Benchmarking Working Europe 2021

Unequal Europe

CONFÉDÉRATION SYNDICAT EUROPÉEN TRADE UNION

etui.

The European Trade Union Institute (ETUI)

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

The ETUI places its expertise – acquired in particular through its links with universities and academic and expert networks – at 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 institute's work is organised in accordance with the following key priorities:

- A social-ecological transition and the digital revolution
- A new economic model
- A renewed social contract
- Democracy at all levels
- Stronger actors and trade union renewal

etui@etui.org
www.etui.org

When citing this publication, please use the following reference:

ETUI and ETUC (2021)
Benchmarking Working Europe 2021. Unequal Europe, Brussels, ETUI.
For references to individual chapters please use authors' names.

The European Trade Union Confederation (ETUC)

The European Trade Union Confederation (ETUC) exists to speak with a single voice, on behalf of the common interests of workers, at European level. Founded in 1973, it now represents 92 trade union organisations in 39 European countries, plus 10 European Trade Union Federations. The ETUC represents 45 million members.

The ETUC is a democratic and independent organisation, recognised 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 European social dialogue. The ETUC aims to ensure that the EU is not just a single market for goods and services, but is also a 'social Europe', where improving the wellbeing of workers and their families is an equally important priority.

etuc@etuc.org
www.etuc.org

Brussels, 2021

Print: ETUI printshop, Brussels

D/2021/10.574/29
ISBN: 978-2-87452-615-2 (print version)
ISBN: 978-2-87452-616-9 (electronic version)

The ETUI is financially supported by the European Union. The European Union is not responsible for any use made of the information contained in this publication.

Contents

CONFEDERATION SYNDICAT EUROPEAEN TRADE UNION

etui.

Luca Visentini
ETUC General Secretary

Nicola Countouris
ETUI Director of Research Department

Philippe Pochet
ETUI General Director

Foreword

Inequality: new dimensions to an old problem

It has almost become a cliché to say that the Covid-19 pandemic has exacerbated pre-existing inequalities while also generating new ones. However, the following pages of this year's *Benchmarking Working Europe* clearly reveal that, far from being a platitude, the nexus between the pandemic and rising inequalities is both increasingly measurable and alarming. But they also stress that inequality is not just a one-off historical incident linked to a particular crisis. It is in fact the product of an economic model that, for the past three decades, has progressively redistributed less and less wealth to the bottom percentiles of society, while accumulating more and more at the top. In other words, it is a structural problem. Given the corrosive impact that inequalities are having on the social and economic, let alone political and democratic, fabric of our societies, the policy responses to the problem of inequality must be equally structural in character.

We raised similar concerns all the way back in the 2012 issue of *Benchmarking*, noting how a toxic policy 'cocktail', whose main ingredient was inequality, had 'created a bubble-economy which burst in 2007', leaving a legacy of even greater social and economic distress and polarisation. But the difference with this crisis is that, as noted in last year's issue of 'the Bench', it has generated a novel policy approach to addressing the very social and economic challenges it has produced. In last year's issue we already highlighted that 'policymakers, at both national and European levels, [were] approaching this challenging juncture in a way that departs from the austerity-driven responses deployed a decade ago, in the aftermath of the previous crisis'. We also forcefully advocated in favour of this new approach as crucial to ensuring a safe passage to the post-pandemic world. This important point now deserves to be further explored and reinforced: the policy reorientation that we are currently witnessing needs to become a permanent feature of our systems of economic, financial, and social governance.

The following chapters (two of which have been written by Professor Kate Pickett and Professor Simon Deakin) together offer one of the clearest and most compelling set of data-driven arguments for tackling inequalities in Europe, both to mitigate the effects of the pandemic and also, crucially, to redress some of the more structural failures of the economic model that has dominated European policymaking for the last few decades.

> Far from being a platitude, the nexus between the pandemic and rising inequalities is both increasingly measurable and alarming

Inequality before and after the pandemic

Inequalities may have been aggravated by the pandemic but, as set out in Chapter 1 (and of course by a number of highly respected scholars in recent years, including Piketty 2013; Atkinson 2015; Stiglitz 2012; Pickett and Wilkinson 2009; to name just a few), they very much predate it. They are in fact the product of a structural process of unequal distribution of income, resources, and power, that – in Europe at least – dates back to the 1980s.

Since the 1970s – the most equal decade since statistics on inequality have been compiled – the labour share of income has steadily declined in many OECD countries, whereas the share of wealth going to profits and to the so-called 'top 1%' has kept rising, while taxes for the wealthy and corporations have kept being cut at unprecedented rates. The upshot, as it is increasingly being reported, has been 'weak growth, low investment, stagnating living standards and a backlash from voters' (Elliot 2021). The hubris of economist Friedrich Hayek's disciples had perhaps the benefit of discrediting neo-monetarism even among some of Europe's conservative and right-wing parties, but at a tragic cost to our social and democratic fabric. The sharp rises in inequality, populism and right-wing extremism are just some of the offspring of neoliberalism and a decade of austerity.

> Inequalities are in fact the product of a structural process of unequal distribution of income, resources and power

The following chapters explore how the more structural inequalities that are currently rife in Europe intertwine with those that have been generated by the pandemic. Chapter 1, on this year's macroeconomic developments in Europe, shows that the Member States that were the most affected by the previous recession in Europe's southern periphery have once again suffered some of the greatest losses, not least due to their ongoing reliance on the low-skill, low-pay tourism sector. The shock of the pandemic has also resulted in a downwards divergence in income per capita between Member States. Chapter 2, on labour market and social developments, stresses that 'the impact of the crisis has not fallen equally on everyone, instead accentuating existing fault lines and potentially entrenching structural disadvantages – in particular, for the young, migrant workers, and the lower educated'. It also points out that 'European countries did not enter this crisis on an even footing', with marked differences in terms of the 'scope and reach of their pre-existing labour market policies', and that, in spite of the unprecedented level of public support schemes, they are likely to exit the crisis marked by new and even deeper divisions. The chapter also indicates the extent to which 'different trends that were already deepening divisions between workers such as new technologies, ever greater flexibility, or the green transition' have been accelerated by the pandemic.

Chapter 3 offers a detailed analysis of recent trends in wage inequalities in Europe and argues that 'an increase in wage inequality is associated with a decrease in the share of workers covered by a collective pay agreement. By the same token, higher bargaining coverage is generally associated with a more equal distribution of wages'. Recent work carried out by the ETUI's researchers has also unveiled the contribution of performance-related pay schemes to wage inequality, as the beneficiaries of these schemes are typically workers that already receive high earnings (Zwysen 2021). There is a distinctive message here about the individualisation of pay-setting mechanisms producing greater inequalities in labour markets and society at large, and about the collective

approaches available to reduce them. And while the chapter acknowledges the potential for nominal wages to recover in 2021, it cautions against assuming that this would necessarily translate into real wage growth, partly due to the unpredictable nature of the ongoing pandemic and partly in consideration of steep rises in energy and commodity prices.

Chapter 5 provides an analysis of how pre-existing inequalities and regulatory failures to prevent or address occupational health and safety hazards at work have intersected with new OSH-related risks (including psychosocial risks) that have emerged during the pandemic, creating new divides and cleavages, such as the 'non-teleworkability' divide, itself exposing some workers to greater risks of Covid-19 contagion than others. It also points to a distinctive 'public health' divide, where the most socially deprived have often been exposed to the virus in the performance of their work on the back of longstanding disadvantages in terms of health, nutrition, and chronic illness. Finally, the chapter considers the emergence of a third divide pertaining to 'the social and economic consequences of the pandemic', whereby 'the risk of unemployment is higher among low-income earners and workers with atypical or precarious employment conditions, as they serve in sectors that have been hit the hardest by the pandemic'.

> How have pre-existing inequalities and regulatory failures to prevent or address occupational health and safety hazards at work intersected with new OSH-related risks?

These are just a few examples of the nexus between the pandemic-related dimensions of inequality and its pre-pandemic, structural dimensions. These dimensions develop on a continuum and are likely to continue do so in the post-pandemic world. If this is so, then inevitably the nature of the policy response to the current pandemic needs to be closely analysed. Here we are referring to measures such as SURE and the dozens of job retention and income support schemes that have proliferated across Europe since spring 2020 (Drahokoupil and Müller 2020); the temporary suspension of certain elements of the Stability and Growth Pact; the relaxation of some rules on state aid and competition law; the unprecedented injection of liquidity into the real economy under the ECB's Pandemic Emergency Purchase Programme (PEPP) and other targeted lending schemes to banks to facilitate the flow of credit; and, finally, Next Generation EU and its national counterparts; all of which were first assessed in last year's *Benchmarking* issue, and whose analysis is systematically updated in the following pages. Equally important, however, are the review processes of EU economic governance and of the ECB's monetary policy strategy that were launched prior to the pandemic and have now concluded or been resumed. These are producing proposals that point to important (albeit incomplete or still politically uncertain) shifts, which could be positive steps in the direction of tackling inequalities and supporting the climate transition. Along these lines, it is also important to highlight the growing, if incremental, role of international cooperation in the fiscal domain, including green and corporate taxation (Valenduc 2021; OECD 2021).

Structural problems require structural answers. There is a strong case to be made for ceasing to consider these policy responses to the Covid-19 crisis as temporary and contingent, and reinterpreting them instead as structural answers to a series of long-standing deficiencies of the neoliberal model of economic and financial governance.

The ‘drag effect’ of inequalities

A second important consideration in respect of the relationship between increasingly ‘entrenched and intersecting inequalities’ – to borrow a term used by Professor Kate Pickett in her Guest Editorial – and Europe’s post-pandemic future, is the extent to which inequality may be emerging as a powerful handbrake on the unprecedented efforts by national and European institutions, including of course social institutions and actors, to steer us out of these tragic times and onto safer waters.

For instance, there is growing evidence of the existence of a nexus between vaccine hesitancy and socioeconomic disadvantage, hampering public policy efforts aimed at immunising the largest possible share of the European population (Cascini et al. 2021). Taking a global perspective, Chapter 7, this year’s foresight chapter, postulates that hopes of a total eradication of the SARS-CoV-2 virus have gradually faded due to the difficulties of achieving a global vaccination rate sufficient to slow and then prevent the circulation of the virus itself. There is also emerging evidence of correlation between exposure to the virus and low wages and precarious and unsafe forms of work, not to mention overcrowded and underfunded public transport (Gkiotsalitis 2021). This is of course precluding a full reopening of European economies, to the extent that any significant relaxation of social distancing and teleworking rules seems to lead, almost invariably, to a rise in the number of infections and new waves of the disease (Matilla-Santander et al. 2021).

These examples are developed further by the sophisticated analysis carried out by ETUI researchers in Chapters 1, 2 and 5, which together offer a comprehensive assessment of the nexus between structural inequalities, the pandemic, and the post-pandemic trajectory. They all point to a need for a sustained commitment to labour market and income support measures and expansionary, growth-oriented, fiscal and economic policies, as do some of the recent ETUI publications on post-pandemic labour market scenarios (Jestl and Stehrer 2021). These are just some of the most immediate examples of the ‘drag effect’ procured by the unprecedented levels of inequality affecting our societies. But their impact on Europe’s exit velocity out of the current crisis pales compared to the long shadow they cast over a much more existential threat: climate change.

