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"A European Labour Market with Full Employment, More Income Security and Less Inequality in 2020"

***Preliminary Draft - do not quote (full citations and conclusions missing*)**

Labour markets and social inequalities in Europe:

Should employment, wages and social protection policies be more coordinated at the EU level?

Introduction

Prior to the Great Recession, the European Union (EU) saw convergence of most social and employment performance indicators, whilst after the crisis struck, the EU witnessed substantial divergence of labour market and social outcomes. A notable and worrying exception to this trend is that both before and after 2008 inequality (whether measured by the Gini coefficient, relative poverty or 90/10 income percentile ratios) has been increasing in many EU Member States.

Since its inception, there has been a steady but piecemeal (and relatively slow) increase in the coordination of employment and social policies in the EU (and its predecessor, the European Communities) accompanied by a growing body of EU legislation on labour law, on occupational health and safety and on matters concerning the free movement of workers. Social dialogue has also long been promoted at EU level and within the Member States. The lead up and introduction of the Euro in 2001 gave some impetus to the coordination of national employment, social protection and social inclusion policies. It also coincided with substantially tighter rules for governments to manage their public debt and deficits although less action took place under the pre-crisis Stability and Growth Pact than in recent years.

The crisis, and especially the threat it posed to the Euro, changed this dramatically and in the last four years extensive legislation severely restricting national budgetary autonomy and requiring ex ante macro-economic coordination has been enacted. A key question is whether much tighter coordination of employment, wages and social policies should also be undertaken to match the tighter macro-economic policy coordination? This paper seeks to answer this question focusing on employment policy. It will do so by briefly describing what has happened during the periods of employment and social convergence and then divergence. It will then look at what occurred so far in policy coordination in the social and employment areas but also in the macro-economic sphere. It will conclude with a review of what policy

[1] Many thanks to colleagues and in particular Catherine Blair who contributed to this paper.

coordination is considered to be needed and what form this might take. It will also look at what other EU instruments might be envisaged for better social and employment outcomes.

1. Convergence and divergence[2]

All employment and social indicators point to a growing divergence between the Southern and peripheral European countries, and the countries of Northern and Central Europe. Part of this is driven by how the economy has performed overall but the overall economic performance is also the result of how labour markets and social systems reacted to the severe global downturn. The shockwaves from the crisis appear to be asymmetric but the different institutional setups displayed very different resistance to the major shock from the initial financial crisis which all countries experienced: countries with relatively un-segmented labour markets and strong welfare systems with broad coverage have tended to fare better than those with highly segmented labour markets and weak or unequal welfare provisions. The (in)ability to cope with the shock was frequently compounded by the initial high public debt and deficit levels, as well as the property markets situation, and subsequent developments followed by the reaction of financial markets.

The Great Recession has revealed that external economic shocks translate differently within the EU – they are asymmetric – and that diverging unemployment trends and the resulting social expenditures tend to exacerbate fiscal imbalances in countries facing the highest needs of adjustment and the highest threat to social cohesion.

Looking at both the labour market situation and the developments in income and poverty, a similar, if more nuanced, picture emerges. Economic and social divergence among the Member States has been coupled with a trend of rising social polarisation within many Member States. This trend is visible in many different ways, and, like in the case of divergence among the Member States, it is partly linked to the protracted economic downturn and partly has deeper structural and institutional causes. While social polarisation in the labour markets is observable mainly through high levels of segmentation, 'hollowing out' of the medium paid jobs[3], and the increasing problem of long-term unemployment, in the social area it is mainly displayed through higher risks of long-term exclusion and recurrent poverty spells.

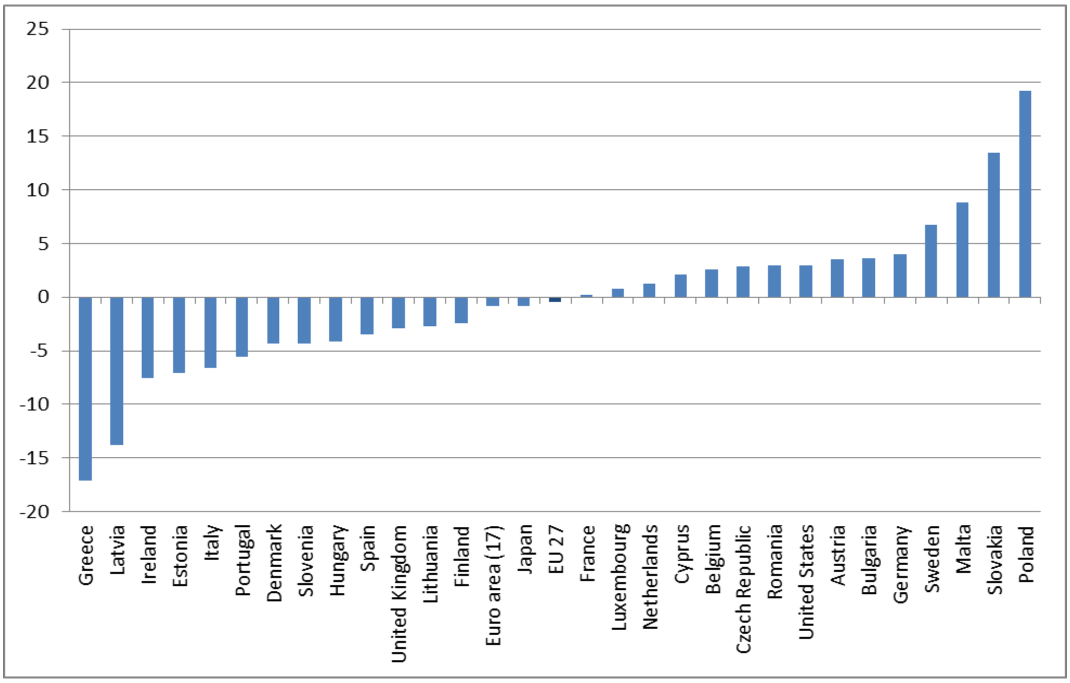
1.1 Gross domestic product

Looking at GDP growth between 2007 and 2012, some Member States are richer than before the crisis, many are back to pre-crisis levels and some are significantly poorer (see Chart 1). While the EU 27 average is close to zero, significant divergences appear among groups of Member States.

[2] See Employment and Social Developments in Europe 2012, p. 17-49

[3] Discussed in detail in European Commission, Employment and Social Developments in Europe Review 2011 (ESDE 2011).

Chart 1: Change in GDP – Second quarter 2012, compared to second quarter 2007, in percentages



Source: Eurostat, National Accounts [namq_gdp_k]
Note: Seasonally-adjusted data except for EL; data for EE, IE, LU refer to the 2007q1-2012q1 period. Millions of national currency, chain-linked volumes, reference year 2005 (including 'euro fixed' series for euro area countries).

Among the 'old' Member States, divergence is most striking between the North and the South (and periphery) of the Euro area. Greece, Italy, Portugal (and also Ireland) all experienced output drops in 2008-2009, and have been on a downward slope since then. That said, the North-South divergence is not entirely clear-cut: the UK and Denmark, in addition to Ireland, also underperformed economically in recent years. This may be at least partially explained by specific conditions, such as overheated property markets. Also among the so-called 'new' Member States performance differed widely, with Poland and Slovakia recording the strongest growth, whilst Hungary and the Baltics are among the countries with a GDP still below the pre-crisis level.

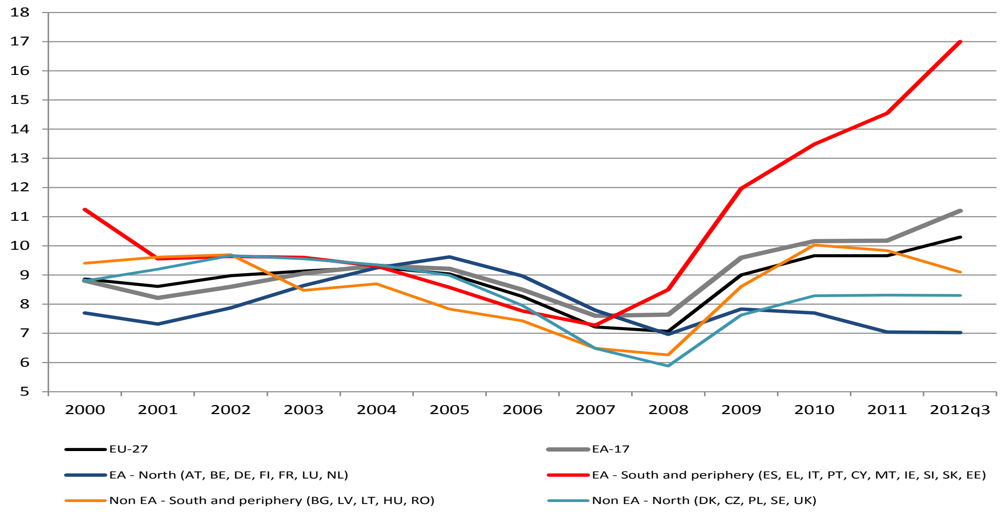
1.2 Unemployment and employment

The Euro area (EA) merits special attention. EA countries have seen very different developments in unemployment trends, as shown in Chart 2. Up to 2004 the figures converged in favour of Southern and peripheral EA member countries: the average unemployment rate of the group made up of Cyprus, Estonia, Greece, Ireland, Italy, Malta, Portugal, Slovakia, Slovenia and Spain became lower than the average rate for Austria, Belgium, Finland, France, Germany, Luxembourg and the Netherlands. The gap between the two areas was 3.5 pps in 2000, and in 2006 the gap was -1.2 pps in favour of the South and periphery. However, this changed again in favour of Northern EA in 2008. In 2011, the gap was 7.5 percentage points (pps)[4]: the average unemployment rate for the North of the EA was 7.0%, against 14.5% in the South and periphery of the EA. This polarization continues as the unemployment gap between the periphery and the Northern EMU countries increased to more

[4] By way of comparison, the N-S gap was 'only' 1.5 pps in 2011 among the ten non-EA Member States.

than 10 percentage points in 2013 with the Euro area unemployment rate likely to reach more than 12 percent.

