q2, 69.9% of the EU28 population aged 20-64 was employed, the average employment rate being 75.6% among men and 64.3% among women. This gender gap in favour of men recurs across all EU member states, ranging from the lowest difference of 1.6 percentage points (p.p.) in Lithuania to a strikingly high 26.7 p.p. difference in Malta. Average employment rates in the EU28, as well as in the euro area (68.9%), thus remain below the Europe2020 target of 75%, despite some improvements over the last year. Only one EU country – Sweden – had female employment (78.5%) above the 75% target, while male employment rates met this target in half of the EU countries. Moreover, 18 EU countries currently have lower shares of 20-64 year-olds in employment than in 2008, but only 4 countries (Belgium, Luxembourg, Finland and Austria) saw a decline over the last year.

In 2013, at the peak of the post-2008 jobs crisis, total employment loss in the EU28 amounted to 6.6 million jobs. So far, 4.2 million jobs have been recovered (2.4 million in the 2013Q2-2014Q2 period and 1.8 million in the last year 2014Q2-2015Q2). Job growth was faster among women and most visible in Poland, Germany, the UK and Portugal, while Spain took a lead in the increase of men in employment.
Overview of labour market developments

Figure 2.5  Temporary employment rate, by country and gender, 2015Q2 (15-64)

Source: Eurostat.

Figure 2.6  Job growth by contract type and by gender, 2005-2015, EU28 (15-64), annual averages

Source: Eurostat, own calculations.

Shift towards temporary work accelerates

The incidence of temporary contracts in the EU28 has been on the rise for the past two years—from 13.7% in 2013 to 14.4% in 2015 (second quarters). Women are more likely to work in temporary jobs than men in the vast majority of member states and with the widest gender gaps observed in Cyprus, Finland and Slovenia. In countries where temporary work is uncommon (e.g. the Baltics, Bulgaria and Romania), its share tends to be higher among men.

Between 2014 and 2015, the temporary employment rate increased in 17 EU countries, most markedly in Croatia and Slovakia. In 2015Q2, the highest incidence of fixed-term contracts was found in Poland (28.2%), followed by Spain (25.1%), Portugal (22.2%) and the Netherlands (22%). In Romania and Lithuania, by contrast, only some 2% of workers had fixed-term contracts.

A comparison of job creation patterns before and after the crisis reveals that a growing proportion of new jobs are temporary. While in the period 2005-2008 temporary employment accounted for around 20% of the job growth, the rest being permanent, in the period 2013-2015 the share of temporary jobs in the net annual job growth nearly doubled, to 39%, the shift having been more acute among men.
Overview of labour market developments

Part-time growth in low-paid work exacerbates inequality

In contrast to temporary employment, which saw a sharp decline after the outbreak of the crisis, part-time work has been steadily rising over the last decade with the steepest increases shortly after 2008. In the EU28, the part-time rate among men increased from 7.1% in 2008 to 8.9% in 2015 (second quarters). Among women the upward trend was less pronounced: from 30.5% in 2008, to a peak of 32.5% in 2013 and 32.1% in 2015.

There is a marked cross-country variation in part-time employment rates, ranging from 2.2% in Bulgaria (2015Q2) to 50.2% in the Netherlands. Nevertheless, part-time remains a feature of female work. In fact, gender gaps in part-time work are most pronounced in countries with a high or medium incidence of part-time work, where in those countries where part-time work has been traditionally less common, its share either remained fairly stable or declined. For instance, in Poland the share of part-time in total employment fell from 7.6% in 2008 to 6.7% in 2015, while in the Netherlands it rose from 46.7% to 50.2% in the same period.

Part-time work is unequally distributed across different segments of the labour force defined by occupational rank. Shorter working hours are traditionally concentrated in routine and low-skilled service occupations, located at the bottom of the occupational ladder, female-dominated or characterised by low wages and little collective interest representation (Parent-Thirion et al. 2012; O’Connell and Russell 2007; Smith et al. 2013). In the EU28 in 2015Q2, part-time work was most commonly found among elementary occupations (reported by 54% of women and 22% of men), and service and sales workers (40% and 17% respectively). In addition, the post-2008 growth in the part-time employment rate was concentrated in elementary occupations where the increase was 5 p.p. among women and 6 p.p. among men.

Overall, in the period between 2008 and 2015, the share of part-time employment increased the most in countries with a high or medium incidence of part-time work, while in those countries where part-time work has been traditionally less common, its share either remained fairly stable or declined. For instance, in Poland the share of part-time in total employment fell from 7.6% in 2008 to 6.7% in 2015, while in the Netherlands it rose from 46.7% to 50.2% in the same period.

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Overall, in the period between 2008 and 2015, the share of part-time employment increased the most in countries with a high or medium incidence of part-time work, while in those countries where part-time work has been traditionally less common, its share either remained fairly stable or declined. For instance, in Poland the share of part-time in total employment fell from 7.6% in 2008 to 6.7% in 2015, while in the Netherlands it rose from 46.7% to 50.2% in the same period.

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Moreover, there is a stark divide in the quality of part-time work between the managerial class and routine workers in terms, for instance, of task complexity and training (Tilly 1992). Reduced working hours among low-skilled and manual workers are also a predominantly employer-led solution, allowing for little to no employee autonomy (Piasna 2015). They thus hardly represent a work-life balance solution for workers with caring responsibilities.

Not only does the prevalence of short working hours mirror income and class inequality (Jacobs and Gerson 2004), but recent trends in part-time work suggest that it is also likely to widen such inequality further. The future of (good quality) part-time work depends on the extent to which skilled jobs can be divided into smaller working time units without penalty in terms of occupational status or future career chances (Ibáñez 2011).
In the context of technological change and digitalisation, raising the skills and competences of the workforce has become a policy priority (e.g. European Commission 2015a; 2015b). An analysis of job growth patterns suggests that high levels of education provide relative insurance against unemployment. The share of professionals in total employment in the EU increased from 14% in 2008 to 19% in 2015. Over the last three years (2012-2015), the number of jobs filled by workers with higher education increased by over 13 million. This is in stark contrast to a feeble increase in medium-educated workers in employment (1.7 million) and a sharp decline of those with low education (by 7 million).

Nevertheless, a supply of highly skilled labour does not necessarily signify a supply of highly skilled positions. In fact, the tight post-crisis EU labour market with increased competition for jobs has resulted in an exceptional increase of highly skilled workers across all occupational grades. This is clearly visible in a comparison with a pre-2008 period of net job growth (Figure 2.8). Before the crisis (2005-2008), job growth across the EU28 in manual and routine clerical occupations was mainly driven by medium-skilled workers, with some increase of low-skilled workers in elementary occupations (including jobs such as cleaning, selling goods, performing simple tasks connected with construction and manufacturing). By contrast, in the post-2008 period of net job growth (2012-2015), a considerable share of employment generated in low-skilled manual occupations (e.g. plant and machine operators), as well as in elementary occupations, was taken up by highly educated workers. While in the 2005-2008 period, less than 11% of jobs generated in elementary occupations were filled by highly educated workers, in the 2012-2015 period this increased to 31%. Moreover, between 2012 and 2015, a majority of new positions in routine clerical occupations, service and sales work, agriculture, and skilled manual work were also filled by highly educated workers.

Therefore the issue of a skills mismatch is a more complex one, for which improving the educational attainment of the workforce provides only a partial solution. It should not be overlooked that in 2010, 32% of workers in the EU27 declared that they need further training to cope well with their duties (5th European Working Conditions Survey). Therefore, a flipside of the skills mismatch is underemployment, a situation in which workers accept work below their skill and educational levels, and employers show a preference towards employing those with higher education, even for positions with typically low-skill requirements. This may provide an – at least partial – explanation of why an increase of in-work risk of poverty after 2010 in the EU28 was steepest among workers with high educational levels (ETUI and ETUC 2015: 36; see also Figure 2.17 in this chapter).

Skills mismatch taking a turn in a tight labour market

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Older workers in the EU labour markets

In 2015Q2, 66.4% of the population aged 50-64 in the EU28 were economically active, with an employment rate of 61.7% and an unemployment rate of 7.1% (Figure 2.9). The highest activity rates were in Sweden, Germany, Estonia and Denmark, while Malta, Romania, Greece and Croatia ranked lowest. Considerable disparities can be observed regarding the gender gap. In most EU countries (except Finland, Estonia and Latvia), the female employment rate was lower than the male rate, with the widest gaps in Malta (38 p.p.), Italy (23 p.p.) and Greece (21 p.p.) (Figure 2.10).

Age is a major factor in labour market behaviour and the economic crisis can be expected to exert conflicting pressures on older workers. On the one hand, if older job-seekers have difficulty finding work, they may retire earlier than expected. On the other, cutbacks to retirement benefits and increases in the statutory retirement age may lead workers to delay retirement. The data suggest that the latter effect prevailed as there has been a considerable increase in the activity rate among 50-64 year olds since 2008 (59.5%) (see Figure 2.9). Between 2008 and 2015, activity rates for this age group increased in almost all EU countries (except Romania and Greece), while remaining considerably lower than for the prime-age group.
Europe's refugee crisis

New fault-lines in Europe

With over one million asylum seekers from the Middle East, Asia and Africa, in 2015 Europe was facing the greatest inflow of refugees since World War II. The external shock posed by the unprecedented refugee wave and the uneven absorption of asylum seekers by member states has created new fault-lines in Europe.

With the collapse of the Dublin III regulation on the responsibility of member states for examining asylum applications, the statistical coverage of the refugee flows is far from delivering an up-to-date and exact picture of events, but, insofar as one is aware of the many contradictions, the major processes can be tracked.

For 2015 the International Organisation of Migration (IOM 2015) reports total arrivals of irregular migrants and refugees to Europe as 1,105,504 by the end of the year (821,000 entered the EU via Greece, 150,000 through Italy). Based on the latest Eurostat data, Figure 2.11 shows asylum registrations of third-country nationals by member state, bringing the total number of registered persons for the 12 months up to the end of November 2015 to 1.06 million. The distribution of registrations by member state gives an indication of the absorption of asylum seekers by individual countries, but these data need to be regarded with caution because of the lack of a common registration practice on the European level. Due to asylum seekers’ fear of being registered in a member state en route to their destination country and the frequently obstructive strategies of transit countries which actively seek to forward refugees westwards, registration figures by transit country do not reflect the absorption of asylum seekers. Although Bulgaria and Hungary (not shown in the Figure) appear in the Eurostat statistics with high registration numbers (18,000 and 204,000 respectively), over 90% of registered asylum seekers leave these countries within days. Registration numbers by country, as indicated in Figure 2.11, provide a tentative picture of the distribution of asylum seekers by receiving member state. Accordingly, Germany is on top with 306,800 completed registrations by November 2015, followed by Sweden (94,000), Italy (80,000) and Austria (67,700). Belgium and Finland also registered asylum seekers at a comparably high level compared to their population, but all the other member states show marginal absorption of asylum seekers. CEE new member states that are net emigration countries were rejecting any co-operation in providing asylum for refugees.

To complicate the picture even further, it must be added that destination countries fail to cope adequately with the registration of refugee arrivals, so that the current figures are an underestimate. This is particularly true for Germany which is by far the main destination for refugees. Data from the German Office for Migration and Refugees (BAMF 2015) report a million arrivals by December 2015, with 442,000 completed registrations.
After signs of saturation during the crisis, east-west intra-EU labour mobility seemed to gain further momentum in 2014. Figure 2.12 shows the main trends of EU10 (CEE new member states of the 2004 and 2007 enlargement rounds) mobility by showing the share of EU10 population by main EU15 countries for the period 2007-2014.

The United Kingdom continues to be the main destination with over 1.3 million EU10 citizens. Though a traditional destination for CEE migration, Germany was lagging behind for several years as an effect of the transitional measures imposed on CEE mobile workers (in effect until 2011 for EU8 and until 2014 for EU2). After some delay, labour mobility from the new member states to Germany started to pick up and has gained further momentum lately making Germany now the second destination with 1.2 million EU10 nationals. While the UK and Spain are top destinations for east-west intra-EU labour mobility, they have absorbed refugees in marginally low numbers.

A recent study (Tassinari 2015) suggests that, even when individual characteristics are taken into account, the propensity to live in social housing accommodation or receive unemployment benefits or income support is lower for EU10 migrants than for UK nationals. The refugee crisis and its concentration within a limited number of member states, some of them also primary destination of intra-EU labour flows, has created new fault-lines in Europe. An urgent European response is necessary to contend with the historical challenge represented by the need to integrate a large number of refugees into the European labour market. At the same time, the free movement of labour is not only a basic freedom but also a major asset with great potential. Policy effort should accordingly be concentrated on unlocking its full potential, while paying attention to the full implementation of the principle of equal treatment.

Germany has become the top destination of asylum seekers and at the same time a main receiver of mobile workers from the new member states. Italy has also received a considerable number of refugees and is, furthermore, an important destination for mobile workers from new member states. Austria is the third country facing a twofold challenge, as it has received, compared to its population, the highest number of refugees while having, at the same time, a proportionally high EU10 population. While the UK and Spain are top destinations for east-west intra-EU labour mobility, they have absorbed refugees in marginally low numbers. France is the least affected major EU15 country in terms of both refugees and east-west labour mobility.

Intra-EU labour mobility is a basic freedom of all EU citizens and non-discrimination in labour rights – including access to benefits – applies. While the legal status of EU mobile workers and asylum seekers is entirely different, the political effect they have on receiving country labour markets and welfare systems is not necessarily distinguishable. New tensions are appearing in several member states and it is not the UK government alone that aims to restrict access by EU mobile citizens to social and welfare services. There is consensus in the literature (Blauberger et al. 2014; Clark et al. 2014) that EU10 migrants are net fiscal contributors in EU15 countries.

Continuing east-west labour flows

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Labour market policies and their challenges

Expenditure cuts per person wanting to work

Figure 2.13 above shows expenditure on labour market policies per person wanting to work. The figures are expressed in a unit of measurement (PPS) that allows meaningful comparison across different countries. A distinction is made among the following three types of policy intervention: labour market services; active labour market policies (‘labour market policy measures’ – ALMPs), that is, activation measures for the unemployed and other target groups; and out-of-work income maintenance and support (‘labour market policy support’) that is, financial assistance that aims to compensate individuals for loss of wage or salary, in the form of, most commonly, unemployment benefits or benefits facilitating early retirement.

In 2013, when the unemployment rate reached its peak since 2008 in both the EU28 and the euro area, there were large disparities in the level of total expenditure devoted to each person wanting to work across the EU. Figure 2.13 above shows that there was a clear divide between north-west European countries, which – with the exception of Ireland – have not been or have been far less severely affected by the crisis, and the south and central-eastern Europe, and the UK.

Looking into the growth of expenditure between 2008 and 2013, the data suggest that in 17 member states, spending per person wanting to work was reduced for active labour market policies and out-of-work income support. Expenditure on labour market services per person wanting to work was reduced in 22 member states. The group of member states in which expenditure per person wanting to work increased include mostly member states with low spending, while for all types of measure there appears to have been an overall convergence in spending. A recent study by the ILO suggests that cuts in labour market policy expenditure have been mostly driven by considerations of public finance consolidation (ILO 2015).

Expenditure cuts in active labour market policies and out-of-work income support were slightly more concentrated in member states with high levels of spending and relatively less affected by the crisis. However, by far the biggest reductions in ALMP spending relative to 2008 took place in countries, including Spain and Portugal, with some of the highest levels of and increases in unemployment since 2008 (spending per person in these two countries reduced by 53.2 and 51% respectively). By far the largest reduction in ALMP spending per person wanting to work between 2008 and 2013 took place in Romania (58.2%), while the Netherlands also saw a cut of 54.8% during the same period.