Chapters 4 and 7 jointly offer a fresh and original overview of the nexus between inequalities and climate change policies. Chapter 4 unveils one of the many paradoxes affecting our unequal times: the fact that those least responsible for climate change (in Europe and beyond) are, and will continue to be, those most affected by it. But it also points forcefully at an additional paradox: that the growing levels of social and economic disadvantage characterising our current times are likely to slow down and even hamper a decisive reorientation of our system of production and consumption towards a carbon-neutral future. To simplify a much more sophisticated message, since climate mitigation policies affect energy and food prices, they are likely to slow down progress in energy access and disproportionately affect the poorest, who spend a higher share of income on these goods, thus provoking resistance and discontent. From this standpoint it is hardly surprising that the recently concluded COP26 conference has failed to deliver on its initial targets and hopes (Masood and Tollefson

“There is growing evidence of the existence of a nexus between vaccine hesitancy and socioeconomic disadvantage

2021), with India's climate and environment minister stressing 'that richer nations should not expect poorer countries to stop subsidizing fossil fuels such as gas. The lowest-income households rely on these to keep energy costs down'. Chapter 7, meanwhile, posits that the increasingly likely emergence of a scenario whereby the virus becomes 'endemic' could lead to an 'even more polarised society', while also calling into question the logic underlying European and national economic recovery plans, especially if a return to the 'new normal' means in effect a return to pre-pandemic levels of consumption and exploitation of natural resources.

The ETUC and ETUI have repeatedly stressed that climate change mitigation policies cannot be devised and introduced in the absence of a more radical sustainable and equitable reorientation of our economic and welfare systems (ETUC 2020; Gough 2021; Bollen et al. 2021; Laurent 2021). The transition to a carbon-neutral economy can only be a 'just transition', and this issue of *Benchmarking* reinforces the point.

> The transition to a carbon-neutral economy can only be a 'just transition'

Reconstruction after the pandemic

The analytical verdict of this year's *Benchmarking* is quite clear: inequality is a deep-seated structural feature of our economic system and needs to be tackled both during and well beyond the current pandemic timeframe. But its more normative message is just as strong and significant. Besides the point already made in respect of retaining and consolidating – including, where necessary, through EU treaties and national constitutional reforms – the current expansionary and redistributive fiscal and economic framework, and the importance of emphasising the 'just' in the just transition slogan, this year's *Benchmarking* places trade unions, collective bargaining, industrial and economic democracy, and decent wages and incomes at the centre of these policy and reform debates.

We have noted how the post-1970s decline in labour's share of national economies coincided with regressive tax reforms and a steep rise in the wealth accumulated by a privileged few. But this is not the only 'coincidence'. At the same time, trade union membership has been declining, along with collective bargaining coverage. Correlation is not causation, but as Kristal points out, it is highly arguable that 'the common trend in the dynamics of labour's share of national income is largely explained by indicators for working class organisational power' in the economic and political spheres (Kristal 2010).

These points are elaborated upon in a novel way by Chapters 3 and 6. Chapter 3 addresses the importance of underpinning the processes of wage determination and centralised collective bargaining with effective regulatory institutions, echoing the current efforts by the ETUC to ensure that the EU adopts a suitable instrument to guarantee decent and adequate wages for all European workers. Chapter 6, written by Professor Simon Deakin, establishes a most compelling, and methodologically robust, link between the rules regulating industrial democratic institutions and greater equality (as measured by labour's share of national income) but also improved productivity and innovation, thus leading to higher levels of employment.

Not your usual ‘interregnum’

The Covid-19 pandemic has precipitated Europe, along with the rest of the world, into an unprecedented crisis. It undoubtedly represents a clear fracture in the linear course of history. The Gramscian concept of ‘interregnum’ is possibly one of the most used, and often abused, metaphors that one can deploy to describe any point in time in which ‘the old is dying’ and ‘the new cannot be born’. The concept is so captivating that it often lends itself to describe – albeit perhaps only superficially – almost any event where past policy failures become apparent and questions are raised about what should be done to mitigate their effects and deal with any of the ‘morbid symptoms’ that are never in short supply during economic or political crises. The end of the ‘cold war’, the decline of the American global hegemonic position (Cohen 2013), the crisis of the liberal international order (Babic 2020), the rise of populist movements in the aftermath of the financial crisis (Solty 2013), the 2009 crisis itself (Stahl 2019), and Brexit (Craig 2017) are just some examples demonstrating the malleability that this concept entails and its potential for accommodating very different phenomena.

It is certainly tempting to refer to our current period as yet another ‘interregnum’: a delicate phase in which the Covid-19 pandemic has swept away a number of long-established dogmas in national and EU-level policymaking, and we are now seeing some experimentalism take place in terms of alternative policy recipes, from enhanced public support schemes for the unemployed to a suspension of certain (but not all) neoliberal and neo-monetarist policy recipes.

However, we should perhaps look to Zygmunt Bauman for a more qualified and challenging understanding of the idea of ‘interregnum’ (Bauman 2012). He posits that the concept applies to those ‘extraordinary situations in which the extant legal frame of social order loses its grip and can hold no longer, whereas a new frame, made to the measure of newly emerged conditions responsible for making the old frame useless, is still at the designing stage, has not yet been fully assembled, or is not strong enough to be put in its place’. These are exacting conditions, and while it would be very tempting to refer to our current period as yet another ‘interregnum’, we feel we need to warn against complacent assumptions. Neoliberalism has not lost its grip, though admittedly it is less tight than it was before the pandemic. Tragic as this would be, we cannot write off the possibility that some may be tempted to tune up neoliberal policies and even return to a new age of austerity.

“Tragic as this would be, we cannot write off the possibility that some may be tempted to tune up neoliberal policies and even return to a new age of austerity

An age of prosperity

> Redistributive politics concretely deliver, they are not an abstraction

It would also be incorrect to suggest that a new conceptual, political, and policy framework that is radically different to the old discredited system is yet to be born, or is still at the designing stage. Many of the policy interventions adopted in recent months have in fact already had significant distributional effects and greatly benefitted vast swathes of Europe's most vulnerable, as also evidenced by the data reported in Chapters 1 and 2. Redistributive politics concretely deliver, they are not an abstraction. Beyond this, as the following pages suggest, and as the work of the ETUC and ETUI tirelessly points out and will continue to do so in the coming months, there is a large and coherent body of policy proposals that clearly anticipate a more sustainable, resilient, and equitable future. A new age of prosperity, shaped by a just distribution of economic and natural resources, and a fair share of the fruits of progress for all.

It may, therefore, be more appropriate to refer to the current phase as a phase of 'condominium', rather than one of 'interregnum'. For better or for worse, there is no policy vacuum, no hiatus, no disintegration of the social order. There are instead two fully fledged and radically different visions for the future of humanity, coexisting and at the same time competing with each other – for legitimacy, public support, and ultimately for hegemony. This is a state of 'condominium'. As also alluded to in the Guest Editorial by Professor Pickett and in this publication as a whole, on the one hand, we have inequality and climate change, the strongest indictments of the old system. On the other, social justice and sustainability are arguably both the promise of and the premise for a new age of prosperity. We can conclude, then, by borrowing Pickett's words: 'We know what we need to do, and we know that this is the time to do it. Let us begin by taking every action we can, big or small, to dismantle the structures of economic inequality – and look forward to the benefits'.

References

Atkinson A. (2015) Inequality: what can be done? Cambridge, Mass., Harvard University Press.

Babic M. (2020) Let's talk about the interregnum: Gramsci and the crisis of the liberal world order, International Affairs, 96 (3), 767-786. https://doi.org/10.1093/ia/iiz254

Bauman Z. (2012) Times of interregnum, Ethics & Global Politics, 5 (1), 49-56. https://doi.org/10.3402/egp.v5i1.17200

Bollen Y., Van Hauwaert T. and Beys O. (2021) For a fair and effective industrial climate transition: Support measures for heavy industry in Belgium, the Netherlands and Germany, Working Paper 2021.08, Brussels, ETUI.

Cascini F., Pantovic A., Al-Ajlouni Y., Failla G. and Ricciardi W. (2021) Attitudes, acceptance and hesitancy among the general population worldwide to receive the COVID-19 vaccines and their contributing factors: asystematic review, EClinicalMedicine, 40, 101113. https://doi.org/10.1016/j.eclinm.2021.101113

Cohen R. (2013) A dangerous interregnum, The New York Times, 18 November 2013. https://www.nytimes.com/2013/11/19/opinion/cohen-a-dangerous-interregnum.html

Craig P. (2017) Brexit, a drama: the interregnum, Yearbook of European Law, 36 (1), 3-45. https://doi.org/10.1093/yel/yex005

Drahokoupil J. and Müller T. (2021) Job retention schemes in Europe: a lifeline during the Covid-19 pandemic, Working Paper 2021.07, Brussels, ETUI.

Elliott L. (2021) During the pandemic, a new variant of capitalism has emerged, The Guardian, 30 July 2021. https://www.theguardian.com/commentisfree/2021/jul/30/pandemic-new-variant-of-capitalism-spending-covid-state

ETUC (2020) A new EU adaptation to climate change strategy for the world of work. ETUC Resolution adopted at the Executive Committee Meeting of 28-29 October 2020. https://bit.ly/3CNg1Qi

Gkiotsalitis K. (2021) Public transport planning adaption under the COVID-19 pandemic crisis: literature review of research needs and directions, Transport Reviews, 41, (3), 374-392. https://doi.org/10.1080/01441647.2020.1857886

Gough I. (2021) Two scenarios for sustainable welfare: new ideas for an eco-social contract, Working Paper 2021.12, Brussels, ETUI.

Jestl S. and Stehrer R. (2021) EU employment dynamics: the pandemic years and beyond, Working Paper 2021.09, Brussels, ETUI.

Kristal T. (2010) Good times, bad times: postwar labor's share of national income in capitalist Democracies, American Sociological Review, 75 (5), 729-763. https://www.jstor.org/stable/20799487

Laurent E. (2021) From welfare to farewell. The European social-ecological state beyond economic growth, Working Paper 2021.04, Brussels, ETUI.

Masood E. and Tollefson J. (2021) 'COP26 hasn't solved the problem': scientists react to UN climate deal, Nature, 15 November 2021. https://www.nature.com/articles/d41586-021-03431-4

Matilla-Santander N. et al. (2021) COVID-19 and precarious employment: consequences of the evolving crisis, International Journal of Health Services, 51 (2), 226-228. https://doi.org/10.1177/0020731420986694

OECD (2021) Statement on a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. https://www.oecd.org/tax/beps/statement-on-a-two-pillar-solution-to-address-the-tax-challenges-arising-from-the-digitalisation-of-the-economy-october-2021.htm

Pickett K. and Wilkinson R. (2009) Greater equality and better health: benefits are largest among the poor, but extend to nearly everyone, BMJ: British Medical Journal, 339, 1154-1155. DOI: 10.1136/bmj.b4320

Piketty T. (2013) Le capital au XXIe siècle, Paris, Editions du Seuil.

Solty I. (2013) The crisis interregnum: from the new right-wing populism to the occupy movement, Studies in Political Economy: A Socialist Review, 91 (1), 85-112. https://doi.org/10.1080/19187033.2013.11674983

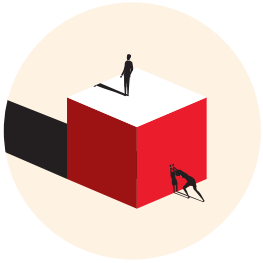
Stahl R.M (2019) Ruling the interregnum: politics and ideology in nonhegemonic times, Politics & Society, 47 (3), 333-360. https://journals.sagepub.com/doi/abs/10.1177/0032329219851896

Stiglitz J. (2012) The price of inequality, New York, W.W. Norton & Company.

Valenduc C. (2021) International taxation: Biden opens up the way to reform, ETUI Policy Brief. European Economic, Employment and Social Policy 2021.10, Brussels, ETUI.