Chart 2: Diverging unemployment rates by groups of Eurozone Member States since 2000

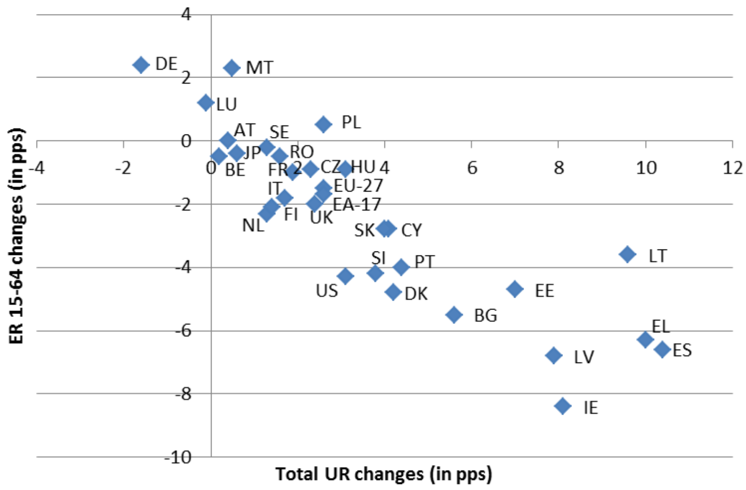


Source: Eurostat, LFS; DG EMPL calculation.
Notes: 2012 data available until 2012q3. Weighted average: aggregate unemployment rate = aggregate unemployment level / aggregate labour force.

Turning now to employment and unemployment trends in international comparison, some differences stand out. Over the whole of the period 2008 – 2011, the employed population in the EU shrank by 2.0 %, whilst the USA and Japan recorded declines of -4.4 and -4.7 % respectively. Likewise, in the three years to June 2011, the number of unemployed in the EU rose by 37.3 %, as 6.2 million people joined the ranks of the unemployed, compared to 65.2 % in the US (5.6 million people affected). However, while the unemployment rate has started to decline consistently in the US, dropping by 0.9 pp in the twelve months to June 2012 to 8.2 %, in the EU, after falling somewhat in the year to March 2011 (-0.7 million, i.e. -3.0 %) it began to grow again, by 0.9 pp to 10.4 %.

Looking at the trends in the employment and unemployment rates in EU countries from 2008 to 2011, we can see a pronounced effect of the economic slowdown and the persistent uncertainties in the labour markets. Chart 3 shows that the employment rate for 15-64 year-olds fell in all but five Member States, while the unemployment rate (among 15-74 year-olds) rose in all but two.

Chart 3: Changes in unemployment rates (UR) and employment rates (ER) from 2008 to 2011 in EU Member States, EU, EA, JP and US



Source: Eurostat, EU LFS and DG EMPL calculations.

1.3 Youth labour market adjustment and temporary contracts[5]: the example of Germany and Spain

Having less accumulated work experience, young people face a more elastic labour demand relative to adult workers. This can be aggravated by the fact that young people tend to be overrepresented among those jobholders with less employment protection and thus act as a buffer for adjustment in the case of an economic shock.

A temporary contract[6] is a widespread example for this type of flexible work instrument. While in 2007, 14.6 % of all employees (15-64) were on temporary contracts, this share was 41.3 % for young people (15-24). Adjustments during the crisis followed: between 2007 and 2010 the number of young people on temporary contracts fell by 867 000, i.e. by around 10 % from its 2007 level (compared to those aged 25-64, where the number of temporary jobholders fell by 540 000, i.e. by around 3 % from its 2007 level).

Nevertheless, the extent of adjustment varied greatly among Member States, and this dissimilarity could be partly attributable to the differences in reasons why young people have temporary contracts[7].

Both in Spain and Germany the growth rates of adult employment (age 25-64) more or less followed the growth rates of GDP (see Chart 4, right chart) and the adjustment intensity of adult employment to the crisis has been much more subdued compared to the young cohort in both Member States (see Chart 4, left chart). However, the intensity of adjustment even for

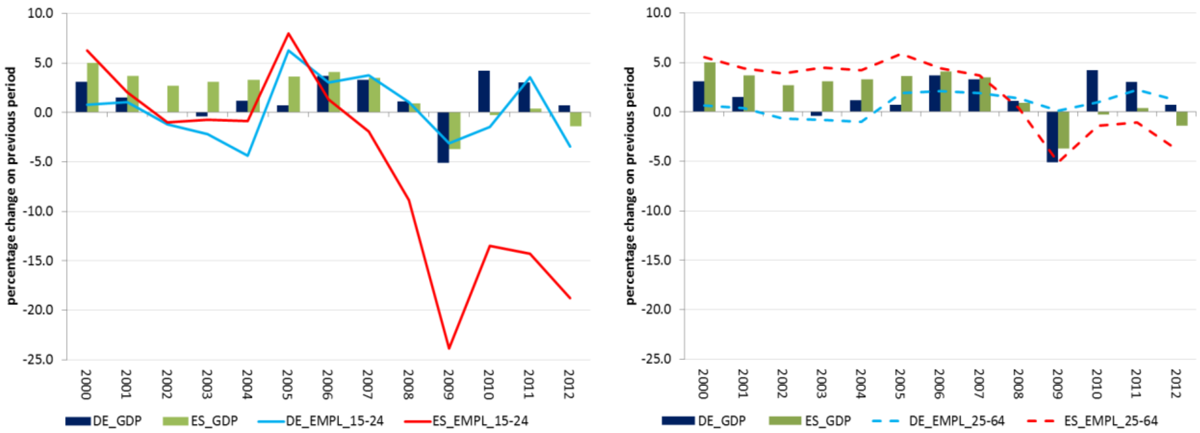
[5] See Special Focus ESSQR June 2013, p. 21-26

[6] Employees with temporary contracts are those who declare themselves as having a fixed term employment contract or a job which will terminate if certain objective criteria are met, such as completion of an assignment or return of the employee who was temporarily replaced http://epp.eurostat.ec.europa.eu/cache/ITY_SDDS/en/lfsa_esms.htm

[7] Other factors could also have played a role; another important contributor could have been for instance the variation in sectoral concentration of young people in Member States prior to the crisis, see for instance Employment in Europe 2009, Chapter 1. http://ec.europa.eu/social/main.jsp?langId=en&catId=113&newsId=642&furtherNews=yes

adults was far more pronounced in Spain than in Germany. At the same time, the left chart shows that while up to 2007 Spanish GDP growth was higher than Germany's, the growth rate of youth employment only exceeded Germany by very little. With the crisis however, youth employment reacted with greater sensitivity in Spain compared to Germany, despite a larger drop in German GDP in 2009. This suggests that in Spain youth have been/are more on the elastic margin of the labour market where adjustment has been more intense.

Chart 4: GDP growth and employment growth among young people (age 15-24) and adult people (age 25-64) in Germany and Spain



Source: Eurostat; GDP and main components - volumes [nama_gdp_k]; Employment by sex, age and nationality (1 000) [lfsa_egan].

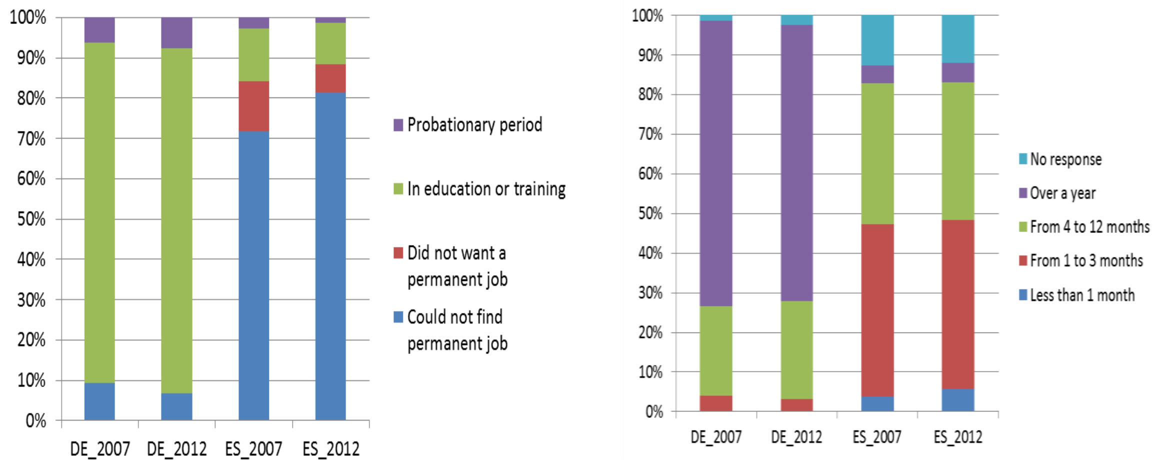
In Germany where adjustment in the employment of young people has been relatively more subdued, most young people on temporary contracts are in education or training (see chart 5, left figure). In addition, the majority of young people (around 70%) on temporary contracts hold a contract with a duration of more than a year, reflecting the fact that Germany has a dual-apprenticeship system, whereby young apprentices have private-law vocational training contracts with a training enterprise and programmes normally last 2-3 years[8].