Greece, Italy and Ireland also cut down on their ALMP spending per person, the latter two quite sizably. In all three, the retrenchment is even more sizeable when it is considered that unemployment rose massively after 2008 and was particularly concentrated in certain sectors and groups (Myant et al. 2016), making ALMPs even more necessary for reversing increases in unemployment.

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Expenditure cuts per person wanting to work in income-support labour market policies were greatest in Luxembourg (31.3%), Portugal (27.1%) and Slovakia (28.4%); such cuts also took place in Spain and Greece (both countries with relatively low levels of spending at the outset) and Ireland.

Spending per person on labour market services was reduced everywhere but a handful of cases (Denmark, Germany, Austria, Sweden, Romania), all of which – bar Romania – have been traditionally high spenders on labour market policies.
2. Labour market and social developments

Labour market policies and their challenges

The hard core of unemployment

Labour market services and ALMPs are meant to help people move from unemployment to employment and to encourage them to remain active in the labour market rather than slip gradually into inactivity. Figure 2.14 above suggests that, in the EU28 as a whole, the numbers of people moving, in 2014-2015, from unemployment to employment have been higher than the numbers of those moving from employment to unemployment, more so than was the case in 2011-2012. As a result, unemployment has been slowly falling.

However, Figure 2.15 suggests why the cuts in ALMP expenditure per person wanting to work should be a matter of concern for the fight against unemployment (as seen in Figure 2.13). As Figure 2.15 shows, the cohorts of unemployed who have been jobless for longer than 12 months and especially for more than 18 months have increased by far more than those unemployed for much shorter periods of time. In fact, even though the cohorts of the short-term unemployed began to shrink after 2010, those of the long-term unemployed kept on growing, building up the aforementioned hard core of unemployment. The long-term unemployed are those most in need of supportive active labour market policies for returning to employment because recovery alone will not be sufficient to help them find a job.
Contrary to the aims of the Europe 2020 strategy, the risk of poverty or social exclusion (henceforth AROPE) has increased since 2010 for the population as a whole in the EU28, the euro area and even in the EU15, in spite of the strategy’s ambition of raising 20 million people out of poverty. In 2014, 24.1% or almost 1 in 4 persons among those aged 18-74 in the EU28 lived in a household at risk of poverty or social exclusion, compared to 22.7% of that group in 2010. The AROPE for those in that age group who have been unemployed has been much higher, with about 2 out of 3 people in that age group who are unemployed living in households at risk of poverty or social exclusion. The increases in AROPE for those unemployed have increased by about half as much as in the general population aged 18-74.

However, the very high risk faced by the unemployed should be cause for concern also in relation to the decreases in expenditure for labour market policies and services per person wanting to work that we saw in Figure 2.16, especially those concerning income support for persons not in work. For example, Slovakia is one of the member states where cuts in expenditure per person for income support has been the highest, as well as one of the relatively few member states where the risk of poverty or social exclusion for the unemployed rose by more than for the population aged 18-74 between 2010 and 2014.

As far as the systems of income support for the unemployed are concerned, a recent report by the ILO (2015) pointed out that there was a reduction in the coverage rate (that is, the number of unemployment benefit recipients over the total number of persons unemployed) in the unemployment benefit systems of most member states between 2008-2013, following the increase in long-term unemployment rates and the higher numbers of employees with temporary contracts losing their jobs. These two factors meant that greater numbers of unemployed persons were not eligible to receive benefits.
## In-work poverty

2. **Labour market and social developments**

### In-work poverty continues to rise

Figure 2.17 illustrates the in-work poverty rates for the EU28 for the years 2010 and 2014, as well as the relative change during that period. The in-work risk of poverty measures the incidence of what is commonly called ‘working poor’. The measure is defined as the share of population in employment whose household income falls below 60% of the median average household income. This indicator combines individual activity characteristics (income from labour) with a measure of income that is calculated at the household level (the poverty line). For this reason, interpretation of its evolution over time and across countries cannot point unequivocally to the causes of this evolution, which could be developments in the labour market, structure of households, social and fiscal policies or some combination of these factors (Ponzieux 2010: 28). To counter this difficulty, the data presented here refer to the EU28 average for different types of employment, categories of employment contract, working hours and levels of formal qualifications. The implicit assumption is that across the EU and over the course of a relatively short period of four years, household structures did not change substantially and that any changes cancelled each other out on average, so that the question is whether we can observe any indications of shifts in the in-work poverty rate that may suggest labour market, social and fiscal policy changes.

In terms of levels, the average in-work poverty rate for employed people stood at 9.6% in 2014, up from 8.3% in 2010, a 15.7% rise. Looking into the different types of employed people, those that were not employees faced the highest in-work poverty in both 2010 and 2014, at 21.1 and 23.1% respectively. This is an interesting development insofar as this category includes not only the self-employed but also those engaged in work in the so-called ‘new economy’. Those employed but with low formal qualifications and/or part-time and temporary contracts were the groups with the highest in-work poverty rates, ranging from 18.8% for the low-skilled to 15.7 for part-timers and temporary employees. Part-timers and temporary employees also suffered relatively high increases in their in-work poverty rates, 25.6% for the former and 19.8% for the latter.

Those employed subject to more standard arrangements and hours (full-time, permanent, employees) and the highly qualified have been facing markedly lower in-work poverty rates. However, highly qualified employed workers experienced, albeit as from a very low previous level, by far the largest increase in the in-work poverty rate across all categories examined with 32.4% (see also discussion under Figures 2.7 and 2.8 in this chapter).

### Figure 2.17 In-work poverty rates (level and relative change) by type of employment, contract, working hours, and qualification level, EU28, 2010, 2014 (%)

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employed</td>
<td>0%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Employed persons except employees</td>
<td>9%</td>
<td>12%</td>
<td>3%</td>
</tr>
<tr>
<td>Low formal qualifications</td>
<td>14%</td>
<td>17%</td>
<td>3%</td>
</tr>
<tr>
<td>Part-time</td>
<td>21%</td>
<td>23%</td>
<td>2%</td>
</tr>
<tr>
<td>Temporary</td>
<td>15%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Medium formal qualifications</td>
<td>10%</td>
<td>11%</td>
<td>1%</td>
</tr>
<tr>
<td>Full-time employees</td>
<td>8%</td>
<td>9%</td>
<td>1%</td>
</tr>
<tr>
<td>Permanent</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>High formal qualifications</td>
<td>2%</td>
<td>2%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Eurostat (ilc_iw01, ilc_iw03, ilc_iw05, ilc_iw07), own calculations.
Figure 2.18 shows the social expenditure per inhabitant, for all types of social protection programme, expressed in Purchasing Power Standards (PPS) for the EU28 member states in 2008 and 2013, as well as the relative change in such expenditure between 2010, when the shift to fiscal austerity occurred in the EU, and 2013. In 2013, there was wide disparity in levels of spending per inhabitant, ranging from over 10,000 euros in Luxembourg, the Netherlands, Denmark and Austria to just below 2500 euros per inhabitant in Bulgaria, Latvia and Romania. Moreover, the dispersion of the spending levels per inhabitant around the average increased between 2008 and 2013, suggesting divergence among member states.

On average, between 2010 and 2013 in both the EU28 and the Euro area this spending rose, by 5.2 and 4.8% respectively.

Concealed behind these averages, however, there was wide variation. Social expenditure per inhabitant rose everywhere except in Hungary, Cyprus and Greece where it fell. These are all member states with well below average public social spending per capita as well as countries that have been particularly hard hit by the crisis since 2008. Social expenditure per inhabitant rose by more than 10% in Bulgaria, Croatia, Portugal, Finland and Ireland (2010-2012), whereas the UK, Italy, Malta, Poland and Romania saw positive but low increases of below 3% between 2010 and 2013. More generally, in most of the member states that were most badly affected by the crisis, the increase in public social spending per capita was below the EU average, with the exception of Ireland where the third largest increase – of 14.7% – after Bulgaria (16%) and Croatia (14.7%) took place. At the other end of the spectrum, in Greece, not only was public social expenditure per inhabitant relatively low in 2008 and still in 2012 but it also registered the second biggest drop in the EU28, in spite of the massive contraction in Greek output and the increase in unemployment. Similarly in Spain, public social expenditure per capita rose by less than average, even though unemployment in Spain at 22.3% in 2015 – having peaked at 26.1% in 2013 – rose by more than three times the EU average between 2008 and 2013. These developments suggest a degree of policy drift (Hacker 2004), that is, social protection policies not adapting in line with the need for them. Although spending figures can be too crude to provide an accurate picture of the effectiveness of social protection, they nevertheless indicate the amount of resources available, a necessary, albeit not sufficient, condition for protection.
Social protection and inequality

Income inequality on the rise

Figures 2.19 and 2.20 illustrate two aspects of income inequality, the alleviation of which is one of the purposes of social protection. The first graph shows the Gini coefficient, a measure of income dispersion, before and after social transfers, as well as its evolution (after social transfers) between 2010 and 2014. The higher the Gini coefficient rises, the greater is the income dispersion. Between 2010 and 2014, income dispersion was reduced in only nine of the 28 member states, three of which (Latvia, the UK, and Lithuania) are among those with above EU average income dispersion. It increased on average and in all the others, with the exception of Ireland where it remained constant. There seems to be a non-negligible disparity among countries with regard to the effectiveness of their social transfers in reducing income disparities – though effectiveness also depends naturally on the amount of social expenditure per inhabitant. Figure 2.20 shows the share of population at risk of income poverty in 2010 and 2014, and, for 2014, the difference in that risk before and after social transfers have been taken into account for household incomes. On average the risk of income poverty rose in the EU, while, hardly surprisingly, the member states with the highest poverty risk are also those whose difference in risk of poverty before and after social transfers is the smallest.
Reducing taxes on labour – personal income taxes and employers’ and employees’ social security contributions – is often seen as key to increasing employment levels. Higher labour costs are assumed to reduce the demand for workers. Moreover, high labour taxation may lower incentives for the unemployed and inactive to take up work as it means that the additional income to be derived from employment is too limited to provide the motivation to work. Referring to these two reasons, the European Commission (EC) has advocated a shift in taxation away from labour to the ‘least distortionary taxes’, including taxes on consumption, housing and other property, and environmental taxes (European Commission 2015e: 24). The EC finds countries to be in need of reducing taxation on labour if their levels of taxation on labour are significantly above the EU average.

Empirically, it is difficult to separate the effect of taxes from other elements of the policy mix in individual countries. Nevertheless, a comparison of employment and tax levels in the EU, as shown in Figure 2.21, shows no relationship between the two. In fact, many countries with very high employment levels impose steep labour taxes. As a result, countries that were identified by the Commission as in need of reducing labour taxation – i.e. Belgium, Czechia, France, Italy, Hungary, Finland and also the ‘borderline’ cases of Germany, the Netherlands, Austria, and Sweden – include these best-performing countries.

As far as the crisis countries suffering from high unemployment are concerned, reducing labour costs through lowering taxation does not seem to offer any immediate respite either. As shown also by the EC’s own labour market analyses, adjustment strategies based on a reduction of labour costs have reached their limits, with countries characterised by high unemployment recording falling labour costs also (European Commission 2015d).

Finally, the ‘tax shift argument’ has been reinterpreted in a popular version that emphasises a need to reduce social security contributions (SSC) paid by the employers in particular. Such an argument may be intuitively appealing to employers seeking to reduce any taxes that they are obliged to pay, but there is no reason why they should matter more than other parts of labour taxation – in fact, they may be less relevant to incentives for workers. Empirically, there is no correlation between employer SSCs and employment level in the EU. Nevertheless, this thinking informed the 2015 tax shift in Belgium, reducing employer social security contributions from 33% to 25%. Ironically, despite having the highest level of taxation on labour, that country was close to the average for employer SSC.

Cutting taxes on labour will not achieve much

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As far as the crisis countries suffering from high unemployment are concerned, reducing labour costs through lowering taxation does not seem to offer any immediate respite either. As shown also by the EC’s own labour market analyses, adjustment strategies based on a reduction of labour costs have reached their limits, with countries characterised by high unemployment recording falling labour costs also (European Commission 2015d).

It is plausible that extreme taxation levels may create incentive problems for the inactive or some groups of workers who may shy away from extra employment effort due to the high taxation imposed on the additional income. Potentially affected groups include the inactive, the unemployed, second earners in a household, and low-wage earners. The EC’s analysis finds a number of such traps in individual countries (European Commission 2015e: 26-27). However, even in this case, countries suffering from such traps include cases of both worst and best performance in terms of employment among the affected groups.

Finally, the ‘tax shift argument’ has been reinterpreted in a popular version that emphasises a need to reduce social security contributions (SSC) paid by the employers in particular. Such an argument may be intuitively appealing to employers seeking to reduce any taxes that they are obliged to pay, but there is no reason why they should matter more than other parts of labour taxation – in fact, they may be less relevant to incentives for workers. Empirically, there is no correlation between employer SSCs and employment level in the EU. Nevertheless, this thinking informed the 2015 tax shift in Belgium, reducing employer social security contributions from 33% to 25%. Ironically, despite having the highest level of taxation on labour, that country was close to the average for employer SSC.
Conclusions

Mounting challenges for the future

Job creation in the EU continued in the period 2014Q2-2015Q2, albeit at a slower rate than in 2013Q2-2014Q2, with a net outcome of 1.8 million more jobs. An analysis of the labour market developments and social trends reviewed in this chapter suggests that job quality considerations should, as much as ever, be in the forefront of the research and policy agenda. One example would be that temporary employment accounts for a growing share of the net job growth, casting doubts on the long-run sustainability of the recovery; at the same time, a growing concentration of part-time work among low-paid workers raises concerns about further polarisation of the workforce and social exclusion among the lower-skilled.

Investment in skills and competences is needed to ensure economic development and competitiveness in the context of technological progress. Professionals have been the fastest growing occupational category in the EU, and highly educated workers experienced by far the lowest risk of unemployment and considerably lower risk of in-work poverty than those with lower educational attainment. Nevertheless, policy attention should not be limited to education systems and quality of labour supply, but should focus also on the quality of the jobs created. Support for the growth of high-skilled sectors and branches of industry would also help ensure that highly skilled workers are not employed below their qualifications, a phenomenon that seems to be on the rise, leading to the underutilisation and loss of the human capital.

With the effective postponement of retirement, several social challenges will become more acute, such as increasing uncertainty about the age of retirement and the level of income replacement, sustainable working conditions across the life course, increasing risks of age discrimination, as well as impact of care of older relatives on employment of prime-age, mainly female, workers (Anxo et al. 2012; Eurofound 2015). In coming years, the ageing of the labour force, in view of the significantly lower employment rates of older workers, will risk dramatically lowering the overall labour force participation rate. Nevertheless, policies devised to encourage workers to postpone retirement must take social inequality and exclusion risks seriously into consideration and ensure that workers remain in employment longer not because they have no legally or economically viable alternative but because they are able to find quality employment suitable for their qualifications, health and economic needs.

With over one million asylum seekers in 2015 Europe is facing the greatest inflow of refugees since World War II. European institutions have shown themselves unable to tackle this historic challenge and parts of the existing European legal framework are breaking down; a common European policy for administering and integrating asylum seekers is not yet in sight. The external shock posed by the unprecedented wave of refugees has created new fault-lines in Europe, with the threat of a new institutional and political crisis.