Zwysen W. (2021) Performance pay across Europe: drivers of the increase and the link with wage inequality, Working Paper 2021.06, Brussels, ETUI.

Key messages



Guest editorial: Unequal Europe

In the midst of all the talk about how to build back better *after* Covid-19, it is important to be aware of all the **evidence we have from *before* the pandemic linking economic inequality to a wide range of health and social problems**. The impact of Covid-19 has been shaped by inequality, and the pandemic has shone a light on **entrenched and interacting inequalities** and the deep suffering they cause. **Lack of power and democratic agency amplify inequality** and lie at the heart of the problem. **Giving people power and reforming capitalism** are thus essential steps to creating better societies – for people and for the planet.

1. Macroeconomic and financial developments and policies in the EU in 2021

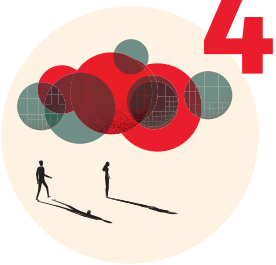
European economies **returned to real output growth in 2021**. The pandemic period was marked by a **downwards divergence in income per capita between EU Member States**. However, the share of **people at risk of poverty was lower in 2020 than in 2019 in the vast majority of Member States**, illustrating **the potency of the extraordinary public support programmes** that were launched to mitigate the impact of reduced employment on incomes. The **EU economic governance framework is currently under review** as the Recovery and Resilience Facility is being deployed, while the European Central Bank has recently adopted a new monetary policy strategy, this time more employment- and climate-conscious, which is to be reviewed again by 2025. The **economic policy response to the crisis has shown that where there is a will, there is a way**. However, it remains to be seen whether these fresh perspectives will survive the aforementioned reviews to create policy frameworks that can tackle the challenges of inequality and the just transition.

2. Labour market and social developments: crisis further entrenches inequality

The **Covid-19 pandemic interrupted the progress that was being made in terms of growing equality** and employment across Europe. Despite the efforts made to limit employment losses, unemployment and inactivity rose, and we are now facing a very real **risk of increasing long-term unemployment after the pandemic**. Furthermore, the **costs of the pandemic have not been distributed equally**, falling disproportionally on the most vulnerable workers – the young and lower educated – who are overrepresented in the most hard-hit industries. In most Member States, moreover, inequalities regarding age, education, and migrant status increased during the pandemic. It is thus **of crucial importance to put equality at the heart of the post-pandemic recovery** and a stop to these trends.

3. Wages and collective bargaining: is social Europe really back on the agenda?

During the pandemic, **wage inequality increased considerably** – not only between the bottom and the top of the wage distribution but also between women and men. **Adequate minimum wages** that fulfil the double decency threshold of at least 60% of the median wage and 50% of the average wage, along with **strong collective bargaining** with a coverage of at least 70%, can make an important contribution to addressing the problem of growing wage inequality. It is therefore **imperative that the proposed directive on adequate minimum wages is not watered down**. A strong directive that fulfils the above-mentioned criteria would not only **improve the situation of 25 million workers** that currently cannot make a decent living from what they earn, it would also send a **strong political signal** that European and national policymakers are **serious about putting 'social Europe' back on the agenda**.



4. The inequality pyramid of climate change and mitigation

Climate-related inequalities have multiple dimensions and layers, which interact in complex ways. While **the richest 10% of the EU population is responsible for the same amount of GHG emissions as the bottom half**, it is the poorest – who are also those who have the lowest adaptive capacity – who will be hit the hardest by climate change and pollution. To **prevent runaway inequality** due to a climate catastrophe in the future, **ambitious climate policies are needed now**. However, these policies also risk having unequal effects in the short term, and this must be addressed by **ensuring that the transition to net zero is a just one**. This is the only way to prevent the sorts of spiralling inequalities which, in a few decades time, may well end up in a disastrous scramble for a lifeboat that is too small to accommodate all.

5. Occupational health and safety inequalities in the EU

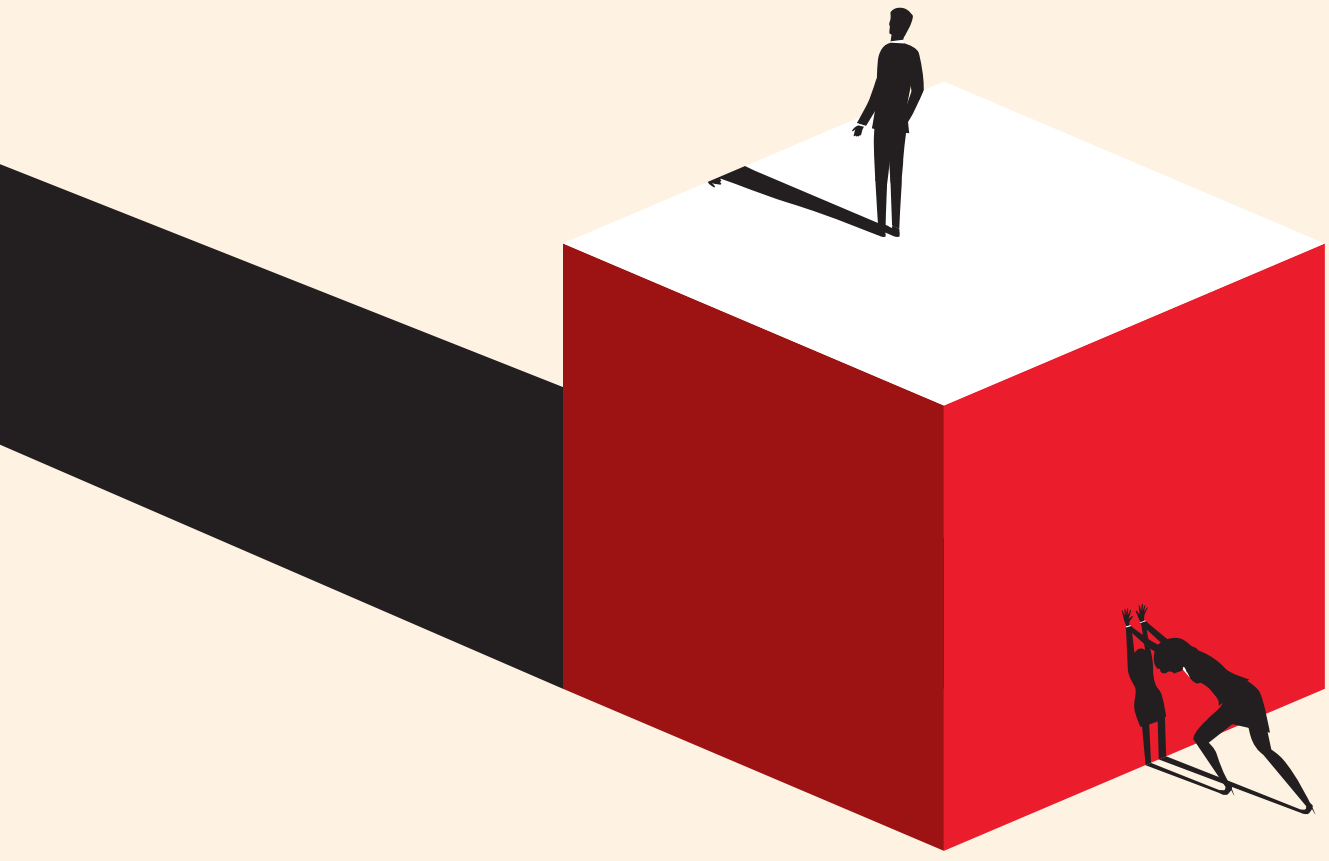
The **pandemic has had a major impact on occupational safety and health** (OSH) for different groups of workers, exposing **inequalities in workplace protection**. The brunt of the crisis has primarily been borne by individuals in the most vulnerable situations, particularly along occupational and socioeconomic divides. **Female gender is also a common denominator for high exposure to hazards and risks** in frontline jobs as well as in telework. The current discrepancy between the legal right of workers to be safe at work and their actual lived reality proves that **OSH must be an integral part of workplace policy planning**, work organisation and employment policy. To ensure a more equal protection of workers, it is crucial to maintain and **further develop good regulation at the EU level**.

6. Industrial democracy and inequality

New evidence from the Cambridge Leximetric Database has shed light on the **relationship between industrial democracy and inequality**. While improvements to workers' codetermination and related representation rights began to plateau across EU Member States after 1990, the **rights of shareholders were significantly strengthened**. This means that, relative to the protection given to the interests of shareholders within managerial decision-making, that given to **workers' interests underwent a marked decline**. This trend is related to the **increased share of corporate earnings diverted into dividends and share buy-backs at the expense of wages**. There is no evidence that this benefits productivity or innovation in any way – if anything, the opposite is true.

7. Towards a societal resilience

The year 2021 has been **a moment of reckoning on the issue of climate change**: the ominous future that the Intergovernmental Panel on Climate Change has been talking about for three decades is now the present. The **climate transition is already proving to be more brutal** than was expected even a few years ago, and it is **taking place in a context disrupted by a pandemic** that seems to be turning into a long-term endemic phenomenon. In the face of so much uncertainty, the concept of **societal resilience is an invaluable tool** to prepare our societies for the radical transitions to come, but building it will depend on **two essential precursors: social justice and social cohesion**.



Unequal Europe

Author

Kate
Pickett

Topics

> It might be worth pausing a moment and rewinding, to remind ourselves of what the evidence was telling us about inequality
>
> **Kate Pickett**

Unequal Europe

We have been immersed in the Covid-19 pandemic for a long time now. Those days in early 2020 when, here in Europe, we were watching the news coming out of a previously unheard of city in China and wondering whether this was going to be another brief flare-up of an epidemic, or something more serious, feel like a lifetime ago. At the time of writing this piece, in the late summer of 2021, with a death toll of almost four million worldwide, we are still in the midst of it (WHO 2021). While more than two and a half billion doses of vaccine have been administered across the globe, that still leaves over half of the world's adult population unprotected, and with the ever-present threat of new variants and uneven restrictions on movement and mixing, we clearly have some way to go.