At the same time in Spain, a high share of those young people are involuntarily temporary employed (cannot find a permanent position). Moreover, the majority of temporary workers are on shorter term contracts (mostly 1-3 months and 4-12 months) probably contributing to the far greater decline in youth employment experienced in Spain. This suggests the presence of labour market constraints – whereby temporary contracts are used as an alternative to counteract the employment rigidity of permanent contracts[9] – that hinder transitions to more secure work relations. Other country examples covering other types of labour relation systems in Europe (Austria, Denmark, France, Italy, Poland, the UK and Switzerland), tend to endorse the impact of the reason for accepting a temporary contract, with education or training reasons resulting in less pronounced labour market adjustment affecting young people's employment.

[8] European Commission (2012) Apprenticeship supply in the Member States of the European Union – Final Report. http://ec.europa.eu/education/vocational-education/doc/forum12/supply_en.pdf The study quotes data provided by the Federal Statistical Office, according to which approx. 86% of students in VET-schemes on ISCED levels 3 and 4 enrolled in the dual training system in Germany (2009 data).

[9] See for instance Alba-Ramirez: How Temporary Is Temporary Employment in Spain? Journal of Labour Research Volume XIX, Number 4 Fall 1998 http://www.eco.uc3m.es/temp/alba/how_temporary.pdf

Chart 5: Reasons for temporary employment and duration of temporary work contract for young people (age 15-24) in Germany and Spain for selected years



Source: Eurostat, Main reason for temporary employment - Distributions by sex and age (%) [lfsa_etgar]; DG EMPL calculation based on Eurostat, Temporary employees by sex, age and duration of the work contract (1 000) [lfsa_etgadc].

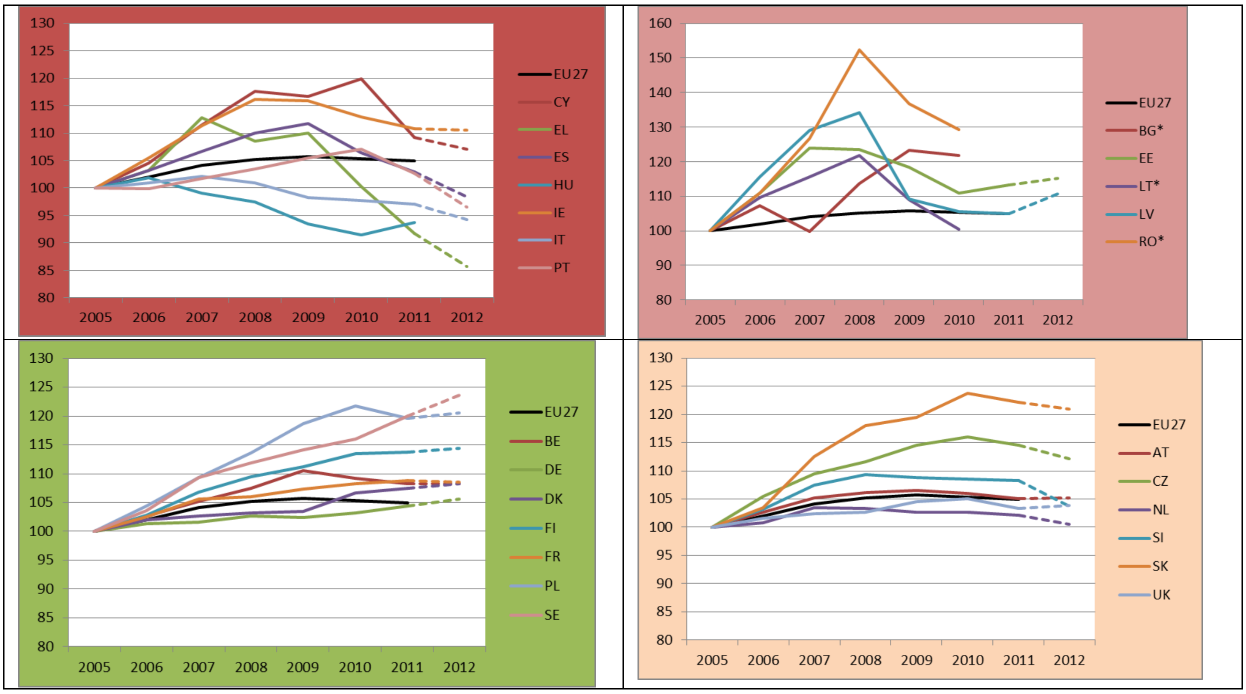
1.4 Household disposable income

There is also growing divergence between those countries that were cushioned from the worse social impacts of the crisis, and those countries where living conditions have deteriorated markedly.

The decrease in household disposable income was most significant (above 4%) in the Southern Member States, Ireland, Hungary and the Baltic States. It was the result of the further deterioration of the labour market conditions, as well as of the weakening of the cushioning impact of social expenditure over time. In these countries, declining incomes have affected the living conditions of a large part of the population. In the Baltic States the rebound of the economic and labour market situation contributed to stabilising income levels overall after 2010, but long-term unemployment and poverty remain at high levels in this region.

This significant decline is in stark contrast to the situation observed in Northern and Continental countries. In these Member States, the combined effect of robust automatic stabilizers (reinforced by initial discretionary measures) and more resilient labour markets in general helped mitigate the impact of the recession on overall household incomes and private demand. In these countries, while household incomes continued to increase during the crisis, some population groups were more affected than others by rising unemployment.

Chart 6: Evolution of GHDI in real terms (2005=100) 2005 to 2011 (2012 forecast)



Note: * - data available only until 2010

Source: AMECO.

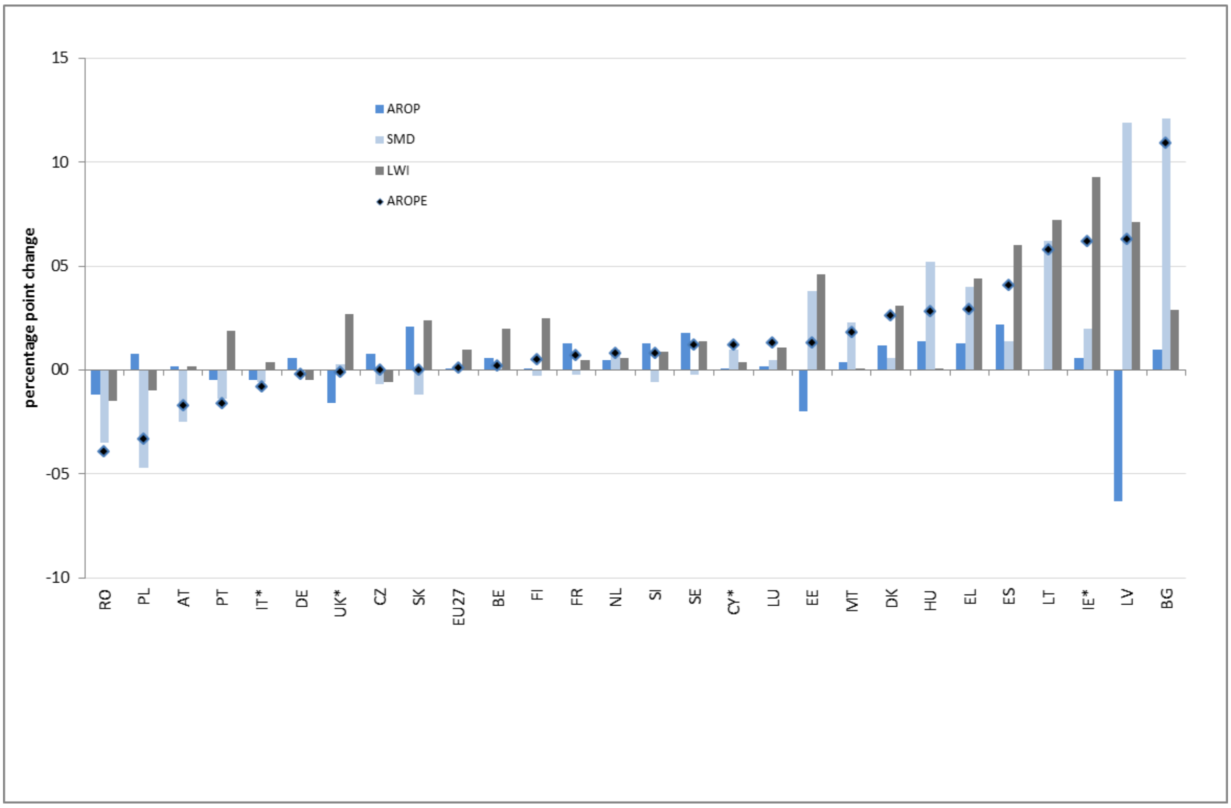
Source: calculations from ENEGE (European Network of Experts on Gender Equality) based on EU-SILC

1.5 Poverty and social exclusion

Overall, the crisis halted the previous decline of the risk of poverty and social exclusion experienced between 2005 and 2007 in the EU. The apparent stability of the risk of poverty observed between 2008 and 2011 hides more worrying trends that are likely to be affecting people's living conditions in the long-term.