After signs of saturation during the crisis, East-West intra-EU labour mobility seemed to gain further momentum in 2014. The uneven distribution of both mobile workers and refugees, with concentrations in a small number of member states, is resulting in political tensions in the most exposed labour markets and welfare systems.

There still exist large disparities among member states in levels of spending on labour market and social protection policies. Relative changes in spending, although not the only factor determining the effectiveness of these policies, are also cause for concern. In labour market policies (active, passive and labour market services), expenditure per person wanting to work has fallen in the majority of member states including most of those where unemployment has risen substantially since 2008, while other reports also indicate a drop in unemployment benefit coverage. These are alarming developments, not least because it is by now clear that there exists a hard core of long-term unemployed who will require help to get back into employment or otherwise risk becoming permanently excluded, while the risk of poverty and social exclusion for the unemployed is, hardly surprisingly, much higher than among the population at large. These developments also cast doubt upon the feasibility of implementing the ‘flexicurity’ approach, as recently advocated by the European Commission (2015c) as a means of achieving upward convergence in social standards across member states.

Income disparities have increased in the majority of member states, as has the risk of income poverty, while there is great disparity in the effectiveness of social transfers to alleviate it. In-work poverty has also continued to be high and still rising, especially among workers who lack employee status. This group includes not only the self-employed but also those engaged in the new forms of work currently emerging in the digital economy, a particularly alarming development for the future of work.
For years, European crisis management in the field of wages and collective bargaining has been dominated by an interventionist approach aimed at putting pressure on wages, at decentralising collective bargaining systems, and at reducing workers’ rights. In previous editions of the *Benchmarking Working Europe* report we illustrated the far-reaching consequences of this approach in the crisis countries in terms of real wage decreases and, in particular, dismantling of multi-employer collective bargaining arrangements. Against this background, one purpose of the current chapter is to review whether under the Juncker Commission – in office since November 2014 – there have been changes in how the Commission approaches the issues of wages, collective bargaining and workers’ rights, and whether there is any light at the end of the tunnel.

The focus of analysis here will be the Country-Specific Recommendations (as the most explicit manifestation of the Commission’s approach), the development of wages in relation to productivity, and the gender pay gap. The chapter will provide, furthermore, an update on the development of minimum wages and collective bargaining systems across Europe. It will conclude with a review of different forms of trade union action – such as strikes, litigation and alternative forms of action – waged to counter the interventionist crisis management and the continuing attacks on workers’ rights.
Wage developments

While some observers see some signs of a ‘socialising of the European Semester’ (Zeitlin and Vanhercke 2015), others, such as Clauwaert (2015: 17), point out that the Commission is merely employing a window-dressing tactic in assigning greater importance to social objectives in the context of the European Semester. In the field of wages and collective bargaining, realigning a ‘more social’ approach would entail a serious recognition of the importance of wages for fostering social cohesion and domestic demand.

Since the proof of the pudding is in the eating, this should be reflected in more demand-side-oriented country-specific recommendations (CSRs) in 2015/2016. As Figure 3.1 illustrates, eleven countries received recommendations in the field of wages and collective bargaining (for a detailed overview of the CSRs in the social field more generally, see Clauwaert 2015). These can be divided into three standard recommendations concerning (1) the alignment of wages with productivity, (2) the reform of wage-setting systems, and (3) the review of the system of minimum wage-setting.

Following the Commission’s new approach of issuing ‘more focused’ CSRs, most of the more detailed recommendations have been moved to the explanatory section that accompanies the recommendations. Close scrutiny of this section yields identification of few differences compared with previous years’ CSRs on wages (ETUI and ETUC 2014: 70; Schulten and Müller 2015: 338). Concerning the recommendation to ensure that wages develop in line with productivity, the Commission’s key concern is to improve cost competitiveness by making wage-setting systems more flexible as a requirement to adapt to changes in the economic framework conditions. Hence, all the recommendations concerning the reform of the wage-setting system are aimed at further decentralisation of collective bargaining. Even in countries like Portugal and Spain where the Troika policies already did a fairly comprehensive job of undermining the regulatory capacity of multi-employer bargaining (see section 3.7, below), the CSRs for 2015/2016 still call for further decentralising measures.

Minimum wages are another main target of CSRs. The key rationale underlying all recommendations concerning reform of the minimum-wage-setting mechanism is to ensure that minimum wages not only safeguard labour income but also help to foster employment and competitiveness. Needless to say, from the Commission’s point of view, in those countries that received a minimum wage recommendation, the pendulum has swung too far in favour of the former goal. It is therefore not surprising that, in all the countries that received a minimum wage recommendation (France, Slovenia, Portugal and Romania), the relative minimum-wage level is above 50% of the respective national median wage (see Figure 3.5).

Overall, the CSRs 2015/2016 suggest no general re-orientation of the Commission’s policy in the field of wages and collective bargaining. In light of the new ‘streamlined’ approach to the European Semester, the CSRs are, essentially, old wine in new bottles.

### Figure 3.1 Country-specific recommendations in the field of wages and collective bargaining (2015)

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>BE Align wages with productivity</td>
<td>Unit labour costs too high: wage-setting should be more flexible to improve capacity for adjustment of economy</td>
</tr>
<tr>
<td>BG More transparency in minimum wage setting</td>
<td>Current increases of minimum wages potentially distortive for labour markets</td>
</tr>
<tr>
<td>ES Align wages with productivity</td>
<td>More sectoral and company agreements are needed to ensure that wages stay in line with productivity</td>
</tr>
<tr>
<td>FI Align wages with productivity</td>
<td>Continues with moderate wage developments as agreed in 2013 agreement which improved cost competitiveness</td>
</tr>
<tr>
<td>FR Align wages with productivity Reform of wage-setting system Moderate minimum wage development</td>
<td>Wage-setting should be more flexible through more company level agreements and scope to derogate from branch agreements. Indexation of minimum wage was criticised as not conducive to competitiveness</td>
</tr>
<tr>
<td>HR Align wages with productivity Reform of wage-setting system</td>
<td>Wage-setting system not flexible enough to adapt to economic changes; in particular extension and after-effect of collective agreements criticised</td>
</tr>
<tr>
<td>IT Reform of wage-setting system</td>
<td>Need for decentralisation of bargaining through improved scope for second-level bargaining</td>
</tr>
<tr>
<td>LU Align wages with productivity Reform of wage-setting system</td>
<td>Problem of divergence of productivity across sectors: more flexible wage-setting so that sectoral real wages are in line with sectoral productivity</td>
</tr>
<tr>
<td>PT Align wages with productivity Moderate minimum wage development</td>
<td>Wage-setting should be more flexible to align wages with productivity at sectoral and firm level: increase scope to derogate from from sectoral collective agreement</td>
</tr>
<tr>
<td>RO More transparency in minimum wage setting</td>
<td>Clear guidelines are needed to better take into account underlying economic and labour market situation to strike a balance between facilitating employment and competitiveness on the one hand and safeguarding labour income on the other</td>
</tr>
<tr>
<td>SI Review mechanism for setting minimum wage</td>
<td>The inclusion of benefits and indexation of minimum wage leads to high minimum wage levels in relation to overall wage distribution</td>
</tr>
</tbody>
</table>

Source: Authors’ own compilation.
It is no surprise that the CSRs should have failed to adopt a new approach, as the 2016 Annual Growth Survey (AGS) (European Commission 2015a), which launches the European Semester process, also reiterates the message delivered by previous AGSs. In the field of wages and collective bargaining it is essentially a repeat of last year’s message that in order ‘to ensure high employment levels throughout the EU … real wages must continue to move in line with productivity’ (European Commission 2015a: 11). While, at first sight, this seems to suggest that the Commission finally acknowledges the important role of wages and aggregate demand for growth and employment, the statement is immediately qualified by the assertion that ‘wage-setting frameworks, including collective agreements, should allow a certain degree of flexibility for differentiated wage increases across and within sectors (European Commission 2015a: 11). Not only is this entirely in line with the decentralisation agenda pursued with the CSRs, but it means also that sectoral or even company-level productivity should, rather than national productivity, be the benchmark for wage increases. This approach could, however, lead to an increase in wage inequalities between workers in high-productivity sectors/companies and those in low-productivity sector/companies, and hence to a negative impact on growth and employment (ILO 2015). Such a policy of differentiated wage increases counteracts, to a certain extent, the Commission’s aim of creating a high level of employment.

Another key message of the AGS concerning the field of wages and collective bargaining is that, in this process of aligning real wages and productivity, ‘it is important that workers’ representation is ensured and that there is effective coordination of bargaining modalities between and across the various levels’ (European Commission 2015a: 11). Against this background, the decentralisation strategy pursued by the Commission in its CSRs is surprising because it undermines multi-employer bargaining as the most effective mode of bargaining coordination ‘between and across the various levels’. Nor is it clear what the Commission means by the term ‘workers’ representation’ since it avoids explicit mention of trade unions or trade union-related representation channels. This is suspicious in particular because the Commission, as part of the Troika, increased the scope for company-level agreements to be signed by non-union groups of employees which – in Greece, for instance – led to further wage cuts (see section 3.8).

As regards the main objective of ensuring that real wages develop in line with productivity, Figure 3.2. shows that this aim was fulfilled in the majority of cases in 2015. It should be mentioned, however, that Figure 3.2 compares real compensation per employee – which includes wages and salaries plus social insurance contributions payable by employers – with productivity defined as gross domestic product per person employed. In this context the terms compensation and wages are therefore used interchangeably. The comparison illustrates that, even though in 20 countries real wages grew faster than productivity, this was by only a small margin of below 2%. The only exceptions where real wages outstripped productivity increases by more than 2% are Hungary (2.2%) and the Baltic states – Latvia (2.7%), Estonia (4%) and Lithuania (5.2%).

Since between 2008 and 2014 average annual real wage developments lagged behind productivity growth (ETUI and ETUC 2015: 42), this catching up of real wages with productivity is good news for employees and for the economy as a whole, given that domestic demand is the key driver of growth and employment in Europe. For a sustained recovery, however, much more of the same will be needed.
The largely supply-side-oriented crisis management has an impact on equality and, in particular, gender pay inequality which – as Stiglitz (2016: 91-96) has shown for the US – is a major impediment to economic growth. Figure 3.3, which compares the non-adjusted gender wage gap in 2008 (before the crisis) with that in 2013 (during the crisis), illustrates two general developments: first, the gender wage gap actually decreased during the crisis in 19 out of 27 EU countries for which data is available. Yet the second main message of Figure 3.3. is that all the countries which at some stage during the crisis were in need of financial assistance and were, as a result, subject to surveillance by international institutions – such as, in particular, the Troika – show an increase in the gender wage gap since 2008. This applies to Romania, Portugal, Ireland, Latvia, Hungary and Spain, the only exceptions being Greece and Cyprus. For the former, the figures are to be treated with caution because the most recent Eurostat figures on the gender wage gap in Greece are for 2010 and thus do not take into account the dramatic austerity measures implemented in the public sector after 2010.

These divergent trends require further explanation. Why did the gender wage gap decrease in the majority of EU countries but not in the ‘crisis countries’? As Karamessini and Rubery (2014) have shown, the reasons are in each case multifaceted and highly country-specific in that they reflect national institutional and normative arrangements. However, with this caveat in mind, one explanation for the decrease in the gender pay gap is the strong link between the gap in the employment rate and the gender pay gap (Rubery 2015a: 729). At the beginning of the crisis in 2008 and 2009 most jobs were lost in construction and manufacturing which traditionally employ more men. Thus, the narrowing of the aggregate gender pay gap in the majority of EU countries is due more to a fall in men’s wages than to any improvements in women’s pay (Rubery 2015b: 62).

This applies equally to the countries in which the gender pay gap increased; but there the situation changed when the financial crisis turned into a sovereign debt crisis in 2010 and policies of austerity and neoliberal structural reforms replaced Keynesian policies in coping with the crisis. Three characteristics are shared by all the crisis countries with an increasing gender pay gap: first, all were forced by international institutions to reduce public expenditure by cutting public sector services, employment and wages. Since public sector employment in most countries is dominated by women, and since, furthermore, the majority of higher-educated women work in the public sector, these cuts contributed to increasing the gender pay gap (Rubery 2015b: 63). The second characteristic is the decision to cut or freeze minimum wages in particular in those countries that were under Troika surveillance. Since women and young people are overrepresented among the minimum-wage-earners, these cuts and freezes also increased the gender pay gap. And the third characteristic is the policies to dismantle multi-employer bargaining by pushing for a decentralisation of wage negotiations to the company level. The resulting decrease in collective bargaining coverage negatively affects the gender pay gap because, as research has shown, pay equality correlates positively with the collective bargaining coverage levels (Hayter and Weinberg 2011; Oelz et al. 2013; Pillinger 2014).
2015 was another good year for minimum wages. After years of declining real minimum wages during the crisis, last year’s edition of this report already alluded to the ‘end of minimum wage restraint’ (ETUI and ETUC 2015: 47); and the dynamic development continued in 2015. As Figure 3.4 illustrates, four different groups of countries can be distinguished. At the very top of the table are the two outliers Lithuania and Bulgaria with an increase in real minimum wages of more than 17%. The second group consists of ten countries with a real minimum wage increase ranging from 9% in Estonia to 3% in the United Kingdom. These fairly steep increases can be explained by the very low – or in the case of Lithuania and Bulgaria even negative – inflation rate in most countries. An additional factor stems from statistical effects in countries with a very low absolute minimum wage level (Schulten 2016a). What looks like a substantial increase in relative terms appears much less impressive when absolute values are considered. This applies in particular to the central and eastern European countries that account for the majority of countries in both groups. In the light of the still comparatively low absolute level of minimum wages, the large real wage increases can be seen as a continuation of the general catching-up process which, in most countries at the bottom of the minimum wage table, began in 2013.

Another factor that contributed to substantial increases in real minimum wages is increasing political pressure and corresponding initiatives for higher minimum wages in an effort to curb the high levels of in-work poverty (Schulten 2016b). The most obvious examples are the living-wage initiatives that emerged in the UK and Ireland in response to the inadequacy of the comparatively low minimum wages for preventing in-work poverty and enabling workers to maintain an adequate living standard. In both countries, the increasing success of the living-wage campaign – together with trade union campaigns such as the TUC’s ‘Britain needs a pay rise’ – played an important role in achieving the first substantial increase in real minimum wages after years of more or less stagnating or even falling real minimum wages.

Demands for increasing minimum wages have also repeatedly been raised by trade unions in many central and eastern European countries. In Poland, for instance, in 2011 Solidarnosc started a series of protests and other activities such as collecting signatures in support of its demand to raise the minimum wage to 50% of the national median wage – which was achieved in 2014 for the first time (Bernaciak 2015: 16).

The third group comprises six countries with modest real minimum wage increases ranging between 1.7% in Greece and 0.5% in Slovenia. In the cases of France, the Netherlands and Slovenia the moderate increase can be explained by the fact that these countries already have a high absolute or relative minimum wage level. In Greece and Spain the moderate increases are mainly the result of the deflationary environment with negative inflation rates, while in Latvia the moderate increase in 2015 follows two years of double-digit real minimum wage increases.

The fourth group of countries – consisting of Malta, Germany, Luxembourg and Belgium – show very moderate decreases in real minimum wages. In Germany, Luxembourg and Belgium this is because of the combined effect of inflation and a minimum wage freeze, whereas in Malta the 1% nominal increase was not enough to compensate for the inflation rate of 1.1%.