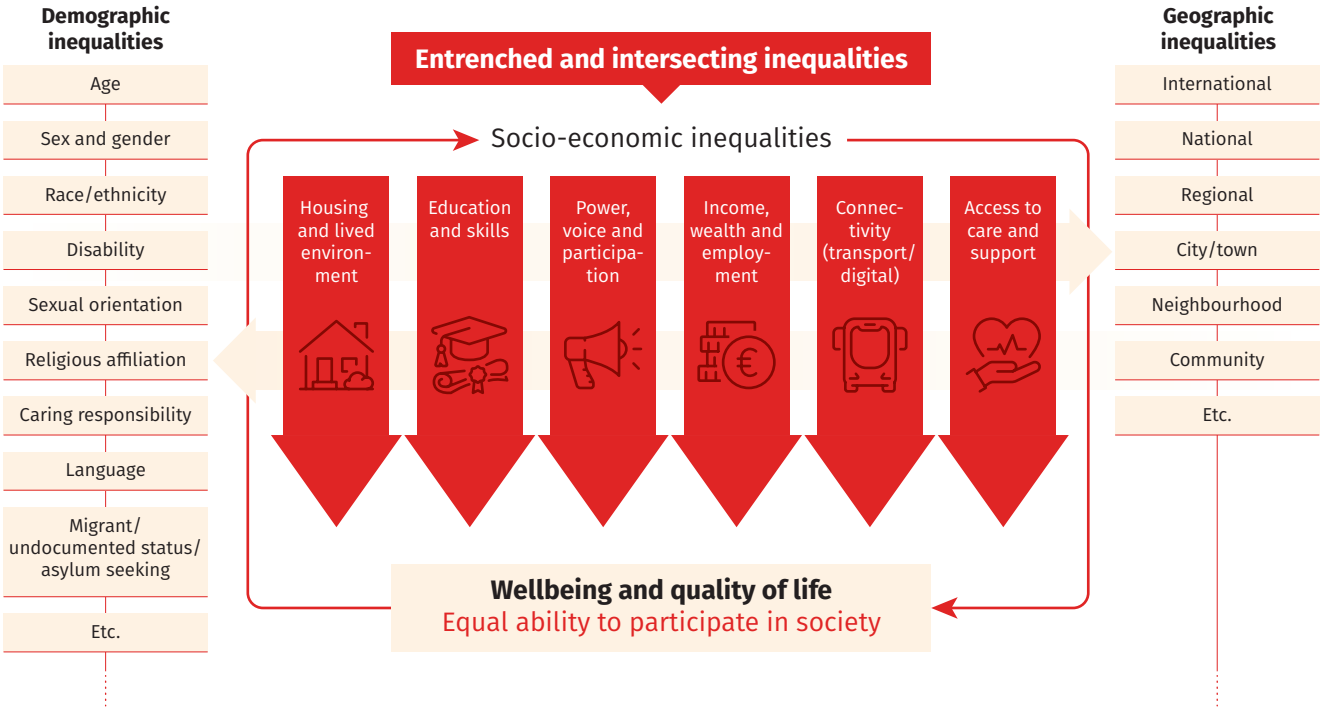
From even the earliest days of this crisis there has been a chorus of voices calling for post-pandemic societal change on a grand scale. There has been talk of needing a 'new normal', 'building back better' and 'bouncing beyond'. There are commissions meeting to discuss transformation, new economic thinking, sustainable equality, and the creation of a healthier, safer and fairer world. All levels of government, from local to international, are talking about recovery and resilience. And although it is clear there is an urgent desire to do this kind of envisioning and planning before it is too late and we miss the opportunity to create a better world (as many feel we missed the opportunity offered by the global financial crisis of 2008), it might be worth pausing a moment and rewinding, to remind ourselves of what the evidence was telling us about inequality and the damaging impact it was having even before Covid-19 struck.

What we knew before the pandemic

There is now a very robust body of research – coming from a range of disciplines including epidemiology, sociology, criminology and more – that links economic inequality to a wide range of health and social problems. All the problems which are more common at the bottom of society, that in other words show what we call a 'social gradient', get even worse with greater inequality. In our books *The Spirit Level* (2010) and *The Inner Level* (2018), Richard Wilkinson and I reported on our own research and that of many colleagues across the world, showing associations between income inequality and health: shorter life expectancy, higher death rates and levels of chronic disease, increased obesity, more mental illness, and poor child wellbeing. We also showed how more unequal societies suffer from more violence, including homicides, domestic violence, child maltreatment and bullying. Children and young people do less well in school in unequal societies, have lower chances of social mobility, and show higher rates of dropping out and teenage births. Drug and alcohol abuse, gambling, 'status consumption' and consumerism also rise with inequality, while civic and cultural participation decline. Social comparisons become toxic, status anxieties increase, and some are consumed by depression and anxiety, while others respond with self-enhancing narcissism. Societies which tend to do well on any one of these measures tend to do well on all of them, and the ones which do badly, do badly on most or all of them.

Inequality has always been regarded as divisive and socially corrosive, but for some time now this has been more than an intuition; the data have not only shown that these are wide-ranging effects but also that the differences between societies are large, that even small differences in the amount of inequality matter and, although the poor are affected the worst, that inequality affects almost everybody. Those politically opposed to egalitarianism responded to the growing body of research by saying that there was no evidence of causation, only of correlation. This is a tactic familiar to public health researchers – it is what the tobacco industry did when faced with research on the harmful effects of smoking, what the oil companies have done in response to evidence of climate change, and how the food and drink conglomerates resist the evidence that their products fuel the obesity epidemic (Oreskes and Conway 2010; Freudenberg 2014). To counteract this resistance, we undertook a systematic review of the evidence within a causal framework used by epidemiologists and, considering the evidence as a whole, concluded

Figure 0.1 **Model of interacting inequalities**



Source: Greater Manchester Independent Inequalities Commission (2021).

that the associations are indeed causal (Pickett and Wilkinson 2015). The body of evidence strongly suggests that income inequality affects a population's health and social wellbeing and therefore that narrowing the income gap would improve it.

Another development in inequalities research in recent years has been the growing attention paid to intersecting inequalities: the ways in which different kinds of inequalities interact to increase the stresses and pressures that people experience in their day-to-day lives. The Greater Manchester Independent Inequalities Commission, which I chaired in 2020-2021, developed a framework for thinking about these intersecting and interacting inequalities and their consequences (see Figure 1).

The framework takes into consideration the deep divisions between groups: inequalities between men and women, between ethnic groups, between those with disabilities and those without; inequalities related to sexual orientation, language and religion; inequalities related to migration status; and more. There are also deep inequalities between places: between neighbourhoods, for example, or between cities and towns, between countries and regions. We can think of these as 'horizontal inequalities': inequalities between groups of people with different characteristics or who live in different places.

> Narrowing the income gap would improve populations' health and social wellbeing.

Then there are the inequalities running across societies from top to bottom, what we can call the 'vertical inequalities': the inequalities of income and wealth, the disparities in access to power and resources. The scale of these vertical inequalities is a measure of the social hierarchy, which exacerbates all the horizontal inequalities. There are many kinds of vertical inequalities, but they can all be seen through two main lenses: the first is that of power, i.e. not having agency or control over the things that matter to you, such as your working environment or safety, or not being able to influence or participate in decisions that affect you, your family and your community; and the second is that of resources, i.e. not having access to assets or wealth (such as being able to own a home), not having enough income, or not having access to services or resources like healthcare, green spaces, public transport and decent housing.

The inequalities experienced by, for instance, women and girls compared to men and boys, or between different ethnic groups, are further widened by these vertical inequalities between the rich and powerful at the top and the poor and disempowered at the bottom. As an example, in societies with bigger differences between rich and poor, women are less enfranchised and have less power, resources and prestige than women in societies where those differences are smaller. And because inequalities intersect, it does not make sense to think that one kind

Workers in low-paid jobs have often been unable to shield themselves from infection.

matters more than another. We would not be happy with a situation where there was no gender pay gap but everybody had very low pay. The interactions and intersections between vertical and horizontal inequalities produce self-perpetuating and intergenerational cycles of inequality which systematically disadvantage particular groups. This affects people in different ways, and inequalities can be compounded based on overlapping identities such as sex, race, migration status, class, disability, age and sexual orientation.

What the pandemic has shone a light on

Despite many claims and an emerging worldwide myth of Covid-19 as an 'equal opportunity disease' (a 2019 paper in a peer-reviewed medical journal asserted that 'the disease cuts across social class, race, and other socioeconomic classifications. It is... "class-less"' (Ibekwe and Ibekwe 2020)), the pandemic has highlighted how inequalities undermine public health and society. In fact, Professor Clare Bambra and her colleagues at the University of Newcastle have argued that we are experiencing a 'syndemic': a confluence of the Covid-19 pandemic with pre-existing health and socio-economic inequalities that has increased the magnitude of the negative effects of the disease (Bambra et al. 2020). More people have become sick, more people are sicker than they would otherwise have been, and more people have died, because of those pre-existing patterns of inequality.

Workers in low-paid jobs have often been unable to shield themselves from infection, either because their work was considered essential and they were unable to shelter at home or because they could not afford not to go to work. Although legislation mandates that employers protect the health and safety of their workers, there have been many instances of employers failing to clean and sterilise work spaces, failing to implement or enforce social distancing guidelines, failing to provide necessary personal protective equipment, requiring employees to work even when they were experiencing symptoms of Covid-19, or keeping workplaces open even in the face of outbreaks and while knowing that employees had been exposed at the workplace (Trades Union Council 2020). Overcrowded housing conditions have compounded these risks, creating social gradients of exposure, and those lower down the social ladder have been much more likely to have underlying health conditions, making them more vulnerable to serious illness and even to dying if infected with Covid-19. Finally, those with fewer resources have been less able to absorb the economic shocks of the pandemic and more likely to fall into poverty, debt and unemployment (Marmot and Allen 2020).

It is also becoming clear that inequality issues have underpinned political and policy responses to the pandemic. A growing body of research links greater income inequality to higher excess deaths from Covid-19 (Elgar et al. 2020, Mollalo et al. 2020, Oronce et al. 2020, Davies 2021). Countries led by women leaders have done better, tending to be societies with a stronger focus on social equality, and more receptive to political agendas that place social and environmental wellbeing at the heart of national policymaking (Coscieme et al. 2020).

Power and democracy are at the heart of the inequality problem

A powerful body of research evidence means that we can now trace the pathways through which inequality damages wellbeing (Wilkinson and Pickett 2017). More equal countries are not completely free of the vertical inequalities of income and wealth, but the social hierarchy does not exert so tight a grip on their populations. In more unequal societies we feel the social judgements of others more keenly, because rank and privilege matter more, and so self-doubts and insecurities about how we are seen by others and whether we are respected are felt more deeply. The outward trappings of wealth become measures of inner worth, while income, status and social position are assumed to be indicators of intelligence and ability. Bigger differences in material circumstances also lead to greater social distances, and levels of trust and social capital decline.

And with a greater number of people in more unequal societies feeling undervalued and disrespected, and as if they do not count for much, the foundations of civic and cultural participation are thus undermined. People are less likely to vote, to be active in civic and political life, or to volunteer or participate in community activities. Inequality strikes at the very heart of democracy, alienating and discouraging those most affected by it from voting and campaigning for change.

And what of work? Paid work has long been reified by the political right as the path to economic prosperity and self-fulfilment. It is seen as the foundation of self-respect, success and service to one's family, community and country. Those

There is clearly a growing mandate for post-pandemic progressive transformations.

who cannot, or will not, work, and those who labour for no pay, are stigmatised and vilified. And while well-paid, meaningful and dignified work is indeed beneficial for individual and societal prosperity and wellbeing, for too many people work and the workplace are where their experiences of inequality are felt most keenly.

Professor Danny Dorling of the University of Oxford has written about how the weekend is in fact when people feel most free from the pressures and stresses of inequality, because they are free from the hierarchy of the workplace and the tedium and purposelessness of many jobs:

> For many, greater equality happens at the weekend, which may be partly why we look forward to it so much. It is during the weekend that you are freer to choose how to use your time and, with family and friends, everyone is treated much more equally. During the week you are told where to sit in school, or which lectures to attend, or you have to obey your employer, or desperately search for work, or otherwise justify not being in paid employment... For those of us who do not have to work during it, the weekend is an equality that we have won (Dorling 2017: 198-199).

Giving power to the people and reforming capitalism

There are numerous ways to tackle inequality and, no doubt, multiple strategies are needed to produce deep and lasting change. Some of the strategies need to focus on reducing opportunities for rentier capitalism and tackling wealth capture and top incomes with financial transaction taxes, wealth taxes and progressive income taxes, while also boosting low incomes with proper living wages and perhaps a universal basic income. Some kind of basic income floor could strengthen social protection in fragile economic times, empower citizens and foster greater wellbeing. Moreover, simultaneously tackling both the top and bottom ends of the scales of income and wealth distribution could create public sanction for more widespread radical reforms. Richard Wilkinson and I have written that if:

> ...progressives want to counteract the anger that has been fuelling right-wing populism, and gain support for the changes needed to realise their vision of a socially just and equal society, they need to convince citizens that they will no longer be left behind, excluded or voiceless. Because greater equality is so enabling for social solidarity, it has been prioritised when governments need to get people to pull together in difficult circumstances. Pioneering social researcher, Richard Titmuss, described after the Second World War how the public cooperation needed for the war effort was fostered deliberately by the introduction of egalitarian policies. Income differences were reduced by taxation, essentials were subsidised, luxuries taxed, and food and clothing were rationed (Pickett and Wilkinson 2021: 37-38).