In Ireland, the Baltic States, Spain, Greece, and Denmark, the share of children and adults aged under 59 living in jobless households (LWI = low work intensity: households not working at all, or less than 1 day a week over a whole year) increased by more than 3 pps between 2008 and 2011. In Bulgaria, the Baltic States, Greece and Hungary, the significant increase in severe material deprivation also illustrates the severity of the crisis and its impact of the most deprived populations.

Chart 7: Change in the risk of poverty and social exclusion and its three components in Member States between 2008 and 2011*

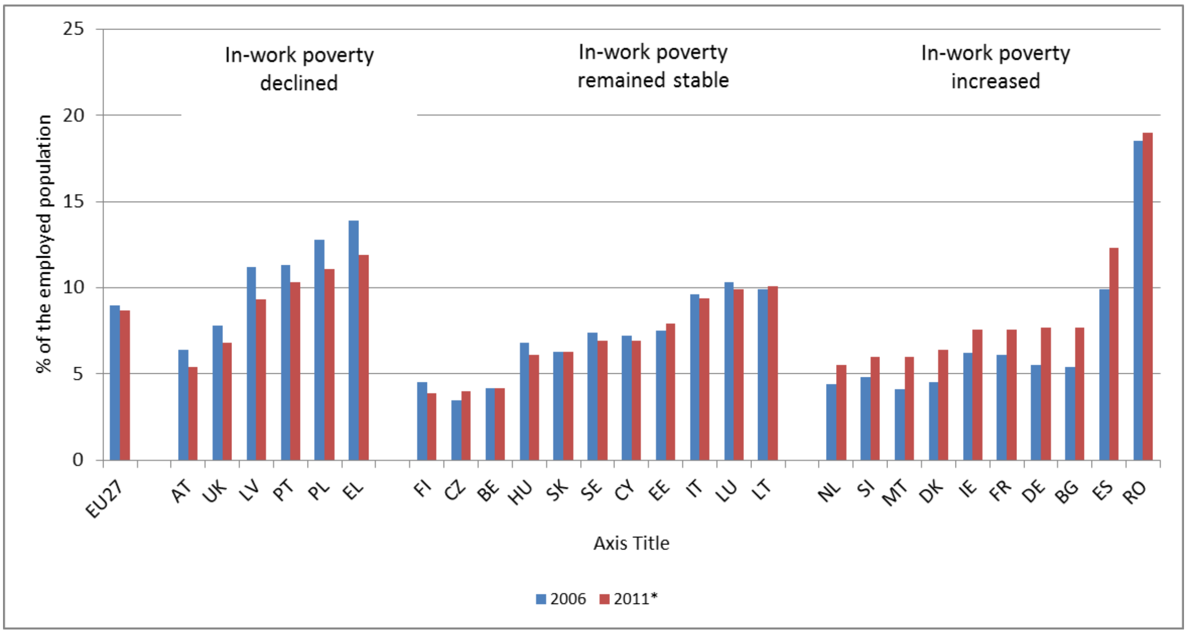


Source: Eurostat, EU SILC.

Notes: The income reference period is a fixed 12-month period (such as the previous calendar or tax year) for all countries except the United Kingdom for which the income reference period is the current year of the survey and Ireland for which the survey is continuous and income is collected for the 12 months prior to the survey. AROP: at-risk-of poverty rate (60% of median income); SMD: severe material deprivation; LWI: people (0-59 not students) living households with zero or very low work intensity; AROPE: at-risk of poverty or exclusion rate (union of all three indicators). Changes for CY, IE, IT and UK are to 2010 instead of 2011, and for EU27 are based on Eurostat estimates.

In-work poverty significantly increased in one third of EU countries between 2006 and 2011. This includes in Germany (+2 pps), the Netherlands and Denmark where overall economic and labour market conditions were more resilient than in the rest of the EU. Explanatory factors include wage moderation and the reduction of working hours of people in employment, notably due to the wide use of short term working arrangements.

Chart 8: In-work poverty: at-risk-of-poverty rate of persons employed, evolution since 2006



Source: Eurostat – EU-SILC. The income reference period is a fixed 12-month period (such as the previous calendar or tax year) for all countries except the United Kingdom for which the income reference period is the current year of the survey and Ireland for which the survey is continuous and income is collected for the 12 months prior to the survey.

*2010 values instead of 2011 for CY, IE, IT and UK ; EU27 is based on Eurostat estimate for 2011. Data for 2007 and not 2006 in RO.

2. EU coordination of employment and social policy and social dialogue

From its outset, the European Community has been faced with the challenge of how to promote economic growth, high levels of employment and monetary stability in a coherent manner, and how to balance economic and social objectives. This was reflected in the Maastricht Treaty and in particular in the "White Paper on Economic Growth, Competitiveness and Employment" adopted by the Commission in 1993. The President of the Commission at the time, Jacques Delors, was concerned that following the introduction of the single market and the agreement on EMU, action on employment was vital.

The Amsterdam Treaty of 1997 gave new tasks to the Union in the field of social policies and introduced the Employment Title - a new section in the Treaty dealing with the coordination of employment policies. 1997 also saw the launch of the European Employment Strategy (EES), a new form of employment policy coordination, and in 2000, the Lisbon Strategy launched an agenda of economic reforms for a return to full employment and to strengthen social cohesion and was reinvigorated in 2005 as the Strategy for Growth and Employment.

Its successor in 2010, the Europe 2020 Strategy, aims for smart, sustainable and inclusive growth. The employment target was simplified to an overall rate of 75% (for those aged 20-64) but the social inclusion aspects were substantially raised with the integration of a poverty and exclusion reduction target of 20 million people (roughly 25%).

Employment and social concerns were placed and are at the core of the Commission's flagship policy programmes but the institutional set-up with policy coordination through open methods of coordination remains classical soft law as during the Lisbon Strategy. For employment issues (including the poverty targets) the Commission proposes annual Recommendations to Member States to help them meet the targets. Council adopts these country-specific recommendations. For the employment and social targets there are no mandatory elements or reinforcement instruments, however compared to Lisbon there is a higher degree of integration between the policy strands and more systematic follow-up.

From the mid-1990s onwards[10], European documents started to mention a common European concern for employment, justifying the need for European action. This contrasted with previous positions of many policy-makers in the EU, who did not see any role for the Union in the area of employment. Many policy analysts would have argued that four types of constraints would (or should) prevent the EU from being active in employment issues:

- *legal and institutional constraints:* few competences attributed to the EU and the requirement of consensus imply that no action or the lowest common denominator is the most likely option;
- *political and ideological constraints:* national actors do not have strong incentives for acting at EU level and supporters of a social Europe have traditionally fewer resources than their opponents;
- *practical and technical constraints:* the wide diversity of economic performances and priorities across the EU and the great heterogeneity of social and labour market institutions make any form of harmonisation hardly likely, if not unrealistic, in practice.
- *financial constraints:* the lack of major financial resources beyond the European Social Fund for social policy management of the EU did not permit the provision of major resources to parts of the Community with serious employment problems (comparable to a system of fiscal federalism) and led it to develop regulatory ("hard-law") and policy coordination ("soft-law") instruments instead.

European action in the social field was long described as a *market-making* or *market-building* social policy. This led, for instance, to the focus on the free movement of workers, on regulating health and safety conditions through EU directives and on investment in human resources through the European Social Fund, so as to ensure a sound functioning of the single market and a more adaptable workforce.

But the foundations of the EU action on employment had already been partly laid in the early 1990s. Several underlying political, economic and social factors accounted for these developments, in the context of increasing political and economic integration throughout Europe.