Dynamic real minimum wage development
The more dynamic minimum wage development is reflected also in the so-called ‘Kaitz Index’ as a measure of the relative minimum wage level. This index sets minimum wages in relation to the overall wage structure as a percentage of the national full-time median wage. The median wage is, in turn, the wage that divides the overall wage structure into two equal segments and therefore marks the boundary between the highest paid 50% and the lowest paid 50% of employees. Figure 3.5, which is based on the OECD Income Database, shows minimum wages as percentages of national median wages.

Since the most recent OECD data was only available for 2014, Figure 3.5 does not yet take into account the most recent real minimum wage increases of 2015. It does however reflect the fact that, already in 2014, minimum wage development was more dynamic than overall wage development. Compared to the 2013 figures (ETUI and ETUC 2015: 46), the Kaitz Index grew in the majority of countries with the exception of Lithuania, where in 2014 the Kaitz Index decreased by three percentage points. However, since in 2015 Lithuania showed the largest real minimum wage increase of all EU countries, this must be seen as a temporary phenomenon.

For the analysis of the Kaitz Index three definitions of wage thresholds are important. The first is the low-wage threshold which, according to the OECD and other international organisations, is set at two thirds of the national median wage (Grimshaw 2011: 4-5). The other definitions follow from the goal of ensuring that workers should not be dependent on the state – through tax credits or other in-work benefits – to ensure relief from poverty. Thus, in this respect, we define a wage that exposes employees to the risk of poverty at 60% of the national median wage and the poverty wage threshold at 50% or less of the national median wage. Against this background, Figure 3.5 shows that minimum wages in all EU countries apart from France and Slovenia lie below the ‘risk of poverty’ wage threshold of 60% of the national median wage and the poverty wage threshold of 50% or less of the national median wage. And in 10 out of the 19 EU countries for which data is available, the minimum wage fails even to top the threshold of 50% of the national median and must therefore be viewed as a poverty wage. In other words, in many countries the level of the minimum wage is insufficient to reduce the growing numbers of working poor (Schulten 2016a), though it must, of course, be remembered that the level of the minimum wage is not the only factor determining whether or not a person belongs to the working poor.

It should be stressed also that a high Kaitz Index may be attributable to entirely different reasons, as the six top runners in Figure 3.5 illustrate. It can, on the one hand, be an expression of an actually comparatively high minimum wage level, as is the case in France, Slovenia and Luxembourg. On the other hand, it may also be the (statistical) result of an extremely polarised income distribution with a high concentration of wage-earners at the bottom end of the wage scale – as in Portugal, Hungary and Romania (Schulten 2016a). Thus, even though the minimum wage is, in these last cases, almost 60% of the median wage, it still does not enable workers to make ends meet due to the low level of the median wage.

Figure 3.6 illustrates what it would mean in absolute minimum wage levels to raise the relative minimum wage levels in every country to 60% of the national median. Since the most recent information available on median wages was for 2014, the hypothetical minimum wage figures are for 2014.
Minimum wage developments

Figure 3.6 National minimum wage per hour 2016 (in euros)

Diversity in absolute minimum wage levels persists

Figure 3.6 shows that only in France, Slovenia and Portugal was the current minimum wage level in January 2016 above the level of what would have been 60% of the median wage in 2014. In all other countries substantial increases would be necessary even just to reach the ‘risk of poverty’ threshold. In most western European countries, the hypothetical minimum wage would be well above ten euros. According to calculations by Eurofound on the basis of EU-SILC and SES data for 2010, up to 16% of all employees in the EU would benefit from such an increase of the national minimum wage to 60% of the national median (Aumayr et al. 2014; 82ff). It should be mentioned that, for the following reasons, this Eurofound calculation most likely overestimates the number of employees concerned: it assumes full compliance; it does not take into account potential exceptions to the minimum wage as they exist in many countries, for instance for young workers; and it does not take into account potentially negative employment effects. However, even subject to these caveats, it is fair to suggest that the positive effect of such an increase for low-wage workers across Europe would be very substantial.

Right across Europe, initiatives to raise the minimum wage can be observed (Rieger 2016). The most prominent example was probably the announce ment made by the Conservative UK government in July 2015 that the current minimum wage will be replaced by an obligatory ‘national minimum living wage’ for employees aged 25 and above to be set at £7.20 (9.50€) an hour from April 2016 rising to about £9 (11.90€) by 2020 – thus reaching the target of 60% of the median wage. Even though it would represent a considerable step forward, this initiative is problematic, first of all, because the exclusion of workers aged below 25 would further increase the age-related pay gap; and, secondly, because the new obligatory national living wage would still be far below the independently established voluntary UK living wage which currently stands at £8.25 (10.90€) (Sellers 2015). Another major event influencing the minimum wage debate across Europe was the introduction of a national minimum wage of 8,50€ in Germany in January 2015. One year later, it is clear that none of the horror scenarios of up to one million job losses predicted by many economists actually materialised (Schulten and Weinkopf 2015). What we see, on the contrary, is a strong increase in wages in traditional low-wage sectors such as hotels, restaurants and catering, temporary agency work, social services, and transport – and an above-average growth of jobs in particular in these sectors that benefited most from the minimum wage (Amlinger et al. 2016). There has been a loss of 135,000 ‘minijobs’, i.e. jobs with maximum monthly pay of 450€ and where there is no obligation for employees to contribute to any social security scheme. However, according to Vom Berge et al. (2016), approximately half of the lost ‘minijobs’ have been turned into proper jobs with employees contributing to the social security scheme. Hence, the German minimum wage can so far be seen as a success story. The key question now is its adjustment at the beginning of 2017. Since one central guideline for the recommendation of the minimum wage commission is the development of collectively agreed wages, which grew by a total of 5.5% in 2014 and 2015, it seems reasonable to expect the German minimum wage to be increased to approximately 9€ (Amlinger et al. 2016). However, as Figure 3.6 illustrates, in order to reach the ‘risk of poverty’ threshold of 60% of the median wage, it would need to rise significantly above 10€.

Source: WSI Minimum Wage Database; Schulten (2016b). *no median wage data available.
Trends in collective bargaining systems across Europe

Continuing attacks on collective bargaining and union rights

Last year’s Benchmarking working Europe already reported on the ‘intensified decentralisation of collective bargaining’ more generally and the ‘de-collectivisation of labour relations in the south’ more specifically (ETUI and ETUC 2015: 48-49). The new development in 2015 is that the attack on collective bargaining and union rights intensified in countries – such as the United Kingdom, Finland and Belgium – which are not subject to European interventions in the context of financial assistance programmes. However, the most dramatic developments can still be found in the southern European countries that were exposed to the measures prescribed in the memorandums of understanding. Figure 3.7 illustrates the general trend of the decreasing significance of collective agreements as a regulatory tool and the break-down of multi-employer bargaining. In Greece, for instance, the number of newly concluded branch-level agreements decreased from 230 in 2008 to merely 22 in 2014. At the same time, the number of company agreements stayed roughly the same with 230 in 2008 and 286 in 2014. The sharp increase in the number of newly concluded company agreements in 2012 and 2013 was a temporary phenomenon that can be explained by the new legislation introduced in October 2011. This essentially abolished the favourability principle and enabled companies to conclude company-level agreements with non-union workers’ representatives in order to cut wages. As a consequence, more than 70% of the 976 company agreements in 2012 were concluded by non-union representation structures and more than three quarters of these agreements contained wage cuts (Koukiadaki and Kokkinou 2016: 176; Schulten 2015: 4).

In Portugal the number of newly concluded sectoral and multi-employer agreements virtually collapsed from 199 in 2008 to 45 in 2013 mainly due to more restrictive rules for the extension of collective agreements. Since the change to the extension rule in June 2014 in response to growing criticism from both trade unions and employers’ associations, the number of newly concluded industry agreements increased slightly to 72 (Schulten et al. 2015: 386; Távora and González 2016: 365). However, even though the number of both company and higher-level agreements increased in 2014, the number of workers covered by these newly concluded agreements remained at an all-time low of 200,000 – compared to 1.7 million in 2008 before the crisis (Schulten et al. 2015: 376). While in Portugal there are weak signs of a recovery of collective bargaining, in Spain the number of registered collective agreements is still declining. Overall, however, the decrease since the beginning of the crisis has not been as dramatic in Spain as in Greece or Portugal. According to Cruces et al. (2015: 111), this can be explained by the manifest interest of the two sides of industry in maintaining collective agreements in exchange for substantial modifications in wages and working time.

Even though the attack on collective bargaining and union rights was most pronounced in the southern European crisis countries, what we can see is that the attacks have now spread to the UK, Finland and Belgium. Where next?
Since the late 2000s, collective bargaining systems in Central-Eastern European (CEE) countries have followed very different trajectories. Changes observed are the reflection of national industrial structures and regulatory frameworks, long-term trends and path dependencies, as well as government policies implemented during the downturn.

In both Romania and Hungary collective bargaining institutions and practices were significantly altered as a result of direct political intervention. Romania’s 2011 Social Dialogue Act abolished the single national agreement and redefined the sectoral bargaining level (Trif 2016), while in Hungary the Fidesz government restricted employee rights to stage industrial action, limited legal protection for trade union officials, and allowed collective agreements and employment contracts to deviate from labour law in favour of the employer (Krén 2013). Both countries introduced stricter representativeness criteria for social partners; they also weakened national-level social dialogue by depriving their tripartite bodies of important consultative rights and extending their membership to civil-society organisations.

In the Czech Republic, Poland, and Slovakia, the incidence of plant- and sector-level bargaining increased during the crisis. Forced temporarily to cut back production in view of the declining export opportunities, employers and trade unions concluded special agreements on production stoppages, short-time working and increased working time flexibility. In all three countries plant-level bargaining was further encouraged by legislation stipulating that measures to increase working time flexibility had to be agreed with the trade unions or worker representation bodies at a given site. All in all, the agreements helped avoid large-scale dismissals and stimulated dialogue between unions and management. On the negative side, they cemented pre-crisis patterns of labour market segmentation by limiting employment protection to permanent workforces (Kahancová 2013; Myant 2013).

Despite the modest revival of company-level negotiations in the three Visegrád states, most CEE countries recorded a decrease in trade union density and collective bargaining coverage rates. In the Baltic states, the – already far-reaching – decentralisation and de-collectivisation of labour relations accelerated as a result of tough austerity measures. While in Bulgaria union density rose slightly in 2010–2012, this seeming progress was due in fact to growing unemployment and a corresponding increase in the number of union members relative to the working population (Tomev 2014). In Slovenia, the crisis of collective labour relations was not driven by the crisis per se, but constituted part of an incremental process of liberalisation that had been underway for more than a decade. Even so, between 2007 and 2010, breaches in collective agreements increased more than fivefold (Krašovec and Luzar 2013) and the terms of agreements became less favourable (Stanojević and Mrčela 2016).

In the neighbouring Croatia, where bargaining coverage seems to be returning to pre-crisis levels (Bejaković 2015, citing Bagić 2015), the bargaining climate is marked by recurrent conflicts between the government and the social partners. The ongoing decentralisation of CEE industrial relations does not bode well for the future of collective wage determination in the region. It seems that, insofar as collective bargaining takes place at all in new EU member states, it will be mainly in the form of localised, plant-level deals based on concessions or deals between employers and their workers that are guided by the need for greater flexibility in view of competitive pressures and market fluctuations.

Collective bargaining in CEE: an endangered species?

Since the late 2000s, collective bargaining systems in Central-Eastern European (CEE) countries have followed very different trajectories. Changes observed are the reflection of national industrial structures and regulatory frameworks, long-term trends and path dependencies, as well as government policies implemented during the downturn.

In both Romania and Hungary collective bargaining institutions and practices were significantly altered as a result of direct political intervention. Romania’s 2011 Social Dialogue Act abolished the single national agreement and redefined the sectoral bargaining level (Trif 2016), while in Hungary the Fidesz government restricted employee rights to stage industrial action, limited legal protection for trade union officials, and allowed collective agreements and employment contracts to deviate from labour law in favour of the employer (Krén 2013). Both countries introduced stricter representativeness criteria for social partners; they also weakened national-level social dialogue by depriving their tripartite bodies of important consultative rights and extending their membership to civil-society organisations.

In the Czech Republic, Poland, and Slovakia, the incidence of plant- and sector-level bargaining increased during the crisis. Forced temporarily to cut back production in view of the declining export opportunities, employers and trade unions concluded special agreements on production stoppages, short-time working and increased working time flexibility. In all three countries plant-level bargaining was further encouraged by legislation stipulating that measures to increase working time flexibility had to be agreed with the trade unions or worker representation bodies at a given site. All in all, the agreements helped avoid large-scale dismissals and stimulated dialogue between unions and management. On the negative side, they cemented pre-crisis patterns of labour market segmentation by limiting employment protection to permanent workforces (Kahancová 2013; Myant 2013).

Despite the modest revival of company-level negotiations in the three Visegrád states, most CEE countries recorded a decrease in trade union density and collective bargaining coverage rates. In the Baltic states, the – already far-reaching – decentralisation and de-collectivisation of labour relations accelerated as a result of tough austerity measures. While in Bulgaria union density rose slightly in 2010–2012, this seeming progress was due in fact to growing unemployment and a corresponding increase in the number of union members relative to the working population (Tomev 2014). In Slovenia, the crisis of collective labour relations was not driven by the crisis per se, but constituted part of an incremental process of liberalisation that had been underway for more than a decade. Even so, between 2007 and 2010, breaches in collective agreements increased more than fivefold (Krašovec and Luzar 2013) and the terms of agreements became less favourable (Stanojević and Mrčela 2016).

In the neighbouring Croatia, where bargaining coverage seems to be returning to pre-crisis levels (Bejaković 2015, citing Bagić 2015), the bargaining climate is marked by recurrent conflicts between the government and the social partners. The ongoing decentralisation of CEE industrial relations does not bode well for the future of collective wage determination in the region. It seems that, insofar as collective bargaining takes place at all in new EU member states, it will be mainly in the form of localised, plant-level deals based on concessions or deals between employers and their workers that are guided by the need for greater flexibility in view of competitive pressures and market fluctuations.
Patterns of protest and worker action

Sustained cross-national diversity

The line graphs in Figure 3.9 depict the weighted average of strike volume in the EU17 and EU28, both together with Norway and Switzerland – or at least including those countries for which data is available. Using the most recent figures, the data series start in 1995 and end in 2004 – the latest year for which data is available for most countries. The bar graphs show countries’ average volume in the 2005-14 period and compare their volume with the average of the previous decade.

First, the number of countries covered by strike data has fallen since 2007/8. While under-estimation of strike activity is an old methodological problem, this remark is especially pertinent for the crisis-hit countries in southern Europe. Data is lacking since 1999 and 2009 for Greece and Italy respectively; while data has always been lacking for strikes in the public administration in the Portuguese case, there is no data at all for 2008 and 2009; and certain public sector and general strikes in Spain have been excluded in 2010, 2012 and 2013. It can thus be believed that the volume for these aforementioned countries is clearly underestimated, particularly since the Recession, and that the weighted average of the European volume would rise if the missing data could be taken into account. This is especially the case as southern Europe can be labelled the geographical epicentre of social protest (Schmalz et al. 2015) since the Recession, and Greece, Italy and Spain were previously and consistently ‘above-average countries’ in the European ‘strike league table’ (Vandaele 2011).