There is clearly a growing mandate for post-pandemic progressive transformations. Improving the world of work through forms of economic democracy and policies that promote fairness at work could help societies to take a major step forward in human emancipation, transforming the widespread painful experience of hierarchy, including discrimination and lack of respect and recognition, as well as the injustices of low pay and lack of job security. Embedding fairness and democracy into the workplace will not only lead to smaller income differences and help to future-proof greater equality against the changeable policies (including tax regimes) of future governments; research also shows that companies with more democratic models of governance have higher productivity. Economist Will Hutton, President of the UK Academy of Social Sciences, believes that 'ownership reform should be front and centre of our economic and political debate' and that the company 'driven only by the desire to maximise shareholder value has had its day' (Hutton 2021).

Important policy steps towards an economic democracy revolution include substantial employee representation on company boards and remuneration committees (with a higher proportion in larger companies, increasing over time to majority control), increasing employee ownership through the annual transfer of shares to employee-controlled trusts until they have majority control, incentivising employee ownership, co-operatives and alternative business models, and creating public awareness of companies that meet democratic company standards, such as Living Wage accreditation or 'fair work' charters.

Of course, a fresh public recognition and valorisation of trade unions and support for unionisation in sectors of the economy that are new or have not traditionally been unionised is also needed. It is not enough to have applauded the health, care and other key workers who helped to get us through the pandemic. We need to back up that appreciation with better wages

and more job security. Ironically, although the value of care, hospitality and retail services in our lives has been highlighted by the pandemic, these are sectors traditionally characterised by low pay and precarity (Living Wage Commission 2014). Among various innovative approaches to post-pandemic policy, Professor Emeritus Susam Himmelweit of the Open University has called for a 'care-led recovery', underpinned by investment in social infrastructure to accompany the investment in more traditional forms of infrastructure (Himmelweit 2021).

Inequality is also at the heart of the climate crisis

We are facing more than one crisis, of course. In the midst of the calls for a post-pandemic transformation towards a 'new normal', the pre-pandemic campaigns for post-GDP economics, circular economies and green new deals are battling on. Dealing with inequality will be a necessary part of tackling the climate crisis. As just one example of how perceived injustice can block the public acceptability of sustainability policies, the French *gilets jaunes* movement of protest against a proposal for an additional tax on petrol which was perceived as unfair came after years of increasing discontent with growing inequality and a perception that government and taxation was biased in favour of the rich (Wilkinson and Pickett 2020).

Because community life is much stronger in more equal societies and people are much more likely to feel they can trust each other, greater equality makes achieving sustainability more possible. Acting collectively for the good of humanity as a whole and of the planet is more likely if populations are more public-spirited and have a stronger sense of the public good.

Just as big an obstacle to sustainability is consumerism and over-consumption which, driven by the status competition that is intensified by inequality, creates pressures and demands for ever higher incomes and leads people to see sustainability as a threat to living standards rather than as an opportunity for a more fulfilling and balanced way of life.

Where do we go from here?

Alongside the deep suffering caused by Covid-19, many communities also witnessed a rise in neighbourliness, sociability and a desire to take care of one another. Even in societies with strong national health and social security systems, community-based mutual aid has provided important support for the sick, the shielded and the vulnerable. When we set that solidarity next to the new appreciation of health and care sector workers and the key workers who kept the streets safe, the lights on, the rubbish collection going and the supermarkets stocked, it feels like a basis for a revolutionary recovery and for building that 'new normal' world.

In Britain, polls suggest that only about one in ten of us would actually like life to go back to the 'old normal' (RSA and Food Foundation 2020). That feels like a strong mandate for change. And what people want is not just stronger health and public services and better treatment and pay for essential workers; they also want a more compassionate society that cares for people struggling with their mental or physical health, that gives people a better work-life balance and more control over their work (including where and for how long they work), and that cares about the environment. These are all hallmarks of a more equal, more egalitarian society.

We know all the damage that is caused by inequality – the pandemic has brought that into sharper focus than ever. We also know how to embed greater equality into society through greater economic democracy and by devolving more power and control over decision-making to those most affected by inequality. The global financial crisis, the Covid-19 health crisis, and the climate crisis have only strengthened the popular mandate for change. Now is the time for action.

Across Europe, indeed all over the world, there are places and institutions already committed to instigating positive change. Creating a wellbeing economy that meets everyone's needs within the planetary boundaries – that is, fair, sufficient and ecologically sustainable – need not be a distant or far-fetched utopia. The Wellbeing Economy Governments partnership (WEGo), for instance, is a collaboration between national and regional governments with a shared ambition of building 'wellbeing economies', and there are many other examples of good practice. There are also firms doing the right things for their workers, their communities and the environment.

We know what we need to do, and we know that this is the time to do it. Let us begin by taking every action we can, big or small, to dismantle the structures of economic inequality – and look forwards to the benefits.

> We know what we need to do, and we know that this is the time to do it.

References

Bambra C., Riordan R., Ford J. and Matthews F. (2020) The COVID-19 pandemic and health inequalities, Journal of Epidemiology and Community Health, 74 (11), 964-968.

Coscieme L., Fioramonti L., Mortensen L. F., Pickett K. E., Kubiszewski I., Lovins H., McGlade J., Ragnarsdottir K. V., Roberts D., Costanza R., De Vogli R. and Wilkinson R. (2020) Women in power: female leadership and public health outcomes during the COVID-19 pandemic, MedRxiv.

Davies J. B. (2021) Economic inequality and Covid-19 death rates in the first wave, a cross-country analysis, Working Paper 8957, Munich, CESifo.

Dorling D. (2017) The equality effect: improving life for everyone, Oxford, New Internationalist.

Elgar F.J., Stefaniak A. and Wohl M.J. (2020) The trouble with trust: time-series analysis of social capital, income inequality, and COVID-19 deaths in 84 countries, Social Science & Medicine, 263, 113365.

Freudenberg N. (2014) Lethal but legal: corporations, consumption, and protecting public health, New York, Oxford University Press.

Greater Manchester Independent Inequalities Commission (2021) The next level: good lives for all in Greater Manchester, Manchester, Greater Manchester Combined Authority.

Himmelweit S. (2021) Reforming social care through a care-led recovery, in Allen P., Konzelmann S. J. and Toporowski J., The return of the State: restructuring Britain for the common good, Newcastle upon Tyne, Agenda Publishing.

Hutton W. (2021) An ownership revolution in Allen P., Konzelmann S. J. and Toporowski J., The return of the State: restructuring Britain for the common good, Newcastle upon Tyne, Agenda Publishing.

Ibekwe T.S. and Ibekwe P.U. (2020) Coronavirus disease 2019: a disease of equal opportunity, nature and nurture, Annals of Medical Research and Practice, 1 (6), 1-4.

Living Wage Commission (2014) Work that pays: the final report of the Living Wage Commission. London, Living Wage Commission.

Marmot M. and Allen J. (2020) COVID-19: exposing and amplifying inequalities, Journal of Epidemiology and Community Health, 74 (9), 681-682.

Mollalo A., Vahedi B. and Rivera K.M. (2020) GIS-based spatial modeling of COVID-19 incidence rate in the continental United States, Science of the total environment, 728, 138884.

Oreskes N. and Conway E.M. (2010) Merchants of doubt: how a handful of scientists obscured the truth on issues from tobacco smoke to global warming, New York, Bloomsbury.

Oronce C.I.A. et al. (2020) Association between state-level income inequality and COVID-19 cases and mortality in the USA, Journal of General Internal Medicine, 35 (9), 2791-2793.

Pickett K. and Wilkinson R. (2015) Income inequality and health: a causal review, Social Science & Medicine, 128, 316-326.

Pickett K. and Wilkinson R. (2021) Post-pandemic health and wellbeing: putting equality at the heart of recovery, in Allen P., Konzelmann S. J. and Toporowski J., The return of the State: restructuring Britain for the common good, Newcastle upon Tyne, Agenda Publishing.

RSA and Food Foundation (2020) The impact of Coronavirus on food behaviours and attitudes.

Trades Union Council (2020) Many UK workplaces still not “Covid-Secure” – TUC poll reveals. https://www.tuc.org.uk/news/many-uk-workplaces-still-not-covid-secure-tuc-poll-reveals

WHO (2021) WHO Coronavirus (COVID-19) Dashboard. https://covid19.who.int/

Wilkinson R. and Pickett K. (2010) The spirit level: why equality is better for everyone, London, Penguin.

Wilkinson R. and Pickett K. (2017) The enemy between us: the psychological and social costs of inequality, European Journal of Social Psychology, 47 (1), 11-24.

Wilkinson R. and Pickett K. (2018) The inner level: how more equal societies reduce stress, restore sanity and improve everybody’s wellbeing, London, Allen Lane.

Wilkinson R. and Pickett K. (2020) The struggle for equality and sustainability, in Costanza R., Erickson J. D., Farley J. and Kubiszewski I., Sustainable wellbeing futures: a research agenda for ecological economics, Cheltenham, Edward Elgar Publishing, 179-187.

1. Macroeconomic and financial developments and policies in the EU in 2021

Author

Sotiria Theodoropoulou

Topics

> If the pandemic has shown anything, however, it is that a bigger role for the state is the only way to address large shocks and challenges, and that if a certain policy objective is considered worthwhile, financial 'limits' suddenly become less rigid
>
> **Sotiria Theodoropoulou**

Introduction

Just 12 years after the global financial crisis, the Covid-19 pandemic has resulted in the biggest economic recession since World War II, with governments shutting down large parts of economies and societies to limit social contact and protect public health from the deadly effects of the virus. Governments and central banks in Europe and other advanced countries deployed extraordinary support measures to try to shield economies and financial markets from the effects of the shock. From the end of 2020, national and regional authorities around the world began granting emergency authorisation for the first vaccines against Covid-19 to be administered to the population. Universal vaccination campaigns thus got under way at the beginning of 2021, instilling a sense of optimism that the pandemic might be finally coming to an end.

Despite the fact that the vaccines proved to be effective in fending off severe disease, the combination of a new, far more contagious variant of the virus, the so-called 'Delta', and the failure in some parts of the world to vaccinate sufficiently high proportions of the population have been leading to new record numbers of cases and mounting pressure on healthcare systems. These recent developments have been a stark warning that the pandemic is unlikely to be tamed as long as the distribution of vaccine doses between richer and poorer countries, but also within countries, remains as uneven as it is now. Economic precarity and level of educational attainment have, moreover, been shown to correlate quite strongly with vaccination rates.