- *Economic governance in the context of EMU and the impact on employment:* Throughout the 1990s, there was a debate about the inclusion of an employment dimension in the Maastricht criteria for EMU participation. Many felt that the Maastricht process with its emphasis on nominal convergence and financial stability would damage economic and in

[10] See Fischer and Tholoniat ,The European Employment Strategy in an enlarged EU, ZAF 1/2006.

particular employment growth. The question raised was whether a "rigorous" preparation of EMU would not leave employment and especially the unemployed behind. And indeed, with the exception of a few countries, unemployment remained stubbornly high and employment growth was weak despite economic recovery and some progress towards the Maastricht criteria. While none of the European actors at the time proposed an additional Maastricht criterion dealing with unemployment, the bleak employment performance created a political demand for a strong European commitment to employment. With the growth of the single market and more so with EMU on the horizon, it would have been wrong to believe that even the biggest Member States could pursue employment policies totally independently of developments in other countries. Trade creates such dependency as well as migration (although actual intra-EU mobility is limited). There is also a socio-psychological/political economy dependency: the impact of high unemployment in some Member States on the economic and social climate in the Union as a whole. Even an economy with low unemployment and high employment will be deeply affected by the confidence effects of high unemployment elsewhere if the countries are large and/or deeply integrated in the EU economy. A related specific concern is that such dependency may create a race to the bottom in terms of working conditions and wages and a race to the top in terms of subsidising activity.

- *Learning from each other to* implement *structural reforms (same problems, same solutions?):* Against this background, European policy makers felt that some commonality in the approach to employment and unemployment would help to improve the state of affairs. The idea was to use the EU level to promote employment policies at national level, be it to argue with the national Finance Minister or with the social partners. Hence the two elements of EU policy coordination: peer pressure and best practice exchange.

- *Putting flesh on the concept of European citizenship:* Since the Maastricht Treaty, the concept of European citizenship has gained significance. Activities in the field of social protection, social inclusion and the fight against discrimination, which have much to do with employment, have developed since the Amsterdam Treaty came into force, with implications in terms of EU legislation and policy coordination.

3. Stronger coordination of economic policies and the aftermath of the Euro-crisis

Since 1998 all 27 EU Member States are committed by the Stability and Growth Pact (SGP) (now with corresponding articles in the EU Treaty), to implement a fiscal policy aiming for the country to stay within the limits of a government deficit of 3% of GDP and debt of 60% of GDP; and if they have a debt level above 60% it should each year have a declining trend. If the EU Member State is deemed not to comply with both the deficit limit and the debt limit, a so-called "Excessive Deficit Procedure" (EDP) is initiated along with a deadline to comply, which basically includes and outlines an "adjustment path towards reaching the medium-term budgetary objective".

In the wake of the Euro-crisis, which saw financial markets pushing up interest rates for certain Member States to very high levels and the real risk of them being unable to borrow, EU economic governance was substantially strengthened with a set of six pieces of legislation, quickly dubbed the Sixpack.

The Sixpack describes the set of European legislative measures to reform the Stability and Growth Pact and to introduce new macroeconomic surveillance. Four of the six instruments in the Sixpack, are used to conduct a further reinforcement of the "Stability and Growth Pact", focusing on improving the compliance part. They enforce budgetary discipline in the Member States of the euro area, with sanctions that now come into force earlier and more consistently than before. The remaining two pieces of legislation in the Sixpack, relate to the Macroeconomic Imbalance Procedure, an early warning or preventative system for excessive macroeconomic imbalances and a correction mechanism.

Further reinforcement was provided by the Two-pack; two Regulations which introduced an additional coordination and surveillance of budgetary processes for all eurozone members. The additional regulations complement the SGP's requirement for surveillance, by enhancing the frequency for scrutiny of Member States' policymaking, but do not place additional requirements on the policy itself. The monitoring frequency depends on the economic health of the Member State. All eurozone Member States are obliged to respect "Regulation 1", while "Regulation 2" – demanding a further increased monitor frequency – only will be triggered if the country has an ongoing Excessive Deficit Procedure (EDP) or Excessive Imbalance Procedure (EIP).

The Twopack regulations for Eurozone members together form a stronger budgetary governance with a tighter system of monitoring and surveillance.

4. Strengthened coordination of employment policy through the European Semester

Following the adoption of the Europe 2020 Strategy, the process of policy coordination was also reformed with two aims: firstly to ensure that the policy integration of Europe 2020 would also effectively be introduced in the coordination of national policies, and secondly to make coordination more effective. To achieve the former, the Commission issues an annual integrated policy document, the Annual Growth Survey (AGS), covering all dimensions of Europe 2020 and prepares country by country analysis following the same principle, encouraging Member States also to present their policy strategy and reports in the same manner. To increase effectiveness, the recommendations are issued before budget adoption and any related policy-setting takes place in the Member States in order to have greater impact. Policy dialogue has become more dense and intense.

The nature of the country-specific recommendations (CSRs) has changed somewhat with the launch of the European Semester. In the past couple of years they have become more detailed, for some Member States too detailed (note recent French complaints led by President Hollande). The Commission has deliberately proposed such detailed CSRs in part because some countries are judged more vulnerable as a result of prolonged crisis and in part because of repeated failure to implement more general ones. France and other critics say the CSRs should specify the desired outcomes but not the policy levers to use. It is difficult to judge whether this has led to real policy changes in the Member States but there is some prima facie evidence that it has, with CSRs being taken more seriously.

Of course the prolonged crisis with massive impacts on unemployment and incomes, and the declining fiscal space are also reflected in the policy process around the European Semester and there was and is criticism that recommendations are too centred around fiscal and competitiveness issues and too little attention is being paid to the employment and social crisis (see for example the statement by social democratic Labour Ministers of 27/2/2013 but also frequent submissions by the Social Platform and the ETUC).

The Commission has stressed the need to pay attention to increased labour demand through the Employment Package[11]. Through the European Semester, the focus has been more on the labour supply, with emphasis on more effective action by Member States in the areas of activation, increasing older worker participation, raising female employment rates through interalia better childcare, and tackling labour market segmentation. CSRs have addressed these issues.

The 2013 CSRs exhibit overall a stronger and more detailed focus on employment and social policy in comparison to both 2011 and 2012. This is also linked to the fact that the 2013 Annual Growth Survey as well as the Country-Specific Recommendations include more varied analysis and recommendations on social issues and policies. Some issues have gained prominence in this year's exercise, with a shift in emphasis towards addressing youth unemployment and education, increasing the efficiency and effectiveness of healthcare expenditures, and improving poverty and social inclusion outcomes.

In general we can identify an effort to reinforce and add precisions to previously generally formulated CSRs between 2011 and 2013: both the breadth and scope of the employment-related CSRs has substantially increased, with some exceptions.

Some CSRs, such as on pension reform, have already been very precise from the start (e.g. phasing out early retirement schemes and linking the statutory retirement age with life expectancy). But even here, in some instances the 2013 CSRs have seen some reinforcements (for example for the Czech Republic). Similarly, on the argument that taxation should be shifted away from labour towards sources of taxation less detrimental to growth, CSRs have always stated the measures to be taken quite frankly. However, the recommended alternative sources of public revenue now also include wealth and property and see a reduced focus on (regressive) VAT, reflecting concerns on growing inequality and the distributional income of changes in taxes.

In other areas, such as the employment rates of older workers, the recommendations remain rather general ("increase employability"), with some notable exceptions (e.g. Belgium). This stands in contrast with the precise recommendations on how to address female labour market participation. On youth, the CSRs also tend to stay at a general level, this year introducing the recommendation to implement Youth Guarantee schemes. Given the monitoring that will take place on Youth Guarantee schemes, it can be expected that the CSRs will become more precise next year, if need be.

A third category of CSRs allows Member States to design the reform, but indicates very clearly what the underlying issue is that needs to be addressed. Such CSRs relate for example to the increased use of active labour market policies or to the development of vocational training. This also applies to the framework for the benefit system, where for example France received a recommendation to ensure that the benefit system does not create disincentives to work.

Finally, there are some areas in which there is variation in detail between different countries.

[11] "Towards a job rich recovery" COM(2012) 173, 18.04.2012

For example, with regard to public employment services for some countries the CSRs simply refer to "more efficient public employment services", whilst for others they specify precisely what the issues are that need to be addressed (capacity, provision of individualised support, etc.)..

As explained before, contrary to policy advice in the fiscal and macroeconomic areas no enforcement mechanisms are available at EU level, nevertheless the Commission has proposed to link more strongly the agreed policy advice resulting from the European Semester and the EU funding for related policies. The future EU-funded programmes should be designed with this policy advice in mind and implementation should take account of these priorities and challenges. Partnership agreements between Commission and Member States will be drawn up to this end and monitoring of implementation will provide opportunities to encourage reprogramming to strengthen policy relevance if necessary.

What can be reported on effectiveness of employment and social policy coordination? Studies usually show that there is an impact on policy thinking and design but direct impacts are difficult to demonstrate. To give an example: activation rather than promoting withdrawal from the labour market and notably avoiding early retirements have been two key messages to Member States over the last decade. And indeed as mentioned before, European labour market performance even in recent years shows little increase in inactivity contrary to the US where in the first years of the crisis inactivity increased substantially. On the demand side employment of workers between 55-64 increased in the EU over the crisis period and also in Member States where overall employments declined. In 2007 the employment rate for people aged 25-54 in EU 27 was 79% in 2011, this had fallen to 77.6%. For those aged 55-64 it rose from 44.6 % to 47.4 %. Germany saw figures of 80.3% rising to 82.8% for those aged 25-64 but 51.3% rising to 59.9% for those aged 55-64. Italy saw an employment rate in 2007 at 73.5% and 71.1% in 2011 for all, but 33.8% rising to 37.9% for older workers. While it is impossible to estimate the impact of the EU level imperatives for these policy developments it is an indication that EU-wide policy dialogue does have an impact on national policy discourse and behaviour.