Secondly, the ‘workers’ action repertoire’ should be taken into account for explaining the continuing cross-national variations in volume. In particular, as this repertoire shapes types of social protest, general strikes are historically restrained or simply forbidden (Kelly 2015). In countries where political mass strikes are restricted, social protest will, in all likelihood, be expressed via types of collective action other than general strikes. The CEE countries in Figure 3.9 demonstrate this point: when these countries are taken into account, the European weighted average in volume is lower for nearly all years. Yet in several – though not all – of the CEE countries, governments’ post-Recession neoliberal-inspired austerity measures put an end to quiescence and prompted demonstrations, a form of protest that now dominates the action repertoire (Beissinger and Sasse 2014).
The economic crisis brought important changes in respect of the intensity and forms of protest in new EU member states. Beissinger and Sasse (2014), analysing major protests that took place in CEE between 2007 and 2010, show, first, that ‘hard times’ brought a general decline of contentious action in CEE. Yet this trend was not equally pronounced across all spheres of activity. In particular, economic protests remained frequent, and their relative share in the overall pool of contentious events grew at the expense of protests addressing national political or ethnicity-related issues. As shown by Figure 3.10, economically motivated protests accounted for the majority of contentious events in most new EU member states and in CEE as a whole; they also attracted a lion’s share of protest participants. Secondly, the above authors point to a shift in the form of protests motivated by economic grievances. While strikes and demands for the improvement of employment conditions became less frequent, demonstrations against government-led austerity not materialise in the foreseeable future. It is likely that, with this realisation, CEE societies have reached the limits of their ‘collective patience’; demands for a change of the neoliberal policy paradigm have consequently become increasingly vociferous across the postcommunist region (Bernaciak, forthcoming).

Finally, even though the role of economic protests increased in CEE as a whole, there were important cross-country differences with regard to the frequency of economic protests and protest participation rates. As shown by Beissinger and Sasse (2014), states less affected by the crisis recorded fewer protests. Within the more affected group, contentious action was frequent in states that had been most zealously liberalising their economies before the crisis; those that had featured low levels of societal trust in government’s effectiveness before the downturn; and those with a high share of public sector employment.

Císař and Navrátil (2015) point, additionally, to the relation between contentious politics and the dominant axis of political conflict, arguing that in countries in which socioeconomic issues do not constitute an important cleavage in political debate, citizens’ grievances are more likely to be voiced through protest actions.

In more general terms, the growing extent of economically motivated societal discontent may signal the limits of the policy of belt-tightening, followed in the post-communist region since the outset of the systemic transition and presented by CEE politicians as an essential prerequisite for growth and ‘catching-up’ with Western European standards in the future (Šćepanović 2015). With the outbreak of the economic crisis in the late 2000s, it became clear that, despite far-reaching sacrifices, the long awaited ‘upward convergence’ towards West European social norms and employment standards would not materialise in the foreseeable future. It is likely that, with this realisation, CEE societies have reached the limits of their ‘collective patience’; demands for a change of the neoliberal policy paradigm have consequently become increasingly vociferous across the postcommunist region (Bernaciak, forthcoming).

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In the literature of political economy, the increasing role of mass anti-austerity protests in CEE has been interpreted in different ways. Beissinger and Sasse (2014) view this trend as a sign of weakness of CEE pressure groups, a turn away from proactive action towards mere reduction of the social damage caused by the cutbacks. Greskovits (2015), by contrast, considers the shift to be a logical development, arguing that, in the absence of effective channels of employee interest representation, grievances in new EU member states are likely to be expressed with reference to citizenship rather than workers’ rights, and to be voiced during public protests gathering together individuals, unions and civil society organisations.

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A brave new world of economic protest in CEE?

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Patterns of protest and worker action

A shift in locus

In the former social protest cycle of 1968-74 factory-level strike action in manufacturing industry was central (Dubois 1978). Today, the locus of social protest has undergone significant change. As most national governments in Europe are sacrificing the public sector on the altar of neoclassical fiscal orthodoxy, the prevalence of anti-austerity protest and resistance, including strikes, in this sector has, not surprisingly, clearly distinguished the current protest cycle (Bermeo and Bartels 2014).

Not that this locus of protest is novel; it is part of a long-term trend, as public sector militancy emerged during the former cycle (Hyman 1978) and continued through the following decades (Gall 1999, 2013). As in the past, the current public sector strikes have been primarily defensive in nature, aimed at seeking a direct political exchange with governments. However, it is still an open question whether or not this action has been effective in moderating the austerity packages and challenging the political authorities in post-democratic societies, at least in the short run. In contrast with the previous cycle, when ‘political unionism’ (Gentile 2015) was in its heyday and contributed to strengthening corporatist arrangements, in the present climate political exchange has been limited (Hyman 2015).

Figure 3.11 shows the average public sector share in the strike volume for two decades: 1995-2004 and 2005-2014. Unfortunately, since strike data and detailed sectoral data after 2007/8 are (far) less available, especially for the crisis-hit countries of southern Europe, the number of countries included in Figure 3.11 is limited. Even so, it displays some important findings. First, the average share of public sector strikes (further) increased in several countries during the 2005-14 period. Secondly, national variation in the share is also apparent, attributable perhaps in part to the interplay between different modalities affecting the right to strike in the public sector and adjustments in public employment regimes (Gottschall et al. 2015).

Thirdly, public sector strikes are clearly in the ascendancy in the case of the UK. Such large-scale one-off strikes explain also the changed UK strike pattern (Lyddon 2015). The predominance of public sector strikes, involving large numbers of workers, is reflected in the strong increase in workers’ propensity to strike and the average size of the strike, whereas the average duration of strikes decreased. Over time, strike frequency and volume in the UK has declined considerably and it remains at a historic low; and yet, incomprehensibly under the circumstances, the Cameron government wants to further curb the right to strike via the controversial Trade Union Bill.

Admittedly, it cannot be denied that public mass strikes, particularly in public transport, can have a very disruptive capacity in affecting ‘third parties’, i.e. the users of public services (Bordogna and Cella 2002). At the same time, hinting at a substitution effect, a shift in the UK action repertoire has developed: the proportion of strikes has been reduced alongside a corresponding increase in demonstrations, a trend that has become even more pronounced since the Great Recession (Bailey 2013).

Given continuing adjustments in public employment regimes, it is very likely that industrial unrest will continue. The form that it will take is dependent on the statutory and/or institutionalised resources that workers have to hand (Gentile and Tarrow 2009). State strategies for suppressing these resources, particularly by introducing stricter strike regulation and minimum or guaranteed services in so-called ‘essential’ public services, might further serve to shape an action repertoire favouring other tactics and actions over strikes. At the same time, unions face an enormous task not only in seeking to overcome an internal (potential) private sector-public sector divide, but also in the effort to deploy a more virulent citizens’ repertoire in terms of discourse and alliance-building strategies.
Efforts to protect trade union and workers’ rights through litigation continue

In the wake of developments reported in previous editions of Benchmarking working Europe, over the past year once again both trade unions and individuals have continued to contest, before European and national judicial or non-judicial bodies, the onslaught on fundamental trade union and workers’ rights entailed by various aspects of austerity measures (for more details see ETUI and ETUC 2014: 65-67; ETUI and ETUC 2015: 53-55). An overview of some of the most significant cases is provided below. We begin with cases brought before the Court of Justice of the European Union (CJEU), continue with cases of alleged violation of the Council of Europe’s European Convention of Human Rights and European Social Charter, and finally present a selection of cases brought before high-level national courts. The key issues at stake have been protection of workers on atypical contract, cuts in various kinds of social benefit, and government intervention in wage-setting.

At the European level, in the EU context, the CJEU had to rule on a case in which an employee contested whether an ‘open-ended employment contract to support entrepreneurs’, subject to a one-year probationary period during which the employee may be summarily dismissed, is compatible with Article 30 of the EU Charter of Fundamental Rights (‘protection in the event of unjustified dismissal’) and Directive 1999/70 of 28 June 1999 concerning the framework agreement on fixed-term work concluded by the ETUC, UNICE and CEEP. This new form of contract was introduced by Spanish Law 3/2012 of 6 July 2012 on urgent measures for labour market reform in order, in the wake of the economic crisis, to foster open-ended employment and promote job creation. The law in question was influenced by various EU employment policy decisions and recommendations. Unlike the referring court that considered this new form of contract to be contrary to the goals of the Directive, the CJEU did not regard it as a fixed-term contract; as such it fell under the scope of neither the Directive nor EU law in general (C-117/14 G.J. Nistahaiz Poclava v. J.M. Ariza Toledano, judgement of 5 February 2015). Secondly, reference can be made to a request for a preliminary ruling by the German Federal Labour Court on the impact of Greek austerity measures on the labour contracts of a Greek teacher working in a Greek school in Germany. In this case the CJEU has not yet issued a ruling and, although the questions raised do not relate directly to the conformity of Greek austerity measures with EU law but rather to the impact of labour contracts outside Greece, it will be of interest to see the CJEU views on the question (C-135/15 Hellenic Republic v Grigorios Nikiforidis, lodged at the CJEU on 20 March 2015).

Still in the European context, but at the level of the Council of Europe, the following new developments are worth highlighting. First of all, the judgment of the European Court of Human Rights (ECtHR) in a case against Hungary in which a Hungarian national considered that a new law on disability allowances (Application n° 13341/14 da Silva Carvalho Rico v Portugal). The complaint was declared inadmissible by the Court. Ms. da Silva Carvalho Rico, belonging to a public-sector pension scheme, saw her pension reduced because of a so-called ‘extraordinary solidarity contribution’ (‘CES’) introduced by the Portuguese government in the framework of the 2011 Memorandum of Understanding with the Troika. The ECtHR considered that in the overall public interest of Portugal in times of financial crisis the CES was a proportionate restriction, considering also the limited and temporary nature of the measure.

In the context of the European Social Charter of the Council of Europe, and in the specific framework of the collective complaints procedure, the collective complaint 111/14 to which we referred last year (ETUI and ETUC 2015: 53) was found admissible. This complaint, lodged by the Greek trade union GSEE, alleged that provisions of the new legislation enacted as part of the austerity measures adopted in Greece affected different workers’ rights (e.g. the right to work, the right to fair conditions of work, and the right to fair remuneration). Since last year’s edition of this Benchmarking working Europe report, three more complaints relating to ‘crisis/austerity measures’ have been lodged, all of them by trade union(6) sections. In particular, a complaint against Italy alleges a violation of the right to social security and workers’ right to protection of their claims in the event of insolvency of their employer (Complaint 113/2014 Unione Italiana del Lavoro U.I.L. Scuola – Sicilia v. Italy). Secondly, a complaint against Croatia alleging that Act No. 143/2012 on Withdrawal of Certain Material Rights of the Employed in Public Services violates the right to organise and the right to bargain collectively (Complaint 116/2015 Matica
Wages and collective bargaining: light at the end of the tunnel?

3.

Collective organisation and action of workers

Figure 3.12  Litigation actions at international/European level

Source: ETUI own research; the countries coloured concern cases brought against austerity measures not necessarily limited to cases related to changes to IR/CB and wage-setting systems.

Figure 3.13  National litigation actions (constitutional court, human rights commissions, ombudsmen, referenda, etc.)

Source: ETUI own research; the countries coloured concern cases brought against austerity measures not necessarily limited to cases related to changes to IR/CB and wage-setting systems.
hrvatskih sindikata v. Croatia). Finally, a complaint against France alleges that conditions imposed by the French legislation on supplementary social protection of employees violate the right to bargain collectively (Complaint 118/2015 Confédération Générale du Travail Force Ouvrière (CGT-FO) v. France). In the meantime, all three complaints have been declared admissible by the ECSR (all documents relating to these complaints can be found at the Council of Europe European Social Charter website).

The ECSR also published in January 2016 its ‘2015 Conclusions’ based on national reports pertaining to the reference period 2010-2013. The conclusions in question relate to vulnerable groups like children/young persons (articles 7 and 17), families (articles 8, 16 and 27) and migrant(s) workers (article 19). With the economic crisis still very present during the reference period, the ECSR found no less than 277 violations of the Charter provisions in 31 states. The conclusions are particularly interesting in relation to posted workers (and their rights to equal treatment in relation to remuneration, other employment and working conditions, trade union membership and enjoyment of the benefits of collective bargaining). With reference to article 19§4a and b), the ECSR found that practices in Cyprus, Slovenia and Sweden, among others, ran counter to the provisions of the Charter (Council of Europe 2016a, b).

At the national level, finally, the following cases are worthy of mention. In Belgium, the Conseil d’État rejected a claim by the Flemish and Walloon metalworkers’ trade unions to annul a Royal Decree by which the government imposed a complete freeze wage for the period 2013-2014 (Conseil d’Etat, judgement no 230.207 of 13 February 2015). According to the Conseil d’État, this wage freeze did not represent an infringement of the right/freedom of collective bargaining. Also in Belgium, the national trade union confederations CSC, FGTB and CGSLB launched a case in relation to recently adopted laws providing for wage moderation measures that temporarily prohibited wage increases by linking them to consumer price indexation. In Italy, the Constitutional Court ruled as unconstitutional legislation limiting the annual revaluation increase for old-age pensions for larger pensions, allowing the full increase only to pensions up to three times the minimum INPS pension as unconstitutional. The Court’s ruling was based principally on the argument that, whilst the right to an adequate pension was not absolute, any sacrifice in the name of budgetary requirements must be justified in detail (Italian Constitutional Court, judgement 70/2015).

The various examples mentioned above show that, while the fight against austerity via litigation remains a painstaking exercise, it is one in which successes can and are being gained. Furthermore, it would appear, by and large, that is still principally the CJEU that continues to find novel arguments for not condemning austerity measures ordered by the EU institutions (and implemented by the member states) as violations of fundamental social rights even where such rights are enshrined in the EU Charter of Fundamental Rights. Yet this stance should not discourage trade unions across Europe from continuing and even enhancing their litigation strategies, employing, to this end, all possible international and European forms of recourse to justice in the effort to protect fundamental trade union and workers’ rights (see different contributions in Bruun et al. 2014).
Conclusions

Few grounds for optimism

The foregoing analysis has shown that, after years of real wages lagging behind productivity growth, in 2015 real wages in the majority of EU countries grew at a slightly stronger rate than productivity. What we saw also was that real minimum wages increased in the majority of countries – at a rate that often even exceeded the general growth in wages. What is more, it is possible to observe a growing awareness among trade unions and their members of the need for a fundamental change of approach in relation to wages, collective bargaining and workers’ rights. The clearest signs of this growing awareness – or at least of discontent with the current policy of internal devaluation and structural reforms – are: (1) diversification of workers’ repertoire of actions in the light of continuing attempts to limit the right to strike; (2) a rise in economically motivated protest in CEE countries against government-led austerity policies and (3) continuation of legal action against austerity measures and attacks on trade unions’ and workers’ rights.

Is there then some light at the end of the tunnel? Are these the first signs of a re-orientation of the Commission’s policy stance, signifying an end to the previous form of crisis management driven, in the field of wages and collective bargaining, principally by considerations of improving cost competitiveness through internal devaluation? Unfortunately, there are limited grounds for optimism. First of all, the real wage increases observed were greatly facilitated by the deflationary environment in the EU with zero inflation or even negative inflation rates in some countries. Since in most cases the development of real wages exceeded productivity growth by only a small margin, we are still a long way from the pursuit of a more expansive wage policy that would not only follow the combined growth of inflation and productivity but would also include a redistributive component so as to increase the wage share and, in doing so, boost aggregate demand (Bispinck et al. 2008).