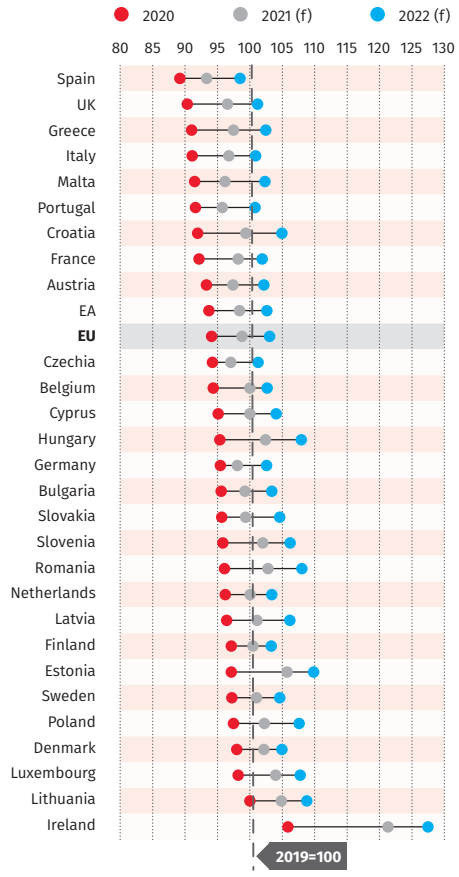
This chapter looks into economic developments and the ongoing policy debates in the EU in 2020 and 2021. It highlights inequalities between and within Member States in living standards and general quality of life. It also shows that despite the size of the shock, income inequality actually slightly improved in the vast majority of Member States in 2020, an indication that the unprecedented public support programmes that were deployed by governments and the ECB seem to have been effective at cushioning the effects of the shock. The chapter then concludes by looking more closely at the fiscal and monetary policy reactions at the national and EU level, the ongoing debates on their reform, and the questions they raise for the future.

Uneven pandemic economic impacts and recoveries

> While all Member States and the UK are expected to have returned to positive real GDP growth rates in 2021, real output is expected to recover to or above its 2019 levels in only several Member States

According to AMECO data (OVGD series), compared to other advanced economies, such as the US, Canada, Australia, New Zealand, South Korea, Japan, Switzerland, and the UK, the EU experienced the third sharpest recession in 2020, with real GDP contracting by 5.9% (6.4% for the euro area), outperforming only the UK, where it was 9.7%. In Canada, real GDP contracted by 5.4%, in Japan by 4.8%, in the US by 3.4%, in Australia and in Switzerland by 2.4%, in New Zealand by 1.1%, and in South Korea by 0.8%. Real GDP is expected to recover to above its 2019 levels in 2022 in all these countries except Japan, where it is forecasted to have not yet recovered to this level even by 2021, as is also the case for the EU, the euro area and the UK.

Figure 1.1 **Change in real GDP (index: 2019=100%), EU, euro area, Member States and the UK, 2020, 2021 (f) and 2022 (f)**



Note: axis does not start at 0.
Source: own calculations using AMECO database OVGD series.

The EU Member States have been affected to varying degrees by the shock of the pandemic. As Figure 1.1 illustrates, at one end of the spectrum, countries with big tourism sectors, such as Spain, Greece, Italy, Malta, Portugal, Croatia, France and Austria, registered the biggest real output losses: between 11% and 6.7% in 2020. While these Member States are currently projected to return to real GDP growth in 2021, they will not have returned to their 2019 levels. Several Member States, including Czechia, Belgium, Cyprus, Hungary, Germany, Bulgaria, Slovakia, Slovenia, Romania, the Netherlands, Latvia, Finland, Estonia, Sweden and Poland had real GDP losses, ranging from 5.8% (Czechia) to 2.5% (Poland). Denmark and Luxembourg had milder recessions of around 2% in 2020. On the other hand, real output did not decrease in Lithuania and even grew in Ireland.

While all Member States and the UK are expected to have returned to positive real GDP growth rates in 2021, real output is expected to recover to or above its 2019 levels in only several Member States, most notably Cyprus, Hungary, Belgium, Slovenia, Romania, Latvia, the Netherlands, Latvia, Finland, Estonia, Poland, Denmark and Luxembourg. At the moment of writing, the European Commission's autumn 2021 forecasts suggest that the only country in which real GDP is not expected to have recovered to its 2019 levels, even by 2022, is Spain. However, significant uncertainty remains regarding these projections, as there is currently a surge in the number of cases in many EU Member States which may force governments to reimpose restrictions in social and economic activities to protect national healthcare systems, causing further disruptions in economic activity.

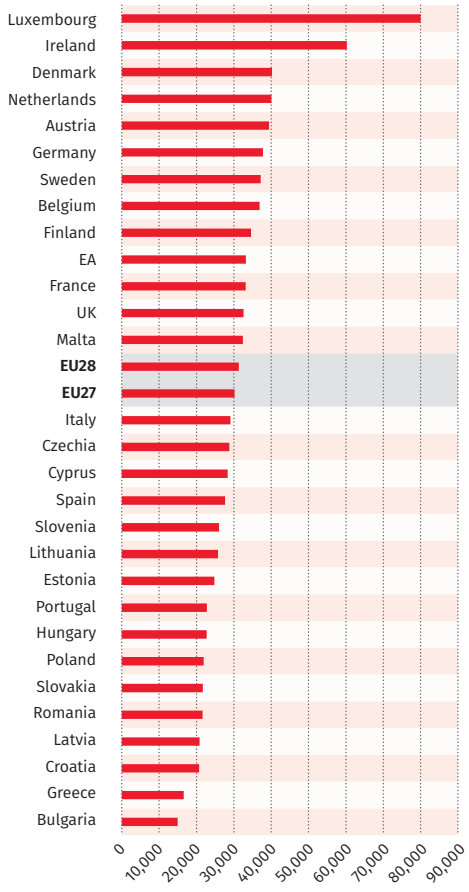
Inequalities in living standards and quality of life

In 2019, the GDP per capita of the richest Member State (Luxembourg) was almost five times higher than that of the poorest (Bulgaria), whereas the EU27 average GDP per capita was almost twice as high as that of Bulgaria

Even prior to the uneven impact of the pandemic revealing itself, there had been inequalities across Member States. Figure 1.2 shows the GDP per capita of EU Member States, the EU27 (as of 2020) and the euro area in euro PPS terms, which allows the comparison of the purchasing power across different Member States. In 2019, the GDP per capita of the richest Member State (Luxembourg) was almost five times higher than that of the poorest (Bulgaria), whereas the EU27 average GDP per capita was almost twice as high as that of Bulgaria.

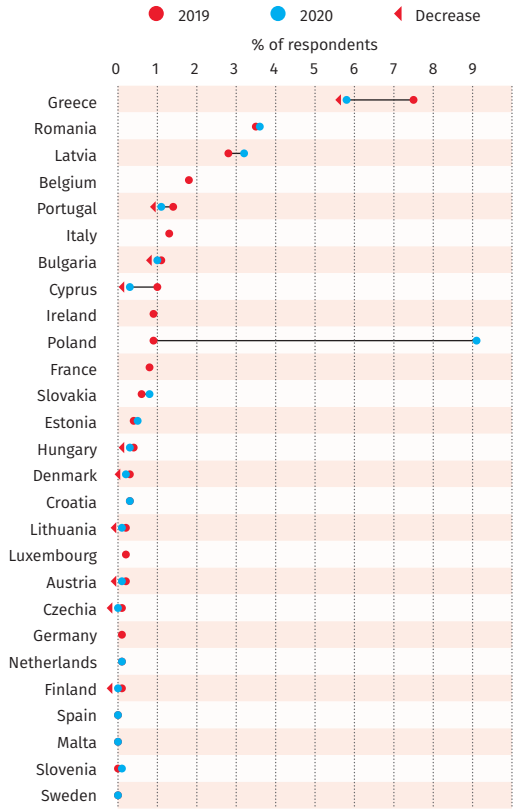
Going beyond GDP, one indicator of quality of life (or rather lack of it) is the self-reported unmet need for medical examination. Figure 1.3 shows the share of respondents aged 16 and above in the EU reporting that they had unmet medical examination needs because it was 'too expensive' in 2019 and 2020. We see that in 2019, there were significant disparities among Member States: 7.5% of respondents in Greece reported unmet health examination needs because it was too expensive, while in most Member States, especially from the EU15, that share was virtually zero. Nevertheless, the group of countries where there were respondents that could not afford to meet their health examination needs was large enough to include Bulgaria, Belgium, Portugal, Cyprus, Ireland, Poland, Slovakia, Italy and France. These are rather striking figures considering that most of these countries are among the world's richest, with long-established and well-provisioned welfare states.

Figure 1.2 **GDP per capita (PPS), EU Member States and the UK, 2019**



Source: Eurostat nama_10_pc series.

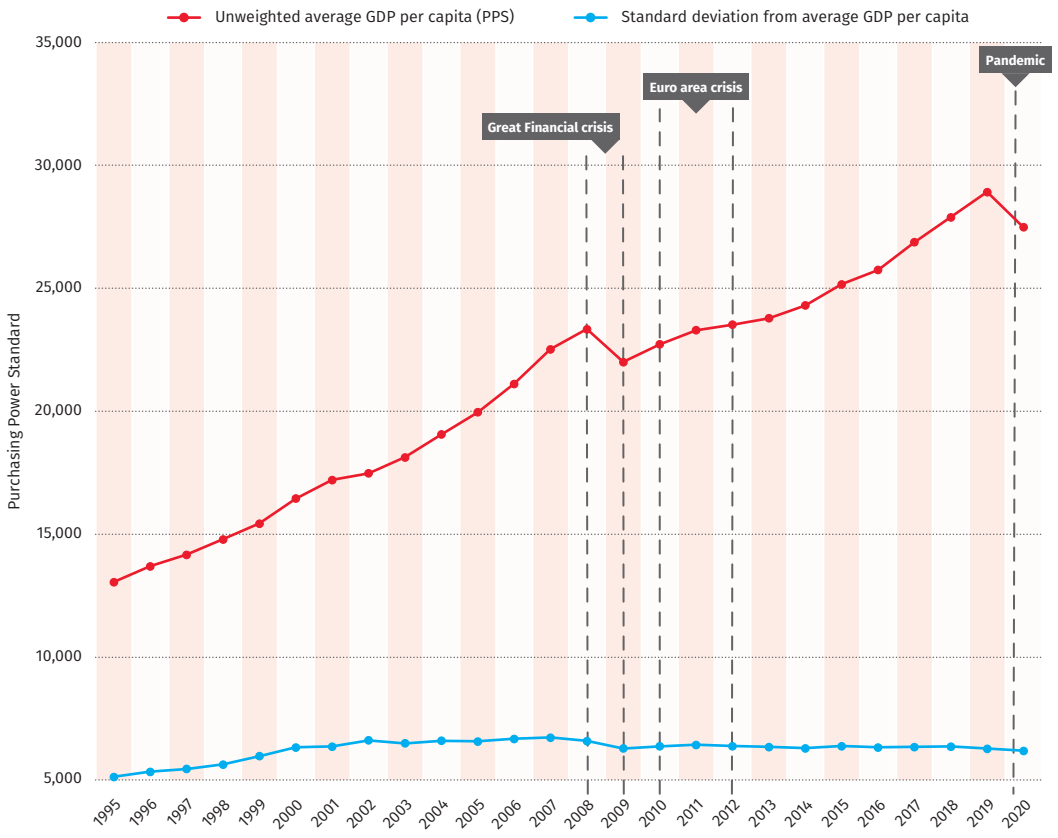
Figure 1.3 **Self-reported unmet needs for medical examination (% of respondents, aged 16 and over), EU Member States, 2019 and 2020**



Note: No 2020 data available for IE, FR, IT; 2020 data omitted for BE, DE, LU due to structural break in the series; 2020 data for PL and LV provisional. Eurostat hlth_silc_14 series.