Table 1.0: 2012-2013 CSR Comparison

		AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	HU	IT	LT	LU	LV	MT	NL	PL	RO	SE	SI	SK	UK
Pension System Reform																									
	Adequacy																								
	Sustainability																								
Healthcare System Reform																									
	Long-term Care																								
Labor Taxation																									
Labor Market Participation																									
	Long-term																								
	Young																								
	Women																								
	Childcare Services																								
	Older Workers																								
	Migrants																								
Active Labor Market Policies																									
	PES-s																								
Youth Guarantee																									
Wage-Setting Mechanisms																									
Labor Market Segmentation																									
Education																									
	Early School Leavers																								
	Higher Education																								
	Vocational training																								
	Lifelong Learning																								
Poverty/Social Inclusion																									
	Social Benefits																								
	Child Poverty																								
	Migrants																								
	Roma																								
Number of CSRs in 2012		7	7	7	7	6	4	5	5	8	5	5	7	6	6	6	7	6	5	6	NA	4	7	5	6
Number of CSRs in 2013		7	7	7	NA	7	4	3	5	9	5	6	7	6	6	6	6	3	4	7	8	4	9	6	7

Note: Commission recommendations for Greece, Ireland and Portugal for 2012 and 2013 are only to implement existing commitments under EU/IMF financial assistance programmes.
Note: Commission recommendations for Romania for 2012 are only to implement existing commitments under EU/IMF financial assistance programme.
Note: Commission recommendations for Cyprus for 2013 are only to implement existing commitments under EU/IMF financial assistance programme.

Recommendation present only for 2012
Recommendation present only for 2013
Recommendation present for both 2012 and 2013

5. Still tighter coordination of employment and social policies?

The recently strengthened EU economic governance aims to reinforce the EMU, addressing some of the initial weaknesses of its design and making it more competitive and able to deliver growth. As a further move towards a genuine EMU, the Commission has also proposed ex-ante coordination of plans of major economic reform and a Convergence and Competitiveness Instrument facilitating the implementation of structural reforms. The Blue Print of the European Commission for a deeper EMU develops a far broader vision of the necessary policy changes including a full banking union, the development of a fiscal capacity and of Euro area wide policy instruments. In this context the question has inevitably been raised whether such vision of a deeper EMU would not also need a social dimension.

The development of the social dimension of a genuine EMU aims at the capacity for the whole Euro area and thereby also the EU to ensure that economic efficiency and social justice are pursued at the same time, notably thanks to strong employment and social policies ensuring development of the human capital base and socio-economic opportunities in the EMU, even in times of crisis and adjustment. As for employment coordination, mutual dependency well beyond direct economic links is considered as a strong rationale. Four points are typically made.

1. While membership of EMU and the associated fiscal obligations limit Member States' ability to unilaterally deal with employment and social consequences of economic shocks, it is in the collective interest of the members of the currency union to prevent employment and social crises in any of its parts from deepening and work towards socio-economic convergence. Unemployment and social problems have a direct effect on aggregate demand through income losses for significant parts of the population or for society as a whole.

2. They also impact negatively on competitiveness and on the growth potential of the economies by underutilization and weakening of human capital now and in the future (hysteresis effects). This increases current and future pressures on public expenditure and thereby the debt vulnerability of a Member State, undermining the return to fiscal sustainability and compounding internal macroeconomic imbalances.

3. A combination of high unemployment and declining incomes with declining fiscal space can lead to downwards spirals in terms of labour market and social conditions undermining the capacity also of other Member States to uphold agreed labour and social standards and undermine the long term potential of the EU labour force (see box with chart 9).

4. Persistent unemployment and social problems can also lead to social unrest threatening the stability of governments and their capacity to run sound policies, maintain market confidence in the common currency and borrow with narrow interest rate spreads. As the Italian Prime Minister, Enrico Letta, wrote in the Financial Times of 24 June 2013 "Until now, finance and labour ministers worked separately: the former focusing on balance sheets, the latter on labour reforms. But the two are related: there will be no economic growth or debt reduction without structural reforms in labour markets. At the same time, reforms will be socially and politically unbearable without growth and jobs;"

The social dimension of the EMU would need to become an integral part of EU economic governance. There is a variety of ideas related to it covering stronger policy coordination underpinned by financial support, Euro Area stabilisers to compensate for the declining capacity of EMU members to finance income support and active programmes, EU programmes to strengthen the capacity of Member States to address the biggest labour market problems, facilitate mobility and establish an open EU labour market and establishing labour and social standards beyond the existing acquis.

Commissioner Andor set out a fairly comprehensive programme for a social dimension of the EMU in a speech made on the occasion of the 80th anniversary of the "New Deal" and its lessons for policies responding to the present prolonged recession in Europe.[12] He said:

> "Without social union, national welfare states have very little chance to survive. If we want Europe to be fair and democratic, we need a social union.
>
> We need greater consideration of employment and social issues in the European Semester and in formulation of macroeconomic policies. We need policy benchmarks for adequate action on employment and social problems, like the Youth Guarantee. And possibly we need minimum social standards in order to prevent macro-economic adjustment relying too much on internal devaluation.
>
> We know that the stabilisation function of national budgets has largely weakened after the first two years of the crisis, and that it is inadequate in the situation of massive asymmetric shocks impacting the European Economy.
>
> Federal solutions like the establishment of an EMU automatic stabilisation mechanism in the form of EMU unemployment benefit scheme should be openly discussed.
>
> Such an unemployment insurance or unemployment benefit scheme, focused on the short term, would allow both for more automatic stabilisation of individual member economies and for more consistency between their labour markets.
>
> If such a scheme had been in place when the euro was launched, Spanish workers would likely have been net contributors for the German unemployed. Today it would be the other way round.
>
> The point is that better and automatic stabilisation within the EMU would move some cyclicality from national budgets to the federal level, where it is more easily absorbed.
>
> This would benefit not only the EMU members' economies, but would also generate positive spill-overs to the rest of the EU and beyond, as neighbouring economies would also be less exposed to the fluctuations of the economic cycle."

[12] Public evening debate on "80 years of the New Deal: lessors for Europe today", Brussels 7 March 2013

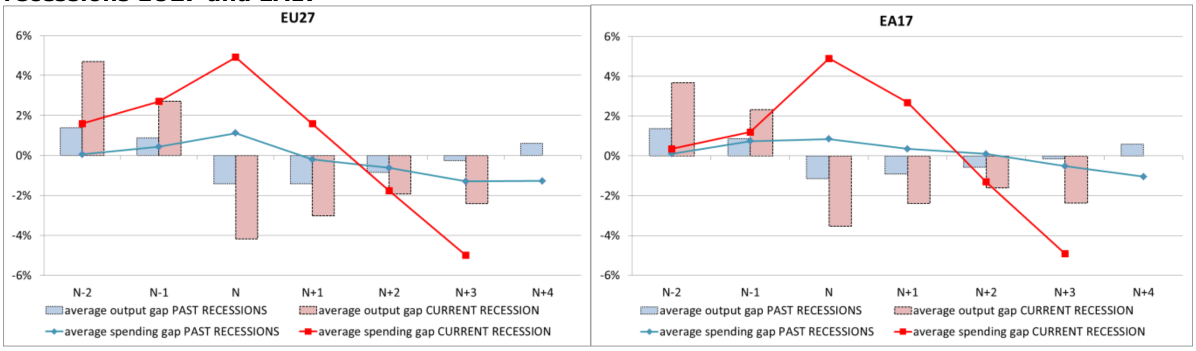
Social protection expenditure in the current crisis

The deviation from trends in social protection expenditure growth following the initial recession (2008-2009) and following years of recovery (2010), slow growth (2011) and second recession (2012) can be compared with episodes of recessions in the 1990s and 2000s.

Compared to past recessions, the year of recession (N, 2009 in most countries) was much deeper in this crisis, as reflected by more negative output gap levels on average (around -4%), and relatively high positive deviation of public social expenditure from trends (around +5%). In past recessions where information is available, the output gap was milder (around 1%-1.5%) and the deviation from the trend of social expenditure was lower (around 1%), which tends to suggest that the increase in social expenditure in the first year of this crisis was more sensitive to the economic cycle in this crisis than in the past, reflecting probably stronger increases in unemployment levels and also stronger increases in other types of expenditure than unemployment expenditure (such as health or pensions expenditure). The year after the recession (N+1, 2010 in most countries) showed a relatively quicker decrease in the output gap than in former recessions and a parallel decline in the positive deviation from the trend in social protection expenditure. Two years after the recession (N+2, 2011 in most countries) showed a lower improvement of the output gap, but in this context, the deviation from the trend in social protection expenditure growth declined more significantly than in the preceding year and even became generally negative.[1] Three years after recession (N+3, 2012 in most countries) showed a worsening of the output gap, but in this context, the deviation from the trend in social protection expenditure growth kept reducing at broadly the same pace as in preceding years and became generally more negative. These developments also seem to be diverging from past trends, since a deterioration in the output gap has generally been accompanied by an increase in the deviation from the trend in social protection expenditure, while in this crisis it went on adjusting downwards.