Another reason for a less than optimistic answer to the questions just asked is that the political environment at both European and national level is hardly conducive to a policy change more generally or, more specifically, to a demand-oriented change of wage policies. At the European institutional level, the analysis has shown that, despite the lip-service paid in its studies to the need to embrace a more demand-side-oriented view of wages, when it comes to concrete policy suggestions such as the Country-Specific Recommendations, the Commission continues to pursue its strategy of promoting internal devaluation and neoliberal structural reforms. An equally discouraging initiative is the so-called ‘Five presidents’ report’ with its proposal to establish a euro-area system of national competitiveness authorities with the explicit goal of assessing whether wages are evolving in line with productivity and of issuing opinions to be used by national collective bargaining actors as guidelines during wage negotiations (Juncker et al. 2015: 8). Even though this proposal was to some extent watered down in a later Commission recommendation (European Commission 2015b), the intention clearly is to continue the policy model of European wage policy interventionism (Schulten and Müller 2015) by further increasing the scope of European policy-makers to intervene in national collective bargaining and industrial relations systems in order to push through the policy of internal devaluation (Janssen 2015).

Additional alarming signs in terms of attacks on collective bargaining and trade union rights come even from countries which are not directly subject to European intervention. Examples here are (1) Finland, where in autumn 2015 the new centre-right government threatened to bring in legislation introducing far-reaching cuts in social benefits and wages with the ultimate goal of increasing the country’s cost competitiveness by reducing unit labour costs by at least 5% – unless the two sides of industry reach an agreement to the same effect; (2) the United Kingdom where the Conservative government aims to introduce the so-called ‘Trade Union Bill’ with far-reaching implications for the right to strike and trade union activities in the public sector; and (3) Belgium, where in April 2015 the liberal-conservative government introduced the so-called ‘wage index jump’ which essentially suspended the wage indexation mechanism previously in force.

All these examples from the European and national levels indicate that the political framework conditions are, at the present time, not in the least conducive to a change of approach to wages, collective bargaining and trade union rights. Yet such a change is not only an economic necessity given that domestic demand is the key driver of economic performance within the EU (Müller et al. 2015), in the light of the growing disaffection of European citizens from the ‘political’ Europe represented by its institutions and their policies, it is becoming ever more apparent that the financial and economic crisis is turning increasingly into a political crisis. The clearest indication of this disaffection can be seen in the southern European ‘crisis countries’ that were hardest hit by the internal devaluation approach imposed by the Troika. According to Eurobarometer surveys, the level of trust in the EU in Greece, Spain and Portugal has plummeted since the beginning of the crisis (Müller 2015). While caution is naturally required in claiming a direct causal relationship between EU crisis management and the crisis in political confidence, this is nonetheless a strong pointer towards a growing disaffection with the ‘political’ Europe. It is also clear that, in the longer term, such increasing disaffection will ultimately jeopardise the European integration project as a whole – because as Fischer-Lescano has pointed out: ‘without social stability, there can be no economic and financial stability in the European Union’ (2014: 5). An essential building block in overcoming the political crisis of confidence in Europe is a change of approach towards European crisis management more generally and towards wages, collective bargaining and trade union rights more specifically.
A social Europe needs workers’ participation

Introduction

Within the array of challenges and opportunities that face Europe today, some are new, while others are quite familiar. Whether the challenges lie in mastering technological advances, responding to sluggish economic performance, or coping with the pressures of deregulation, workers’ rights – and in particular the processes of involvement and social dialogue – are an essential part of managing the present and shaping the future.

This chapter opens with a summary and update of the impact and progression of the Commission’s REFIT programme, particularly in the area of collective rights to information and consultation, or individual rights in employment contracts, for example, as well as in relation to a suite of occupational health and safety protection legislation. Turning to the contribution of the social partners, we highlight the results achieved to date, in the social dialogue at both cross-sectoral and sectoral levels, with regard to managing technological changes. Recent findings on European Works Council (EWC) agreements and legislation are complemented by a focus on the potential of EWCs to play a role in improving occupational health and safety protection. Finally, we explore the contribution of workers’ participation to sustainable companies and to the Europe 2020 strategy.

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How far can workers’ rights resist the unprecedented review of EU law?

The European Commission’s 2015 Work Programme centred on the issue of implementing and deepening the Better Regulation Agenda; this focus is intensified still further in the 2016 Work Programme.

The aim of the exercise is to eradicate unnecessary administrative and regulatory costs in each and every piece of EU law. Chiefly, this is to be achieved via the evaluation of EU Directives according to a range of methods, starting from the standard cost/benefit analysis up to the multi-criteria analysis (ETUI and ETUC 2015). This approach flies in the face of the fact that experts have already demonstrated the inappropriateness of the methodology – especially of the standard cost model – to accurately assess the social impact of legislation and of OHS legislation in particular (Vogel and Van den Abeele 2010:13-18).

This unprecedented review of the legislative acquis communautaire affects labour law in particular. In 2015 the REFIT initiatives were numerous. The evaluation of the Written Statement Directive of 1991, which lays down information obligations for employers in relation to employment contracts, has been launched as an ex-post evaluation. The objective is to assess the compliance, relevance, effectiveness, efficiency and coherence of the Directive. It thus seeks also to identify its EU added value, in particular in respect of the two objectives of the Directive: 1. to provide employees with improved protection against possible infringement of their rights and 2. to create greater transparency on the labour market.

No impact assessment is planned yet, however. The evaluation will include ‘an examination of any amendment to the Directive or other actions that prove to be necessary in order to achieve the objectives assigned to the Directive’ (Roadmap 2016). This evaluation is currently being carried out by an external consultant and should be finalised by October 2016. It is complemented by interviews with key EU-level stakeholders, including the European institutions and the EU Social Partners (the European social partners were already interviewed in spring 2015). Finally, a 3-month open public consultation will be launched in January 2016.

The Commission has also set its sights on the REACH legislation which aims to improve the protection of human health and the environment through four processes, namely the registration, evaluation, authorisation and restriction of chemicals. A Fitness Check of the most relevant chemicals legislation not covered by REACH, as well as related aspects of legislation applied to downstream industries, was launched in 2015. In parallel, a REFIT will be carried out in 2016, the aim being to develop legislative initiatives under the aegis of REACH. The Commission is also expected to issue an implementing regulation on simplifying the authorisation procedure under REACH, as well as a Commission Implementing Regulation on transparency and cost-sharing in substance information exchange fora (SIEF) under REACH. Finally, the formal evaluation is expected to be launched for completion in 2017.

Concerning the REFIT of the 24 Occupational Health and Safety Directives launched in 2015, the final report of the external consultancy agency is expected to be published in 2016, together with a Commission communication.

The REFIT ex-post evaluation of Council Directive 79/7/EEC on the progressive implementation of the principle of equal treatment for men and women in matters of social security was carried out in 2015 via a questionnaire sent to all member states. This method was complemented by an evaluation, by an external contractor, of EU28 national social
security systems with a view to gaining an understanding of how the Directive has been transposed and to developing recommendations in view of the possible modernisation of the Directive. Its final report was expected in December 2015. In addition a public consultation, in which the ETUC took part, was finalised by 15 December 2015.

The REFIT Evaluation was conducted in 2015 on the Directives on part-time work (1997) and fixed-term work (1999). So far, no information has been published on the outcome of this evaluation.

Turning to the 2016 REFIT initiatives, new initiatives will address the evaluation within the labour mobility package of the targeted revision of the Directive on the posting of workers and the revision of Regulations on social security coordination. Furthermore, the Commission intends to evaluate the scope, the essential health and safety requirements and their links with the related conformity assessment procedure of the lifts directive of 1995.

In the framework of the implementation of the Digital Single Market (DSM) strategy adopted in May 2015, initiatives aim at ‘breaking down national silos in telecoms regulation, in copyrights, and data protection legislation in the application of competition law’. Five REFIT exercises will take place with respect to new legal propositions on digital contract rights, copyrights, geo-blocking, free flow of data, and cloud computing. Furthermore, a review of telecom regulations will take place, particularly with respect to the reform of the Regulation and Directive on data protection.

Turning to workers’ rights in the digital economy, following an EU public consultation on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy, the ETUC (2015) stressed that it is of the utmost importance to acknowledge that phenomena like cloud working, crowd sourcing and digitalisation are revolutionising the workplace. It is therefore essential to pass legislation to identify a liable employer. For this purpose, the ETUC emphasises the need to elaborate a proper definition of ‘Online platform’ so as to recognise that in some cases, depending on the set of circumstances, an online platform may constitute an employment relationship involving an employee or an economically dependent self-employed worker or in other circumstances a labour market intermediary (employment agency).

Furthermore, the ETUC stresses the need to protect freelance digital workers such as economically dependent self-employed workers and to introduce EU regulation of online platforms aimed at enabling the enforcement of employment rights, including the right to bargain collectively for decent pay, and ensuring that the various online platforms, alongside cloud working and collaborative working, do not become a vehicle for tax avoidance and the non-payment of social security (ETUC 2015).
Refitting workers’ rights: progress and setbacks

European sectoral social dialogue at the front to secure sustainable information and consultation rights

To follow up on the European Commission’s ‘Better Regulation Agenda’ (ETUI and ETUC 2015), the Commission had been expected in 2014 to launch a consultation of the European social partners following the REFIT of Directives dealing with information and consultation of workers. It was not until 10 April 2015, however, that the European Commission announced its intention to embark on the first phase of a social partner consultation on the possibility of recasting in a single text three Directives dealing with workers’ information and consultation: the General Framework Directive 2002/14/EC, the Collective Redundancies Directive 98/59/EC, and the Transfer of Undertakings Directive 2001/23/EC.

The follow-up of this procedure has been most probably placed on hold in order to accommodate the initiative taken by the European sectoral social dialogue partners of the public services to start negotiations, as allowed by the EU Treaty, on one of the outcomes of the REFIT, namely to include public services in the remit of the Directives on information and consultation; this would extend the practical effect of the Directives to cover a significant proportion of the workforce. This most important aspect has been reiterated in the ETUC’s reply to the 1st stage consultation on June 2015.

An additional reason to launch negotiations has been the impact of the austerity measures on public administration and in particular the drastic pay freezes, cuts in wages and jobs, leading to approximately one million lost jobs, but also changes to contractual arrangements and working conditions.

Based on this shared evaluation, trade unions and employers of central administration were convinced that public administration should be able to better tackle such restructurings via a better information and consultation of the workforce and should therefore build on the outcome of the REFIT on the information and consultation to overcome the current shortcomings of the EU legislation so as to consolidate public employees’ rights on information and consultation and adoption of a legally binding European framework on information and consultation to public administration and to improve restructuring at the national level of public administration.

Outcome: On 21 December 2015, a landmark agreement was reached between representatives of the Trade Unions National and European Administration Delegation (TUNED) and the European Union Public Administration Employers (EUPAE). It sets out a general framework of common minimum standards on the fundamental right for the information and consultation rights of public workers in central government administrations, including restructuring, work/life balance, working time and health and safety.

The agreement on rights for central government employees is based on the Directive establishing a general framework for informing and consulting employees in the European Community (2002/14/EC). It extends its scope of application not only to civil servants but also to contractual employees in public administration; it widens furthermore the material scope of information to working conditions, work organisation, training, gender, social protection and remuneration and the scope of consultation obligations’ to health and safety, working time, work-life balance and restructuring. It gives a broad definition to restructuring; finally, it clearly identifies the specific role of trade unions in managing restructuring. The agreement does not, however, foresee any participation of trade union representatives in European sectoral social dialogue at the front to secure sustainable information and consultation rights
the form of negotiating agreements, as is proposed in the directive.

**Follow up:** The next step appears a most challenging one, as the European sectoral social partners have jointly requested the Commission to pass the agreement to the Council for adoption, so that it can be turned into a Directive in line with articles 154-155 TFEU. The adoption of a directive would give the agreement a binding legal value akin to European legal acts, and would entail for the governments the obligation to be transposed into their national legislation. If successful, the procedure would provide the opportunity for the Commission to implement the letter and spirit of the 2015 announcement on the need for a ‘new start’ for social dialogue, and demonstrate a solid commitment to improving the rights of workers across the EU (European Commission 2015). This agreement, in particular if turned into a directive, would provide a simple and effective way of lifting the current exclusions of public administration from the fundamental rights of information and consultation of workers, as anchored in the charter of fundamental rights of the European Union, which has the same legally binding value as the Treaties.

However, as with the 2010 European sectoral agreement on hairdressing offering clear guidance for hairdressers to work in a healthy and safe environment, the Commission might want to carry out an impact assessment. This is the only case of its kind so far not to have been passed to the Council, due to a protracted impact assessment, although the Treaty foresees no such veto procedure. This has led to severe criticism of the European Commission for not living up to its political and legal responsibility to decide on a request from the social partners in a timely and impartial way (UNI 2013). The Commission’s latest position in this respect is that it does not intend to address the issue until the end of a broader review on occupational health and safety legislation. At the time of the writing, such a review has been completed; however, the Commission does not intend to publish a communication until autumn 2016.

In the ideal case, the 2015 agreement on rights for central government employees might be passed to the Council, either because the Commission’s impact assessment will be carried out quickly and will turn out to be positive or because no impact assessment might be necessary given the direct link of the agreement with the REFIT on the three Information and Consultation Directives. Even in this ideal case, the agreement will still have to be approved by the Council before it could be turned into a Directive. Given the current political complexion of the Council, this last step might also become a real obstacle.
The potential social benefits of the digital revolution are not automatic

For the past few years, an intense European and national debate has been taking place on digitalisation of the economy, marked by terms like ‘Uber’, ‘Big Data’, ‘internet platforms’, ‘cloud computing’ and ‘collaborative economy’. The European Commission has declared the creation of a ‘Digital Single Market’ (DSM) to be a top priority; it is claimed that the DSM can, in the course of the mandate of the current Juncker Commission, not only generate up to EUR 250 billion of additional growth in Europe but also, simultaneously, generate the creation of thousands of new jobs, notably for younger job-seekers (European Commission 2015).

Yet in this debate and the related policy documents, the impact of the digital revolution on labour markets and workers’ rights and interests is hardly touched upon.

The challenges of the ‘information society’ and/or the introduction of new technologies is not, of course, a new phenomenon confronting workers in general and the national and European social partners in particular. In fact, at the cross-industry as well as at the sectoral level, the European social partners have been able to build up a certain acquis and expertise in this field.

At the cross-industry level, the first joint texts on how to deal with the impact of the introduction of new technologies on labour markets and work organisation date back as far as 1985 – long before the creation of the institutionalised European social dialogue, as we now know it, under articles 152-155 TFEU (see Figure 4.1). As for the European sectoral social dialogue, joint texts on the social impact of the information society and new technologies started appearing around 1997. These were mainly (and perhaps predictably) concluded in the telecommunications sector; but over time, such joint texts were concluded also in other sectors, such as the railways, banking and electricity sectors (see Figure 4.2). In addition, at both cross-industry and sectoral level, the respective European social partners’ interest was also triggered by a particular form of work requiring the use of new technologies, namely telework; accordingly, they sought to provide (regulatory) frameworks to protect the rights and interests of the workers concerned (see Figures 4.1 and 4.2). Looking in particular at the texts on the introduction of new technologies, including those dating from the 1980s, the concerns of the European social partners – and in particular the trade union side – boil down to the same topics as mentioned above, i.e. job creation/destruction, new flexible forms of work, individual and collective rights, training and skill needs, data protection, etc. The European (and national) social partners will thus undoubtedly be able to build on this expertise to contribute the appropriate policy solutions in the new digitalisation debate.