Downwards convergence in GDP per capita during the pandemic

Figure 1.4 **Unconditional convergence to average GDP per capita (PPS), EU Member States**



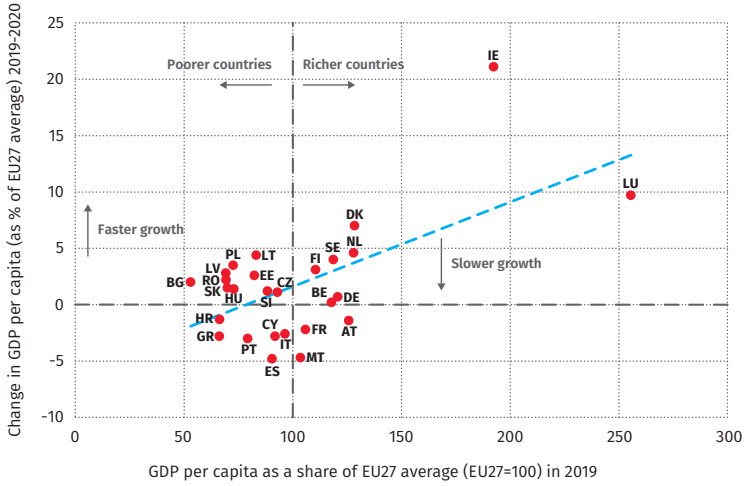
Source: Own calculations based on Eurostat data tnama_10_pc series.

The impact of the pandemic seems to have been associated with downwards convergence in output-per-capita developments in the EU27

Such disparities between Member States on these various indicators are also the outcome of historical factors. Joining the EU held the promise of upwards convergence in living conditions, of which GDP per capita is the most comprehensive, albeit very imperfect, indicator. As Figure 1.4 illustrates, upwards convergence – whereby the average EU GDP increases while the GDPs of individual Member States all come closer to this average – has been occurring in fits and starts. A necessary condition for this upwards convergence to happen is that lower-income countries grow faster than higher-income ones, and the evidence shows that this has indeed been the case in the EU since 1995. However, this process was more vigorous in 1996-2007 than it was in 2008-2019 (Theodoropoulou et al. 2019), reflecting the fact that the 'catching-up' had to some extent already taken place by the second period, but also reflecting the w-shaped recessions in the EU and in particular the euro area.

The impact of the pandemic seems to have been associated with downwards convergence in output-per-capita developments in the EU27: the (unweighted) average GDP per capita (in PPS terms) declined in 2020 (hence the 'downwards'),

Figure 1.5 **Catching-up process (sigma convergence) in GDP per capita (EU27=100) 2020-2021, EU Member States**



Source: Own calculations using Eurostat data nama_10_pc series.

while the (unweighted) average divergence of Member States' GDP per capita from that average GDP per capita decreased slightly (hence the 'divergence'). This is not surprising, as some of the Member States most economically ill-affected by the pandemic were in the southern periphery of the EU, where there is a heavy reliance on tourism and services sectors which both involve social contact. Figure 1.5 suggests that on average, higher-income Member States grew faster than lower-income Member States over 2020-2021.

Box 1 **Definitions and typology of convergence**

There are different ways of defining and measuring convergence, which depend on underlying assumptions about what drives it. Here we focus on two:

- Unconditional convergence (also known as 'beta-convergence'): this is the convergence of a variable of interest (for example, GDP per capita or wage share) to the same average.
- Sigma convergence: this is the process whereby Member States with lower GDP per capita experience relatively higher growth rates than Member States with higher GDP per capita. Sigma convergence is a necessary condition for unconditional convergence: in other words, for unconditional convergence to happen, poorer Member States have to 'catch up' (by growing faster) than richer Member States.

When convergence takes place, however, it does not necessarily follow that it is upwards. It is possible that, for example, the average GDP per capita falls and Member States converge to that declining average. While this means that disparities are being reduced, it also implies that living standards (as illustrated by GDP) are generally declining. It is also possible that the average GDP per capita may increase but, on average, Member States do not converge to it.

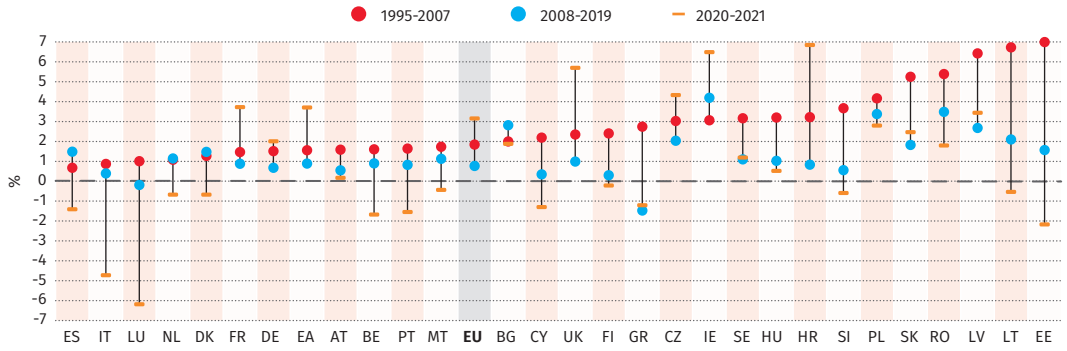
For these reasons, we adopt the terminology of Eurofound (2018 updated 2021), defining upwards convergence as a process whereby the average of the indicator of interest increases *and* disparity in the performances of Member States on that indicator is reduced. We use 'unweighted' averages (that is, averages calculated without taking into account the different sizes of Member States) and the standard deviation (a measure of dispersion) of Member States around this average to characterise whether upwards/downwards convergence/divergence has been taking place.

Variable and declining labour productivity growth in the EU27

Labour productivity growth is the material basis for sustainable increases in wages. While aggregate income growth does not necessarily lead to lower inequality nor is it necessarily compatible with respecting planetary boundaries (e.g. Wilkinson and Pickett 2009), it does in principle make redistribution politically easier. As Figure 1.6 shows, the average annual hourly productivity growth rates were, as expected, generally higher in the central and eastern European Member States than in the EU15 Member States in 1995-2007, as these countries were developing as 'new' market economies.

It turned negative in Greece over this time period and in several Member States during the pandemic (2020-2021), most notably in Italy and Luxembourg, where it has dropped to -4.7% and -6.2% respectively, as well as Spain, Belgium, Portugal, Malta, Cyprus, Greece, Slovenia, Lithuania and Estonia. These figures are disconcerting with regards to the income convergence of Member States, as the vast majority of the above countries are either among the lower-income ones in the EU or those most affected by the previous recession of the early 2010s. In several other Member States, such as France, Germany, the UK, Czechia, Ireland and Croatia, real hourly labour productivity growth is expected to grow even faster than it did in 1995-2007.

Figure 1.6 **Average annual growth rate (%) of hourly labour productivity, EU Member States, 1995-2007, 2008-2019, 2020-2021 (f)**

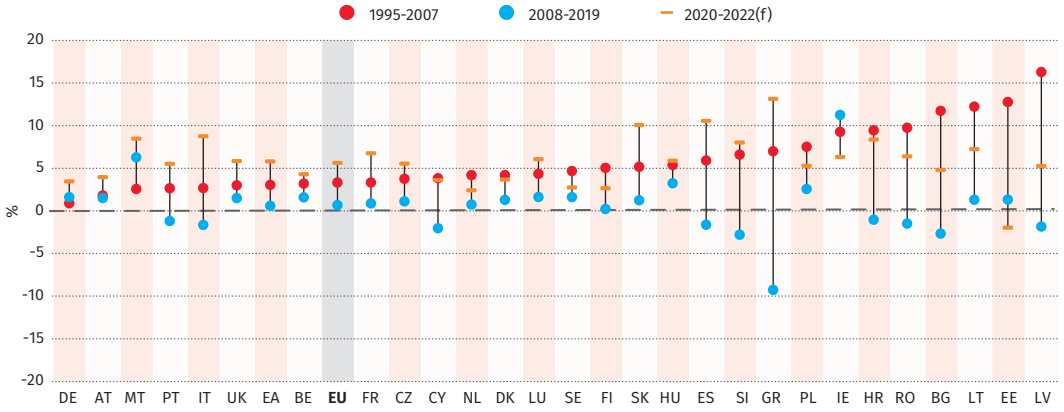


Source: Own calculations using AMECO database RVGDE and NLHA series.

Investment developments in the EU27

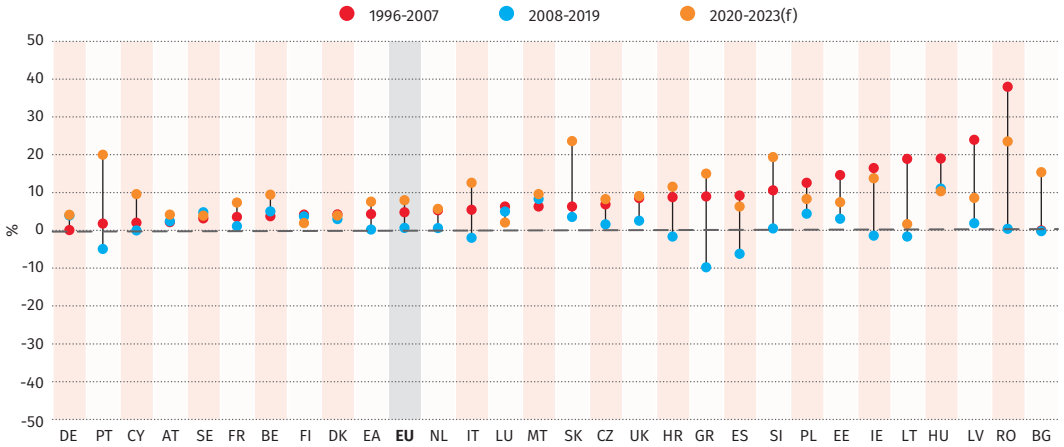
Investment is necessary not only for accelerating labour productivity growth but also for engineering the transition to a decarbonised socioeconomic model that the EU aims for by 2050. Figures 1.7 and 1.8 show the average annual growth in real gross fixed capital formation (investment) for the whole economy and the average annual growth in investment for the general government in current prices for 1995-2007, 2008-2019 and 2020-2022/2023 (f). The downward trend in 2008-2019 compared to 1995-2007 is evident here as well, both for real investment in the whole economy and for nominal public investment. Average annual growth rates in investment are expected to increase both for the whole economy and the government sector in 2020-2022/2023, as the EU's recovery instruments enter into force (see further below).

Figure 1.7 **Average annual growth rate (%) real gross capital formation (investment), EU Member States, 1995-2007, 2008-2019, 2020-2021 (f)**



Source: Own calcuations using AMECO database, OITG series.

Figure 1.8 **Average annual growth rate (%) gross fixed capital formation (investment, current prices) general government, EU Member States and the UK, 1996-2007, 2008-2019, 2020-2023 (f)**

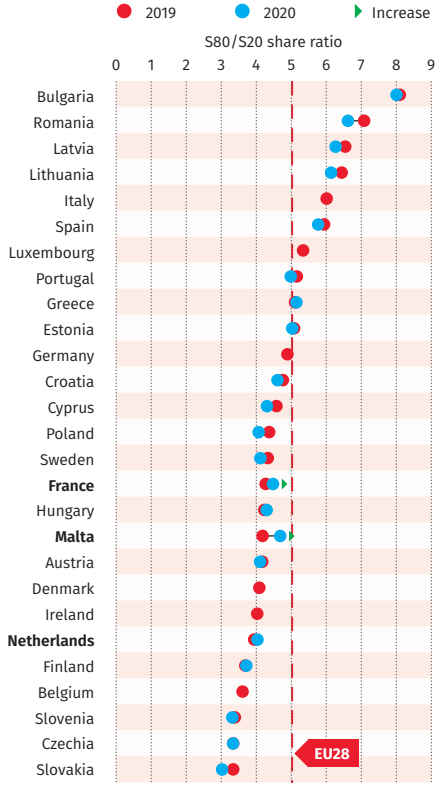


Source: Own calculations using AMECO database, UIGG series.