As a result in year N+3, while the output gap stood at around -2% and had been declining compared to the preceding year (N+2), the deviation of social expenditure growth from its trend is strongly negative and has been going on adjusting downwards at a comparable pace in the latest year. This reflects a significant downwards adjustment in the cyclical component of social protection expenditure, as well as a potential permanent adjustment of the trend of social protection expenditure during this crisis. It also partly reflects the exceptional scale of the fiscal consolidation needed in this crisis, in a context of incomplete EMU with systemic weaknesses.

Chart 9: Deviation from the trend of public social expenditure and GDP output gap in current and past recessions EU27 and EA17[13]



Source : Eurostat, National accounts, DG EMPL calculations.

[13] 2012 data are estimated based on quarterly data from the first 3 quarters. In the current recession, N is year 2009. Estimates of the deviation from the trend in social protection expenditures are based on a standard Hodrick-Prescott filter. Reading notes : in the year of the recession, in the current crisis, social expenditure were around 5% above their trend in Europe, while the GDP was about 4% below its potential (output gap of -4%). Averages are unweighted country averages (since countries do not always experience a recession the same year).

There is scope, under the current treaties, to strengthen the social dimension of the EMU by better informing EU economic governance within the European Semester, stepping up surveillance and coordination of employment and social policies, supporting intra-EU labour mobility and increasing the role of social dialogue. For other measures under discussion, Treaty changes would be required.

Vice-President Rehn in his speech on 22.5.2013 to the European Parliament said :

> "Our work on the EMU's social dimension concentrates on finding ways to better integrate the social dimension in the current structures for economic governance. For example, there is room for strengthening the surveillance of employment and social developments within the European Semester framework.
>
> The Macroeconomic Imbalances Procedure with its scoreboard could be further developed to this purpose. While maintaining the structure and objectives of the MIP, the in-depth reviews could regularly review employment and social policies with a view to identify such policies that mitigate social problems and improve employment.
>
> The deepening of EMU requires a genuinely integrated labour market. Enhanced labour mobility within the whole EU is important for the efficient operation of the single market as well as to better match work and workers to enable a higher level of employment.
>
> Reduced mobility costs and hurdles across the EU would contribute to tackling in particular youth unemployment, which is highly concentrated in some countries and regions."

As European Council president, H. Van Rompuy, said at the recent European Council:

> "The crisis has shown that lasting financial and economic divergences, if not corrected in due time, may threaten the financial stability of the euro area as a whole. Yet increasing unemployment, growing poverty and exclusion are also harmful to the Union's economic potential and social cohesion. The promotion of a high level of employment, the guarantee of adequate social protection, the fight against social exclusion, and a high level of education, training and protection of human health are an integral part of Europe's global competitive advantage".
>
> "These general objectives deserve a more specific attention in the context of the monetary union. While social policy remains an exclusive prerogative of Member States, lack of coordination can disrupt the functioning and the stability of the EMU. Indeed, high and persistent levels of unemployment and social exclusion weaken citizens' support for the monetary union. Severe unemployment and social problems in a Member State of a currency union undermine its ability to fully benefit from its participation in the EU. There is ample room for improving the framework for the co-ordination of employment and social policies in the context of the European Semester. At the same time, there is a need for an enhanced social dialogue at both the EMU and the national levels."

Thus both Commission and Council advocate a reinforcement of policy coordination in the employment and social fields through a better and more focused use of indicators. This is often discussed as either reinforcing the macro-economic imbalances procedure with employment and social indicators (such as NEET rates, i.e. young people Not in Employment, Education or Training, or poverty rates), or complementing this procedure with a complementary analysis that identifies employment and social imbalances that lead to tensions in the functioning of the EMU.

Monitoring employment and social imbalances in the EMU could be done through a strengthening, with a limited number of key indicators, of the macroeconomic imbalances alert mechanism. These employment and social indicators could be analysed in-depth during the European Semester, triggering collective action where necessary (i.e. country-specific recommendations, ex-ante coordination, contractual arrangements and the Convergence and Competitiveness Instrument). Corresponding policy tools could also be strengthened, notably through the development of policy benchmarks in the context of Employment Guidelines. There is widespread agreement that this would be desirable perhaps reflecting the feeling that employment and social impacts of the prolonged recession deserve more systematic monitoring and attention in setting out the overall policy strategies at EU and national level. Figures for the EU 27 show a worsening labour market but do not display a declining social situation. Southern and peripheral Member States have seen such a deterioration. Greece, Spain, Italy and Portugal have seen increases in the numbers of severely materially deprived, working age adults at risk of poverty, the elderly at risk of poverty and those reporting unmet medical needs (see table 2) coinciding with rising unemployment and falling employment rates, real wages and median incomes. Germany saw improving labour market performance and no social deterioration.

Beyond earlier pressure for action in the employment and social fields, the Commission and Council have agreed upon contractual arrangements and financial incentives to promote reforms. The idea would be to support Member States facing particularly difficult social challenges with little room for fiscal action with EU level funding in addition and beyond their access to Cohesion Funds. The European Council intends to make related decisions still this year and it remains to be seen how relevant such support will be.

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Table 2: Key social indicators for selected Member States

	Greece				Spain				Germany			
	08	**11**	**12**	**Diff (12/11)-08**	**08**	**11**	**12**	**Diff (12/11)- 08**	08	11	12	**Diff (12/11)-08**
Unemployment Rate (% of labour force)	7,7	17,7	24,3	16.6 pps	11,3	21,7	25,0	13.7 pps	7,5	5,9	5,5	-2 pps
Employment Rate (% of population aged 15-64)	61,9	55,6	51,3	-10.6 pps	64,3	57,7	55,4	-8.9 pps	70,1	72,5	72,8	2.7 pps
Real gross wages and salaries per employee (annual % change)	-1,9	-4,9	-3,5	-10,5%	4,8	-0,8	-0,8	2,0%	1,5	2,5	1,3	4,1%
Severely materially deprived people (% of population)	11,2	15,2		4 pps	2,5	3,9		1.4 pps	5,5	5,3		-0.2 pps
Working age adults (18-64) at-risk-of-poverty (% of population 18-64)	18,7	20,0		1.3 pps	16,4	20,5		4.1 pps	15,4	16,4		1 pps
Elderly (65+) at-risk-of-poverty (% of population 65+)	22,3	23,6		1.3 pps	27,4	20,8		-6.6 pps	14,9	14,2		-0.7 pps
Income quintile share ratio (S80/S20)	5,9	6,0		0,1	5,4	6,8		1,4	4,8	4,5		-0,3
Median equivalised income (euros deflated ref 2008)	10800	9940		-860€ (-8%)	12950	11809		-1141€ (-8.8%)	18309	18268		-41€ (-0.2%)

Source: Eurostat, EU-SILC and LFS, and Commission Services

The initiatives to address high levels of youth unemployment can be seen as a new form of enhanced policy coordination. The Commission proposed and Council agreed to a Youth Employment Initiative with a Youth Guarantee requiring Member States to provide a job, apprenticeship, traineeship or continued education place within 4 months after a young person left school or employment. This was combined with a financial package of € 6 billion to be administered via the European Social Fund to fight youth unemployment and the European Investment Bank providing € 60 B of loans for companies to hire young workers. Enrico Letta, in the same Financial Times letter of 24/06/2013 wrote "We [Member States] can address some of these issues at national level.… But there also needs to be an EU dimension that concentrates on tools to help young people find a job or start training." And the conclusions of the June European Council, which focused extensively on this issue, note "The EU will mobilise all available instruments in support of youth employment… implementing the Structural Funds, Member States will exploit all possibilities offered by the ESF… the Youth Employment Initiative to be fully operational by January 2014 allowing the first disbursements to beneficiaries…. The disbursement of € 6 billion… should take place in the first five years of the next Multiannual Financial period."

6. Going beyond coordination

If we have concluded that enhanced policy coordination would certainly be useful, and probably essential, for a social dimension of, and thus a robust and sustainable, EMU, the question remains as to whether this is enough. Three EU level instruments can be considered to complement tighter national policy coordination and achieve less divergence and greater cohesion: an E(M)U level unemployment scheme; a new labour market mobility instrument; and, minimum social standards including a minimum wage (floor) in the EU.

6.1 An E(M)U level unemployment benefits scheme.

High levels of labour mobility and fiscal transfers among Member States are two defining features of an optimum currency area. In the United States, where labour mobility is higher than in Europe, the federal budget has been able to absorb up to 40% of a regional economic shock through a combination of lower tax revenues and federal expenditure.[14] Fiscal transfers have a stabilising function that complements the role of labour mobility. In the EMU, the development of a central budget represents a long-term project, requiring commensurate pooling of sovereignty in a political union, as set out in the Commission's Blueprint. Building on a limited fiscal capacity supporting EMU Member States in implementing agreed structural reforms, a genuine central budget with an automatic stabilisation function could be developed in the longer term, reducing fluctuations in national incomes in the event of asymmetric shocks on an insurance basis. Such an instrument would provide the EMU with greater ability to prevent short-term asymmetries of a cyclical nature from unleashing structural divergence (see Box page 19 and Chart 9).