However, looking at the importance the European Commission attaches to the digital revolution and the magnitude attributed to its effects, the European Commission seems to see itself a bit like the Star Trek Starship Enterprise travelling towards that final frontier, the Digital Space. The EU Commission seems keen to ‘explore strange new worlds’ and ‘boldly go where no man has gone before’. This new world will certainly create opportunities and benefits but the Commission seems blind to the social risks.

As for the cross-industry level, the only recent joint text referring to the impact of digital technologies is the fifth multiannual work programme for 2015–2017 – ‘Partnership for inclusive growth and employment’ – concluded between ETUC/BUSINESSEUROPE/UEAPME/CEEP in July 2015; this programme includes a (rather limited) objective to exchange views on ‘skills needs in digital economies’ (ETUC et al. 2015).

In the meantime, however, the ETUC has analysed and taken positions on particular aspects of the social dimension of
the digital economy via several resolutions and/or workshops (e.g. ETUC 2015a and b; and three workshops in 2015-2016 on digitalisation and information, consultation and participation, ‘the sectoral stakes of digitalisation’ and ‘legal aspects and academic research’).

On the other hand, at the sectoral level, at least some – perhaps rather unexpected – sectors have adopted joint texts on particular aspects raised by the new digitalisation wave. Firstly there is the joint position of November 2014 in the road transport sector between IRU and ETF on creating a level playing field in relation to working conditions for taxis and hire cars with drivers in response to the self-proclaimed ‘ride-sharing’ for-ward reward transport platforms like the oft-quoted case of Uber. Secondly, in December 2015, EFFAT and HOTREC adopted a statement in relation to the unfair competition inflicted on their hospitality and tourism sector by new online platforms such as Airbnb and Couchsurfing. And, finally, there is a EPSU-CEMR joint declaration on the opportunities and challenges of digitalisation in local and regional administration of December 2015 (for the preparatory work, see also EPSU-CEMR (2015a and b) and EPSU 2015) (see Table 2). Other European Trade Union Federations affiliated to the ETUC are also developing initiatives or positions. For example, IndustriAll has issued several Policy Briefs (e.g. IndustriAll (2015a,b and c)) as well as an official position entitled ‘Digitalisation for equality, participation and cooperation in industry – More and better industrial jobs in the digital age’ (IndustriAll 2015d), and a critical assessment of the Commission’s digitalisation strategy. EFFAT has issued a position paper on the European tourism sector on ‘The “Sharing Economy” in Tourism’ (EFFAT 2015). Finally, ETUCE was the first trade union to sign a pledge with the Grand Coalition for Digital Jobs implemented by the Commission (ETUCE 2015). For more European and in particular national trade union/social partner initiatives, see Degryse (2016).

As the new digital industry currently occupies a sort of legal no-man’s land, the European trade union movement is preparing itself to counter the purely economic narrative of the benefits of this Digital Single Market and is intent on raising more awareness for its social dimension. Firstly, although the social challenges may be described as ‘old problems in new bottles’ (ETUC 2015b), the magnitude of this new policy agenda, and thus its likely impact, will very likely be much greater than for any previous ‘technological revolution’. And, secondly, to paraphrase the conclusion of a 1998 opinion of the Joint Committee on Telecommunications (see Figure 4.2); although this new technological revolution may potentially entail clear social benefits, these will not come by themselves and will require safeguarding. And trade unions and workers’ representatives on every level (EU social dialogue, trade unions, EWCs and SEs, national works councils) will thus be needed more than ever to ensure and enforce these safeguards at all levels.
European Works Councils

Proliferating best practice in European Works Councils

Making a European Works Council a genuine institution for transnational information and consultation of employees is not a given. The members of an EWC face many obstacles and challenges in order to effectively express a European employee voice. Language differences, lack of expert assistance, lack of time, vague purposes of meetings and an uncooperative management are just some of the many recurring difficulties to be overcome.

EWCs have now been in existence for over 20 years. This long experience enables them to learn from past experiences and to develop more efficient practices. In this process, the EWCs are helped by the services of the European Trade Union Federations which help them to learn from good (and bad) practices. Additionally, the 2009 EWC Recast Directive was aimed specifically at improving the effective functioning of EWCs.

So how have EWCs’ practices evolved over time? If we compare the EWC population from 2002, 2005 and 2015 we can see some clear trends.

First of all, the use of select committees (a smaller coordinating group of EWC representatives) is gradually spreading to almost all EWCs. In 2002, slightly above 60% of all EWCs had a select committee, a proportion that had risen to over 80% by 2015. Such a committee has proved very useful as its work keeps the EWCs active between meetings. Select committees were already included in the subsidiary requirement of the original 1994 EWC Directive, but the 2009 EWC Recast Directive requires the parties to decide explicitly whether or not to establish such a committee.

Secondly, a lack of technical competences can be countered by providing the representatives with specialised training. This training helps them in assessing the information provided and in preparing questions, comments and opinions for the consultation, and it is considered useful by both the employer and the employee side (GHK 2007). In 2005, only 28% of all EWC agreements provided for training for the employee representatives; within 10 years, this proportion has more than doubled to above 60% in 2015. This remarkable increase in training provision is very likely due to the recognised effectiveness of training, the supply of specialised and effective sessions and the policy attention to training issues in the 2009 Recast of the EWC Directive.

Thirdly, the number of meetings held by EWCs is a crucial factor. In both the original Directive and the 2009 Recast, the minimum requirement for plenary meetings is one a year. Since company measures and strategies are likely to change over time, meeting once every 12 months is a weak basis for a vibrant and effective information and consultation process. Even though the regulation did not change on this matter, we do see a slight increase in the numbers of EWCs planning to hold regular meetings at least twice. Additionally, in about 80% of all EWCs some form of extraordinary meeting is included in the agreements. These are meetings convened for the purpose of information and consultation on transnational measures under consideration by central management. It is the pivotal right of an EWC to make use of its right to meet to be informed and consulted about measures that are under consideration in the course of the year. Only in this way can the EWC’s right to be informed in a timely way be ensured.

Obviously, EWCs are an ‘institution in the making’, facing numerous obstacles before they can fully live up to their potential. Over the years, we see a general learning process supported by changing regulation which is likely to improve the overall efficacy of EWCs. The organisation of select committees, the increase in the number of meetings and the almost generalised provision of training are three examples of the uneven spread of good practice.
European Works Councils

The long shadow of the 1994 Article 13 exemption

No two EWCs are the same—and there is a stratified landscape of agreements marked by their particular legal base. It makes a difference whether an EWC is anchored within the frame of the EWC Directive, or whether it is recognised as a formal exemption from the national rules.

On the long road towards the 1994 EWC Directive, the European legislator drew inspiration and legitimacy from existing voluntary practices. The regulatory framework sought to recognise and retain these self-regulatory practices. It did so in two ways. First, as an expression of regulated self-regulation, it sets the boundaries and minimum requirements for EWCs, but provides the negotiating parties with sufficient autonomy to develop their own, possibly divergent, practices. Secondly, the original 1994 Directive included the famous Article 13 exemption, according to which all EWCs established before the Directive’s entry into force in September 1996 would be completely self-regulated and exempt from the rights and obligations arising from the 1994 Directive.

As European legislation became increasingly likely, and once the Directive was adopted, the number of initiatives to negotiate these ‘pre-Directive Agreements’ increased dramatically. The number of new EWCs rocketed during the two-year implementation phase of the Directive – i.e. in the two years between its adoption and its entry into force. Moreover, even if these EWCs may have since renegotiated the terms of their agreement, they generally tend to maintain their status as pre-Directive EWCs.

In 2002, 67% of all EWCs were established under this 1994 Article 13. Overall, this proportion of voluntary or pre-Directive EWCs can be expected to decrease naturally over time, but this is clearly a slow process: in 2015 as many as 44% of EWCs are still not fully covered by the regulations of the original or the recast Directive. This proportion varies by sector, with 57% of EWCs in the chemical sector being pre-Directive, while only 24% of the EWCs in the transport sector date back to before September 1996.

An analysis of all EWC Agreements reveals a clear relationship between the legal status and the quality of the most recent agreement. Pre-Directive EWCs are less likely to have competences that go beyond mere information and consultation; they are less likely to have a select committee, less likely to have a clear right to training, less likely to have more than one meeting a year, and they are a great deal less likely to have the right to hold a preparatory and debriefing meeting without the management.

These differences are significant, and all the more surprising, since about half of the EWCs functioning under the 1994 Article 13 have since renegotiated their agreement. These renegotiations would have provided an opportunity to align the EWC’s functioning with recent regulation and practices, but obviously a large proportion of Pre-Directive EWCs have not managed to do so. While some of those renegotiations provided the EWC with very similar or equivalent rights as EWCs fully functioning under the EU regulation, the legacy of the first Directive and its famous exemption clause is clearly observable.

Moreover, the legacy of the first Directive is likely to linger for a long time as the proportion of pre-Directive EWCs, while declining, is doing so at a very slow pace. In the year in which progress can be expected in the debate about a possible revision of the EWC Directive, the message that pre-Directive EWC agreements are less able to benefit from an improvement in the Directive’s provisions is an important one.
Occupational health and safety (OSH) has a well-established legal framework. Next to the EU Framework Directive 89/391 that provides overarching provisions aimed at promoting a culture of prevention and safety management, there are 24 other ‘Daughter Directives’ which set additional provisions regarding specific hazards.

However, occupational health and safety protection does not end with the EU legal framework. National laws can go beyond the principles set by the Directive. This, combined with the extensive range of activities developed by the European Agency of Safety and Health at Work, gives Europe a solid foundation for OHS.

Of course, the world of work is evolving rapidly; thus, the current system needs to be continually improved. New technologies, materials and forms of work cause new hazards and risks that both the legislator and individual companies need to prevent. Health and safety can be addressed at various levels and actors like the national OHS system, labour inspectorates, EU OSHA Focal Points in each country, or worker safety representatives in each company, all contribute to better prevention.

Despite significant differences in the ways in which occupational health and safety is dealt with at the workplace level, it is a common feature across the EU that as a rule there is a role for elected employee representatives.

One interesting trend is the fact that health and safety is increasingly part of the mandate of European Works Councils (EWCs).

The data from the ETUI EWC Database show that over time, EWC agreements more often include health and safety competences. Whereas, of all EWC agreements signed in 1994, only 20% included OSH competences, this proportion has risen to over 50% in the last three years alone.

This is obviously a positive trend but the figures can hide different realities. EWCs can address health and safety in different ways.

Some EWCs clearly stipulate in their agreement that OHS is not part of their competences. This would not, however, preclude EWC members from exchanging among themselves, either generally, or on a case-by-case basis.

In other EWC agreements, OHS is limited to information about company safety and environmental performance, such as the number of accidents, lost time incidents, and related changes in work organisation. Still, this information can provide employee representatives with important benchmarks about health and safety protection across the company and supply arguments and examples for local improvements.

In other EWCs, employee representatives are informed by central management, and also play a more proactive role by proposing, identifying and sharing good practices in different countries; they are provided with access to experts and training on issues like psychosocial risk factors, working conditions or work organisation. This makes them well-placed to develop more systematic monitoring approaches.

As increasing numbers of companies develop an own interest in company-wide approaches to health and safety protection, this could further encourage engagement by the employee representatives on the EWC.

Finally, some EWCs build upon solid and comprehensive information and consultation practices by actively liaising with workers’ safety representatives and joint health and safety committees which can monitor, investigate, and contribute to better health and safety.

More research is needed to better support EWCs as they engage with health and safety protection, to ensure that they can become genuinely involved in OHS issues for the benefit of the entire European workforce.
On the eve of another revision?

2016 can be expected to be an important year for European Works Councils (EWCs). It will see the publication of the formal implementation report for the 2009 Recast EWC Directive, which will be based on the report commissioned from an external consultancy in 2015. The Commission’s Implementation Report is the basis for the formal inter-institutional exchange between the European Commission, the Council, and the European Parliament, which may result in further amendments and/or the launch a full revision process of the Directive. The entire process of monitoring and evaluating national implementation measures is the (varying) extent to which they simply reproduce the text of the Recast Directive verbatim in the national legislation. In some instances, this copy-and-paste method may be justified – for example, to ensure a harmonised transposition of key definitions. In most cases, however, this method often amounted to reproducing the Directive’s general formulations and goals without providing the necessarily country-specific precise, concrete and effective procedures needed to make the achievements of the Directive concretely available to workers. There was, in other words, no real transposition. The consequence of this approach by national legislators has been a significant reduction in the effet utile of the Directive, i.e. its power to improve the rights and situation of workers. National authorities’ fixation on abiding only by the formal rules and often minimal implementation is expressed also by the common stark disregard for the Preamble that harbours the spirit of the Directive.

This general observation has been formulated on the basis of analysis of implementation of concrete provisions such as the definition of the transnational competence of EWCs, the articulation between the national and European levels of information and consultation, the means provided to EWCs and enforcement provisions (including sanctions) to name just a few (see also ETUC and ETUI 2015 and 2014).

While views remain divided as to whether a full revision of the Directive is necessary, there are widely shared expectations that the Commission should in 2016 pursue a thorough and objective evaluation of the national legislation and take corrective measures wherever necessary.
As outlined above, the European Commission is applying the measures of the Better Regulation Package to all European Directives related to occupational health and safety.

In 2015, the ETUI developed and implemented a project on scenario building. The result of this work has been the identification of the factors that will significantly influence the future OHS environment and the building of scenarios. These can now be used to establish a dialogue with other actors, draft proposals, take decisions and act.

Four distinct potential scenarios that can impact future generations have been identified. They were named: wellbeing, self-reliance, productivity and protection.

Wellbeing is the scenario that envisions the need for both appropriate responsive legislative framework and genuine participation of all stakeholders. Consensual decision-making takes time and requires a high level of investment. A high degree of worker participation is required at all appropriate decision-making levels in the companies, as well as high worker participation with inclusion in strategic decisions and in negotiations. Health and safety is safeguarded on the basis of generally accepted and enforceable legislation and internal rules in the company, as well as a genuine social dialogue.

Self-reliance is the second scenario. It revolves around soft law and good practices, increased transparency and a self-organised environment, with a high investment in digitalisation and ITC innovation. Openness to technological innovation can ensure safer workplaces but at the same time results in workplaces being open to risks. The lack of formalised rights and standards or collective representation and workers’ participation is offset by the primacy of individual involvement in OSH questions. Individuals become more responsible in OHS issues and, because they are better informed, companies and society can reach better levels of health and safety in workplaces. This scenario requires high-tech businesses and highly skilled workers.

Being fit for work describes the Productivity scenario. Here the role of the regulatory framework has less impact and the corporate world has become the driving force in shaping OHS standards. There is high-quality health and safety in peak performers; however, high work density increases psychosocial risks. In 2040, a healthy company becomes so by excelling in its ability to apply its own OHS rules, monitoring units and sanction systems. In such a scenario, the role traditionally played by preventive services such as the labour inspectorate would probably be reduced, but there may be ample space for highly institutionalised worker participation at the company level.

The so-called Protection scenario arises from a cascade of multiple crises, economic and social problems, demographic change, migration, etc. In this scenario, minimum security becomes a high priority and OHS becomes a matter of public health. National funds may be used to improve national health systems. Elderly and migrant workers benefit from a wide variety of state-supported health programmes to foster their employability. There is an increase in the number of organisations based on command and control as a tool for managing OHS and accidents. Worker representatives evolve in their role and become watchdogs, who act when standards are not met and when the command and control does not operate as it should.

None of these scenarios is an ideal model. They are multifaceted narratives that aim at helping the discussion on the core values, technological and societal changes that help refitting a plausible future of OSH. They also will contribute to shaping the type of OSH that we want to leave to future generations in Europe and globally.
The European Commission has placed specific emphasis on Key Enabling Technologies (KETs) and decided to support the sector financially to the tune of almost 6 billion euros. However, 2015 was a year in which science governance suffered a major dropdown – and nanotechnologies are an example of that worrying trend. The workplace and the legislature are two key arenas in which science governance takes place. It is important for these technologies to be regulated both in law and in day-to-day practice.

Various EU-based multinational companies and SMEs produce and market a wide variety of nano-enabled products with new functionalities. These can now be found in almost all industrial sectors: automotive, construction, chemical, health, sports, transport, water, etc. However, no adequate regulation ensuring the protection and proper training of workers has been put in place yet. Surveys conducted in 2008 and 2012 reveal that companies are unsure about how best to go about protecting health and safety. Additionally, it is not clear how to properly inform and train workers (Conti 2008; INRS 2010; Engeman 2012).

Member states, trade unions and NGOs have been demanding that nanomaterials produced or imported in the EU be traced, and that quantities be known. This could be achieved in different ways, one possibility being to amend the annexes of the existing REACH regulation. In 2015, the regulatory initiatives that were ongoing were suddenly faced by a new and negative attitude at Commission level. Ten member states have asked the Commission to establish a European registry of nanomaterials. Several others, such as France, Belgium, Denmark, and Sweden are already setting up their own registry at national level. Yet the Commission services are non-reactive and are still having internal discussions about the matter.

The issue of how properly to govern nanotechnologies, as an example of future and enabling technologies, should be squarely and decidedly put on the table. This can be done by conducting an analysis of societal risks and benefits, by ensuring transparency as to what is produced by EU companies, by tracing what is imported, and by guaranteeing traceability throughout the industrial supply chain. Exposure assessment based on safe-by-design and human exposure traceability at company level, two other key weaknesses, should also be considered as key aspects.

Innovative technologies like nanotechnologies, advanced manufacturing, robotics and others are vital for Horizon 2020 and can contribute to creating jobs and upgrading skills. However, they cannot be developed without a robust regulatory system, controlled conditions for the integration of the technology in the workplace, a real improvement in the levels of workers’ knowledge and safe working environments.

Time has come to revisit Feynman’s famous lecture ‘There is Plenty of Room at the Bottom’. Science regulators should climb out of the regulatory black hole that 2015 has been and start building a genuine and relevant regulatory framework for innovative technologies, one which ensures adequate protection and training at the workplace.

To the extent that these Key Enabling Technologies are increasingly a part of daily working life, it is all the more essential that workers’ representatives have the training and the facilities to fulfil their role.
No trade-off between worker rights and sustainability apparent

An empirical analysis of large European firms finds that there is no trade-off between the strength of worker participation and the sustainability of companies. Rather, the presence of European works councils and/or board-level employee representation (BLER) in a company is associated with a higher score on most social and environmental dimensions of sustainability when compared with companies which lack such forms of workers’ participation.

While in the 1970s and 1980s the concept of ‘sustainability’ was linked mainly to environmental impact, experts nowadays agree that this concept must be multi-dimensional. In addition to the environment, the impact of companies on society must also be taken into account. Finally, the governance structures of companies (corporate governance) are seen as a key aspect to be taken into account, since ‘good governance’ is needed to encourage the right kind of company policies. Sustainability rating agencies often use the term ESG (environmental, social and governance) to refer to these three overall dimensions of sustainability. These three broad areas can be further broken down into sub-categories, e.g. the social dimension includes sub-dimensions such as workforce development, human rights, and responsibility towards the community. The sustainability data used for this analysis comes from ASSET4, a ratings agency that monitors the sustainability policies and performance of approximately 4,000 companies worldwide, including over 900 European companies. This analysis was based on 534 companies from 16 European countries for which information was available both on sustainability performance (from ASSET4) and the presence of either a European works council (EWC) or board-level employee representation (BLER).

Figure 4.11 reports the average scores of companies with one or both of these forms of representation versus companies without such representation. For example, the social score of a large European company with BLER but no EWC was on average 49, or seven points higher than a company with neither BLER nor an EWC. The score of a company with an EWC but no BLER was 51, or nine points higher than a company with neither form of participation. The highest average social score was achieved by companies with both BLER and an EWC (57 points). Similar results were obtained for environmental performance. For example, a company with both BLER and an EWC could be expected to have an environmental performance score of 60, or 16 points higher than a company with neither of these forms of worker participation. To conclude, worker participation appears to be strongly associated with more sustainability at the company level. This analysis took into account both the size and sector of the company.
Worker participation, the Europe 2020 strategy and the crisis

The overarching economic strategy of the EU, as stated in the Europe 2020 initiative (European Commission 2010), is the achievement of ‘smart, sustainable and inclusive growth.’ Does workers’ participation hinder or help the EU realise its ambition of being ‘smarter, greener and more inclusive’?

An analysis of the evidence since the onset of the crisis suggests that the latter rather than the former is the case. The group of countries with strong participation rights has performed much better than the group of countries with weak participation rights, as measured by key indicators for the Europe 2020 strategy.

This analysis is based on two data sources. The first is Eurostat, which gathers data on the EU’s progress in meeting goals set out in its Europe 2020 strategy in five areas: employment, R&D, climate change and energy sustainability, education, and fighting poverty and social exclusion. In each of these areas the EU has defined statistical indicators which allow countries to measure their progress in meeting specific goals. This data is accessible through a dedicated Eurostat website; a series of publications analyse this data and the progress of each country and the EU as a whole towards achieving these targets (Eurostat 2015). A notable aspect of Europe 2020 is that it goes beyond standard economic measures (e.g. GDP growth) to look at a variety of social and environmental outcomes. However, workers’ participation is not mentioned in the Europe 2020 strategy document, despite evidence from numerous studies that it can have a positive impact.

To take a closer look at this association, researchers at the ETUI developed the European Participation Index (EPI), which measures the strength of workers’ participation at the European level. As reported in detail in the past (ETUI/ETUC 2011: 98-99), the EPI showed that the group of countries with stronger participation rights performed much better on the Europe 2020 ‘headline’ indicators than the group of countries with weaker participation rights. This was based on data from 2008/9, i.e. at the onset of the crisis.

An updated analysis based on Eurostat data from 2009-2014 (i.e. since the onset of the crisis) shows that the strength of workers’ participation continues to be strongly associated with positive outcomes on Europe 2020 headline indicators for all five of the Europe 2020 strategy areas. As shown in Figure 4.12, the group of countries with higher than average scores on the EPI performed better than the group of countries with below average scores on all of the following indicators: 1) the employment rate in the 20-64 age group, 2) R&D expenditures as a % of GDP, 3) share of renewable energy in total energy consumption, 4) share of early leavers from education and training, 5) tertiary educational attainment for the 30-34 age group, and 6) share of population at risk of poverty or exclusion. The relationship with the strength of worker participation is particularly strong in the case of R&D expenditure, which is twice as high in the ‘strong rights’ group compared with the ‘weaker rights’ group (see also Figure 4.12 showing correlation of the EPI and R&D in individual countries).

The cause of each of these outcomes is of course complex and cannot be reduced to one factor. However, the strong association between positive outcomes on Europe 2020 indicators and the EPI suggests that worker participation helps rather than hinders the achievement of ‘smart, sustainable and inclusive growth’. As such the strengthening of workers’ participation in Europe could help the EU to reach these ambitious goals.

**Workers’ participation no barrier to smart, sustainable and inclusive growth**

**Figure 4.12 Comparative performance of countries with stronger vs. weaker worker participation rights on five Europe 2020 headline indicators (2009-2014)**

<table>
<thead>
<tr>
<th>Europe 2020 Headline Indicator</th>
<th>Group I: Countries with stronger participation rights</th>
<th>Group 2: Countries with weaker participation rights</th>
<th>Difference (Group 1 vs. Group 2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment rate, age group 20-64, 2009-2014</td>
<td>72.0</td>
<td>66.1</td>
<td>5.9</td>
</tr>
<tr>
<td>Gross domestic expenditure on R&amp;D (GERD), 2009-2014</td>
<td>2.2</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Share of renewables in gross final energy consumption, 2009-2014</td>
<td>18.6</td>
<td>14.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Early leavers from education and training, 2009-2014</td>
<td>9.4</td>
<td>13.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Tertiary educational attainment, age group 30-34, 2009-2014</td>
<td>38.8</td>
<td>35.4</td>
<td>3.4</td>
</tr>
<tr>
<td>Population at risk of poverty or exclusion, 2009-2014</td>
<td>18.7</td>
<td>29.8</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: Vitols and Rux (2016).
Conclusions

Today’s challenges call for more, not less, social dialogue and workers’ participation

Many of the questions raised in current debates do indeed strike a sadly familiar chord. Relentless deregulation is eroding the foundation of worker involvement, thus impeding the ability of its institutions to serve as the social cement in Europe. Workers’ rights, protections, and voice mechanisms are being sacrificed on the altar of the need to ‘reduce administrative burdens’.

At the same time, however, we witness a deepening of economic and political integration, the proliferation of horizontal and vertical links between companies, unprecedented technical possibilities arising from the radical increase in transparency of processes, behaviours, and actors; these dynamics together warrant a closer consideration of what existing institutions, actors and approaches can contribute towards meeting these challenges. While EU-level regulation has been driven by deregulation, the social partners have risen to the occasion by developing joint relationships, are typically ‘rolled out’ centrally across the whole transnational enterprise level. New technologies, new managerial hierarchies, or new intragroup relationships, are typically ‘rolled out’ centrally across the whole transnational company without regard for national (regulatory) borders. Institutions such as European Works Councils and board-level employee representatives are ideally placed to meet these challenges, insofar as they are able serve as flexible transmission belts, conveying information and consultation processes throughout the company. It is all the more important that these institutions for transnational information and consultation should become better equipped to fulfil this role. The need for comprehensive and timely information and consultation is all the more pressing when it concerns far-reaching processes that will have important consequences for working conditions, job security and intra-company networks of service provision and/or production.

Finally, this chapter has shown the importance of stakeholder-based governance in ensuring sustainable companies and sustainable labour markets. The contribution of board-level workers to ensuring sound, stakeholder-based decision-making must remain a key pillar of the European Social Model.

Arguably, in the European cross-sectoral and sectoral social dialogue, the social partners are a bit ahead of the game; they have been addressing the impact of new technologies at the European level since the 1980s. Much of this provides a good foundation for further developments.

The importance of early and comprehensive information and consultation between employee representatives at all levels cannot be underestimated. Scientific governance takes place in the legislature, in technical laboratories and, not least, at the shop floor. New technologies and production strategies promise to streamline work processes, improve efficiency, and reduce exposure to hazards, for example. Though the European Commission enthusiastically welcomes the advent of the digital age and has developed a vision of a digital single market, in its ‘better regulation’ advances, it fails to address the most obvious challenges. It is therefore all the more important that these concerns should be brought to bear on ongoing discussions about ‘refitting’ workers’ rights, particularly in the areas of information and consultation, employment contracts, chemicals legislation, and approaches to key emerging technologies, or new forms of work organisation.

A natural corollary to the new transparency is that employees too should demand greater involvement and transparency. Top-down command-and-control systems are being replaced by more participatory, transversal, digital-technology-based systems that steer communicating networks of machines, workers, and algorithms.

It is also quite clear that these challenges of European integration within companies and along the supply chain cannot be answered solely at the local enterprise level. New technologies, new managerial hierarchies, or new intragroup relationships, are typically ‘rolled out’ centrally across the whole transnational company without regard for national (regulatory) borders. Institutions such as European Works Councils and board-level employee representatives are ideally placed to meet these challenges, insofar as they are able serve as flexible transmission belts, conveying information and
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AGS | Annual Growth Survey
ALMP | Active Labour Market Policy
AMECO | Annual macro-economic database
AMICE | Association of Mutual Insurers and Insurance Cooperatives in Europe
AROPE | at risk of poverty or exclusion
BIPAR | European Federation of Insurance Intermediaries
BLER | board-level employee representation
CB | collective bargaining
CEE | central and eastern Europe
CEEP | European Centre of Employers and Enterprises providing Public Services
CEMR | Council of European Municipalities and Regions
CJEU | Court of Justice of the European Union
COP21 | 21st annual session of the Conference of the Parties to the 1992 United Nations Framework Convention on Climate Change
CSR | Country-Specific Recommendation
EA | Euro Area
EACB | European Association of Cooperative Banks
EFFAT | European Federation of Trade Unions in the Food, Agriculture and Tourism sectors
ESBG | European association of retail banks
EC | European Commission
ECB | European Central Bank
ECHR | European Convention on Human Rights
ECR | European Committee of Social Rights
ECHR | European Court of Human Rights
EIB | European Investment Bank
EMCEF | European Mine, Chemical and Energy Workers’ Federation
EPI | European Participation Index
EPSU | European Federation of Public Service Unions
ETF | European Transport Federation
ETNO | European Telecommunications Network Operators’ Association
ETUC | European Trade Union Confederation
ETUC | European Trade Union Committee for Education
ETUI | European Trade Union Institute
EU | European Union
EUPAE | European Union Public Administration Employers
EU-OSHA | European Agency for Safety and Health at Work
EU-SILC | EU statistics on income and living conditions
EWC | European Works Council
GDP | Gross Domestic Product
GHG | greenhouse gases
Gt | gigatonnes
HICP | Harmonised Index of Consumer Prices
HOTREC | umbrella association of Hotels, Restaurants and Cafés in Europe
H&S | health and safety
ILO | International Labour Organisation
IMF | International Monetary Fund
INPS | Istituto Nazionale della Previdenza Sociale
IR | industrial relations
IRU | International Road Transport Union
ISCED | International Standard Classification of Education
IOM | International Organisation of Migration
KET | Key Enabling Technologies
NACE | Statistical classification of economic activities in the European Community
NDCs | Nationally Determined Contributions
OECD | Organisation for Economic Co-operation and Development
OHS | occupational health and safety
p.p. | percentage point
PPS | purchasing power standard
Q | quarter
QE | quantitative easing
R&D | Research and Development
REACH | Registration, Evaluation, Authorisation and Restriction of Chemicals
REFIT | Regulatory Fitness and Performance Programme
RHS | right-hand scale
SE | Societas Europaea (European Company)
SSC | social security contributions
TUNED | Trade Unions National and European Administration Delegation
UEAPME | European Association of Crafts, Small and Medium-sized Enterprises
UN | United Nations
UNEP | United Nations Environment Programme
UNICE | Union of Industrial and Employers’ Confederations of Europe (now BUSINESSEUROPE)
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The ETUC is a democratic, independent, pluralistic, unified organisation, recognized by the European Union, the Council of Europe and the European Free Trade Association as the sole representative, multi-sector trade union organisation at European level.

The ETUC is the only social partner representing workers at European level in the framework of the European social dialogue. The ETUC works for a European Union with a strong social dimension, which prioritises the interests and well being of working men and women, promotes social justice and fights exclusion and discrimination.

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NL Netherlands
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PL Poland
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RO Romania
SE Sweden
SI Slovenia
SK Slovakia
UK United Kingdom
US United States

EA 12 EU member states that adopted the euro before 2007
EA 19 EU member states that adopted the euro before 2016
EU 15 EU member states that joined the EU before 1996
EU 28 EU member states that joined the EU before 2014