Among such stabilisers, the possibility of establishing an EMU-wide unemployment benefit

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[14] X. Sala-i-Martin and J. Sachs, "Fiscal Federalism and Optimum Currency Areas: Evidence for Europe From the United States", NBER Working Paper No. 3855, October 1991.

system (UBS) stands out, as such a scheme is easy to understand and would stabilise the economy in a timely and effective manner through targeting a population with a high consumption propensity. As Benoît Coeuré, Member of the Executive Board of the ECB said "A centralised fiscal capacity could be considered too, provided it is not the basis for permanent transfers but is used to promote market integration and better resilience to economic shocks. For instance, a euro area unemployment insurance scheme could be set up, which would support much-needed cross-country labour mobility."[15]

Pierre Moscovici said[16] "we should seek … an ambitious social union to encourage workers' mobility [and] greater fiscal union. By greater fiscal union, I mean eurozone-specific funds, endowed with its own, dedicated fiscal resources, in order to finance a limited, common set of priority spending in the eurozone – I'm thinking about unemployment insurance, for instance."

Some initial estimates suggest it is possible to reach large marginal stabilisation in downturns for a reasonable size of the system (0.7 % of euro-area GDP). An EMU-wide UBS could ensure basic unemployment benefit provision based on a common standard regarding e.g. duration and jobseeker activation and could, besides its counter-cyclical effect, also help improve the effectiveness of active labour market policies in getting people back to work[17] and further support transnational labour mobility.

The European Parliament recently adopted a Joint Resolution in which it "calls on the Commission to draw up recommendations on the feasibility of defining a common level of unemployment allowance in the EU in relation to the previous wage of the unemployed person." Such a common level would underpin work on an E(M)U UBS.

6.2 A mobility instrument to facilitate labour market matching

Freedom of movement for workers is a key aspect of the European Union. It has been a corner stone since the creation of the Common Market and is also an important component of how labour markets can adjust the differences in the supply of and demand for different quantities and qualities (skills) of workers. However, geographical mobility is relatively low in the European Union despite a variety of policy initiatives to address barriers such as language, different qualifications and diplomas, and social security regimes.

Looking at labour mobility in the context of the prolonged crisis and increasing divergence across countries, particularly in the eurozone, it is interesting to differentiate East-West and North-South flows. [18] Mobility from southern countries remains, despite recent increases, not commensurate to the huge disparities with the North, for instance in terms of unemployment rates. Data for those moving to Germany show that at least until now, mobility to that country plays a relatively minor role for Southern EU countries in relieving the labour market pressure of unemployment. This is despite rising and strong increased intentions of being mobile towards other EU countries among southern countries' citizens.

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[15] Palestinian Public Finance Institute Ramallah, 23 September 2012: https://www.ecb.int/press/key/date/2012/html/sp120923.en.html

[16] At Breugel Annual Meeting, September 2012

[17] See Employment and Social Developments in Europe 2012, Chapter 1, for analysis of how registration with public employment services and receipt of benefits enhances probability of jobseekers' return to employment.

[18] See special focus: recent trends in geographical mobility of workers in the EU. ESSQR June 2013.

To date, it seems that the labour market has adjusted to crisis conditions not so much by people leaving their own country to seek work in another, but through a decrease in the inflows and an increase in the outflows of migrant workers. Intra-EU movers from southern countries are younger than before, most of them also are highly educated and the potential positive impact on the mass of low or medium skilled unemployed in the South is therefore limited.

Eastern and Central EU countries record lower levels of outflows (to other EU countries) than before the crisis (when the impact of the enlargements was strong) but still make up the majority of the intra-EU movers (almost three fifths in 2011-12). The driver remains the large gaps in terms of wages with destination countries but the worsening of the economic situation in some of the EU-12 countries due to the crisis (such as the Baltic States or Hungary) seems to also have played a role recently. While the level of the outflows for these countries seems in line with the measured mobility intentions, the issue is rather the use that is made of the skills of the movers. Most EU-12 movers work in medium or low-skilled occupations and those highly educated are affected by a very high over-qualification rate, higher for instance than for third-country nationals.

Due to substantial differences in unemployment rates between South and North and in wages between East and West, there is a substantial and increasing number of persons wanting to move across the EU. The proportion of people with 'firm intentions' to migrate in the following 12 months has more than doubled, from 0.5% to 1.2%, i.e. from 2 to 5 million, and is highest in Greece. Intra-EU mobility has somewhat recovered in recent years following the drop at the onset of the crisis. Workers from Eastern and Central EU Member States still make up the majority of those moving to another EU country but their skills often remain under-used. The numbers of workers moving from southern to northern Member States are increasing more quickly but from a lower base. Overall it seems that the labour market has been adjusting to crisis conditions not so much by people leaving their own country to seek work in another, but through a decrease in the inflows and increase in the outflows of migrant workers, especially in the case of Spain.[19]

Analysis shows that these intentions have partly materialized since intra-EU mobility has somewhat recovered in recent years (2011-12) following the drop at the onset of the crisis (2009-10). It is especially the case of southern Member States that record now higher outflows than before the crisis and for which the number of movers to North EU countries has risen very quickly, though from relatively low levels in absolute terms.

It thus seems that intra-EU mobility of workers is still not playing its full role, both in quantitative and qualitative terms. Mobility flows in the EU have reacted to the economic conditions, though not to the extent needed to have a real equilibrating role against the huge imbalances across EU labour markets. This prevents large economic gains to occur, for both destination and origin countries, and for both employers and workers[20]. While many initiatives are currently being taken to increase the role of mobility, two actions seem to be particularly relevant. The EU should reinforce the EURES employment information system to create a real EU-wide matching system that could be the core instrument for an employment service at European level based on close cooperation of the national services. Secondly, a

[19] Social Europe EU Employment and Social Situation, Quarterly Review, June 2013

[20] EPC, Making progress towards the completion of the Single European Labour Market, May 2013, Issue paper N°75.

more encompassing instrument with greater funding of mobile workers could be a decisive means to create a significant increase and necessary adjustment.

One such instrument could be a Mobility Promotion Fund which would provide information, language training and some income support for a limited time. A proposal for a European Mobility Insurance has been developed which proposes to pay mobile workers up to 12 months of 70% of their wage while they look for a job in another country[21]. This would increase mobility and also benefit public budgets as countries with high unemployment saw less need to pay unemployment benefits as interested workers went abroad and found jobs.

6.3 Common standards - a wage floor in the EU?

Additional labour and social standards, as noted earlier and called for, among others, by the PES social ministers, could be introduced or enhanced in a number of areas.[22] Such standards achieve a level playing field and are key thus for the Single Market. Within the context of EMU, as Commissioner Andor noted, they can also prevent macro-economic adjustment to external shocks relying too much on internal devaluation. In this spirit several measures have been proposed. For example, the European Parliament has recently asked for minimum levels of unemployment benefits across the EU and others have argued that minimum social protection levels might be needed to avoid that fiscal restrictions undermine social protection, endangering not only standards in the particular country but exerting also downward pressures on others. For many reasons wage floors figure particularly prominently in this debate.

Minimum wages ensure that workers receive a minimally adequate salary, set a bar to competition between employers and prevent competitive pressure on wages from pushing them so far down that spending power and aggregate demand are too adversely affected in recession.

Most Member States (20) have a minimum wage but there is wide variation both in terms of the absolute amount, even when measured with a purchasing power standard (PPS), and as a percentage of the mean wage.[23] Latest Eurostat data in PPS terms shows minimum wages range from around €275 p.m. in Romania to €1525 p.m. in Luxembourg with a smooth distribution between the amounts for the other Member States. In 2011, as a proportion of mean monthly gross earnings, these minima ranged from 32.5% for the Czech Republic to 50.2% for Greece (this figure has been substantially reduced in 2012/13). Again there is quite a smooth progression from highest to lowest. Interesting is the Czech Republic with the lowest minimum wage as a share of average gross earnings also having one of the lowest shares of the population at risk of poverty.

Encouraging, or even legislating for, all Member States to have a statutory minimum wage would be a step towards less diverse EU labour markets. If a lower bound average national wage was fixed for the minimum wage, e.g. 40%, this would further reduce disparities and accusations of social dumping.

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[21] Ilaria Maselli, "For a European Mobility Insurance", CEPS, 2012.
[22] "Towards a Social Union". PES social ministers 12.04.2013.
[23] See Chapter 5 "Wages developments in the EU during the severe economic downturn", ESDE 2012.

A recent joint paper by the French and German Governments 'France and Germany – Together for a stronger Europe of Stability and Growth' proposes "considering implementing minimum wage floors, defined at national level, that would guarantee a high level of employment and fair wages – leaving the choice between legislation and collective bargaining agreements."

<u>7. Conclusions</u>