Positive developments in income inequality and at-risk-of-poverty rate

There is quite a large variation among Member States in the extent of their income inequality. The recession of the early 2010s had a significant impact on income inequality, especially in the most affected Member States. Figure 1.9 shows the income quantile ratio, that is, the ratio of the share of income commanded by the top 20% of the income distribution to the share of income commanded by the bottom 20% of the income distribution in 2019 and 2020. We see that in 2019 that ratio was over just over 8 in Bulgaria whereas it was just 3.34 in Slovakia. Member States with high income inequality thus measured also included Romania, Latvia and Lithuania but also Italy and Spain, all of which had a quintile share ratio of 6 and above. When we look at the same ratio for 2020, when the pandemic broke out, we see that it increased in very few countries, most noticeably France and Malta. In all other countries, it either increased or remained virtually unchanged.

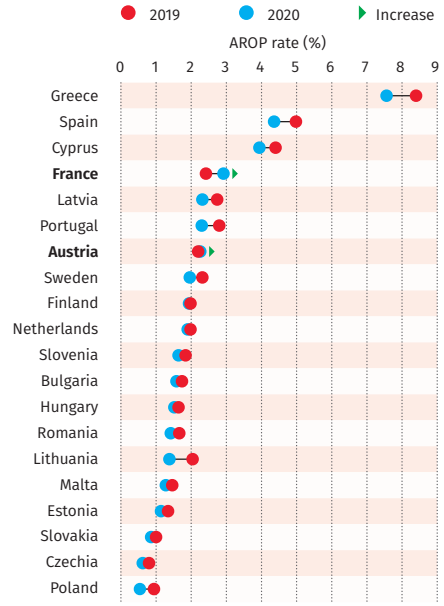
Figure 1.9 **Income quintile share ratio S80/S20 for disposable income, EU Member States 2019 and 2020**



Note: 2020 values are omitted for DE, DK, BE and LU due to structural breaks in the series; in IT and IE due to non-availability.
Source: Eurostat ilc_di11 series.

Turning to income inequality at the bottom end of the income distribution, and the share of people at risk of poverty in 2019 and 2020, we see again in Figure 1.10 that in 2019, there were wide disparities across Member States, with 42% of people at risk of poverty in Greece, while it was only 4.7% in Poland. Spain and Cyprus also had high at-risk-of-poverty rates of between 20% and 25%, whereas it was around 5% in Czechia and Slovakia. In 2020, this indicator either improved or remained unchanged in all countries for which there are data (except France, where it increased) and this was despite the depth of the economic shock and its impact on employment, unemployment and earnings described in Chapters 2 and 3 of this year's *Benchmarking Working Europe*. This is an indication that the support programmes that Member States deployed from the beginning of the pandemic have actually worked in cushioning incomes from the impact of the crisis. Interestingly, the yearly shifts in these indicators between 2010 and 2012 – when EU Member States began a coordinated and premature fiscal consolidation and when the euro area got caught in its own crisis – suggested a widening of income inequality and increase in poverty.

Figure 1.10 **At-risk-of-poverty rate: share of persons with equivalised income lower than 60% of the median income (anchored at 2008), EU Member States 2019-2020**



Note: DK, DE, BE and LU are omitted due to structural breaks in the data; IE and IT had no available data for 2020. AROP = at-risk-of-poverty.
Source: EU-SILC ilc_li22b.

National crisis responses lead to higher budget deficits

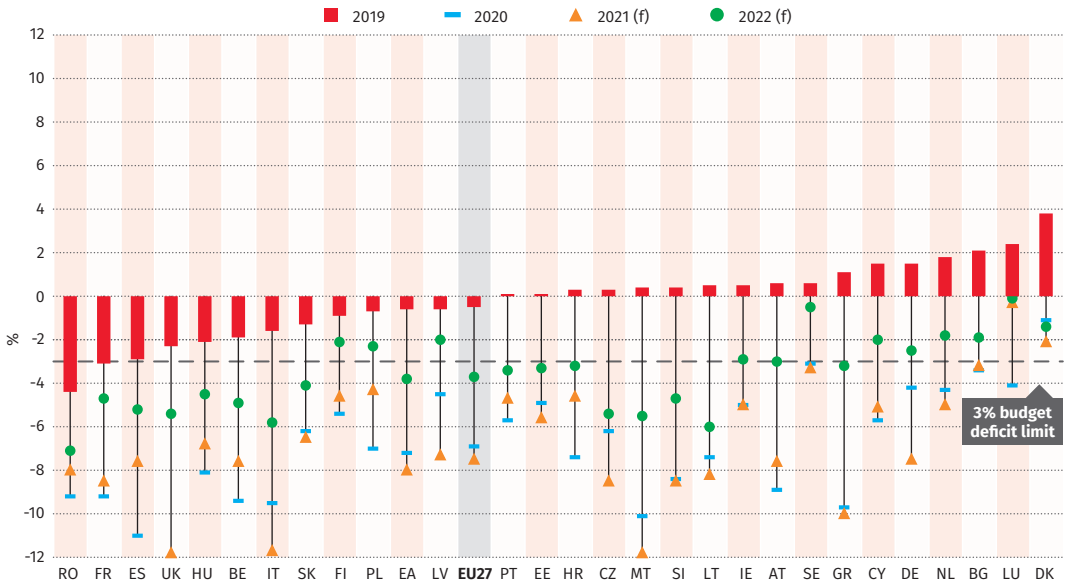
For 2021, the average EU27 budget deficit is projected to reach 7.5% of GDP (8% for the euro area), reflecting the continued impact of public support measures on public budgets

The economic crisis triggered by the pandemic has continued to weigh heavily on Member States' public finances. At the same time that the recession reduced tax revenues, governments had to deploy massive financial support programmes for households, firms and the healthcare sector. The European Commission estimated that the total fiscal response by Member States – calculated as the cumulative changes in primary budget balances (meaning budget balances including interest payments and the operation of automatic stabilisers, such as unemployment benefits and income taxes) compared to 2019 and including a conservative estimate of the impact of Recovery and Resilience Facility grants (including the function of automatic stabilisers) – for the period 2020-2022 is expected to reach 19% of GDP (European Commission 2021: 8).

Figure 1.11 shows the evolution of general government primary budget deficits in 2020, 2021 and 2022 (the latter two forecasts) by comparison to 2019. On average, the general government primary budget deficit as a share of GDP in the EU27 was 6.9% (7.2% in the euro area) in 2020, while in the UK it was 12.3% of GDP. Even though in 2019, it was only Romania and France that had budget deficits greater than 3% (and France only barely, at 3.1%), and 16 Member States had budget surpluses, all Member States' budget balances went into the red in 2020, although with quite a wide variation: Spain and Malta had deficits of over 10% of GDP, while Greece, Italy, Belgium, Romania and France all had deficits above 9%; at the other end of the spectrum Denmark and Sweden deficits reached just 1.1% and 3.3%, whereas countries like Bulgaria, Germany, the Netherlands, Luxembourg, Latvia, Estonia, Ireland, and Finland had budget deficits of between 3.2 and 5.4%. Portugal, Cyprus, Czechia and Slovakia had deficits hovering around 6% in 2020. For 2021, the average EU27 budget deficit is projected to reach 7.5% of GDP (8% for the euro area), reflecting the continued impact of public support measures on public budgets, as despite the recovery in output, the primary deficits are even somewhat higher than in 2020.

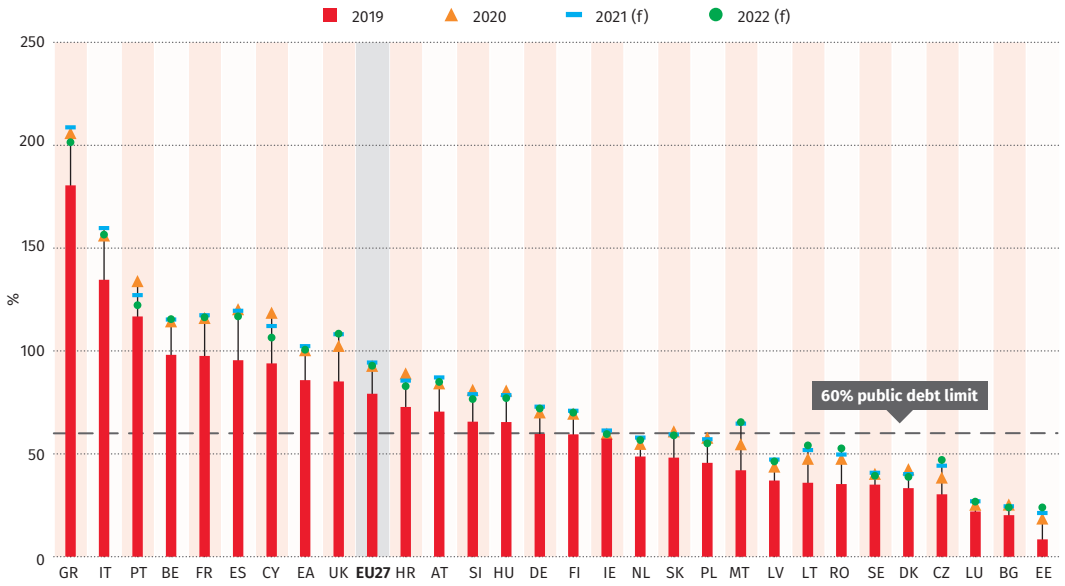
Figure 1.12 shows the evolution of public debt as a share of GDP in EU Member States and the UK in 2019 and 2020, as well as its currently forecasted value for 2021. In 2020, the average debt/GDP ratio reached 100% in the euro area

Figure 1.11 **General government budget primary deficits (% of GDP) EU Member states and the UK, 2019-2022 (f)**



Source: Ameco database ULBGE series.

Figure 1.12 **Public Debt (% of GDP), EU Member States and the UK, 2019-2021 (f)**



Source: Ameco database, UDGG series.

and 92% in the EU. By far the biggest cumulative increases between 2019 and 2021 have taken place in countries with already high public debt/GDP ratios, such as Greece, Italy and Spain, but also Belgium, France, Malta and Cyprus, where the debt/GDP ratio increased by between 17 and 28 percentage points. These were also countries where budget deficits as a share of GDP expanded the most. This could eventually be a disconcerting development insofar as public debt/GDP ratios had already increased disproportionately compared to the EU average in several of these Member States during the 2010s.

A number of actions have been taken at the EU level since the beginning of the crisis to ensure that Member States did not face the usual constraints in allowing their budget deficits to expand and their public debt to grow as a share of GDP. The activation of the general escape clause of the Stability and Growth Pact in spring 2020 was one of them and it remained in force in 2021. The escape clause is expected to be deactivated in 2023, and an important question is whether Member States will have to return to the previous status quo in terms of fiscal rules, which means that several of them would come under pressure to start reducing their public debt too.

Financing the recovery

> A question that arises, however, is how to avoid a sharp adjustment in public investment spending once the Recovery and Resilience Facility has expired

Besides the activation of the escape clause (and the ECB policies, on which more below), several other initiatives were undertaken at the EU level to support Member State governments in deploying their support programmes. Most notable in this regard were the loans to Member States under the SURE scheme, the temporary loosening of the EU framework of state aid rules, and the two Coronavirus Response Investment Initiative packages. The centrepiece of the EU response was of course the agreement on the Multi-annual Financial Framework 2021-2027 and the Next Generation EU pillar, with its innovative Recovery and Resilience Facility, which provided for the first time a sizeable fiscal capacity for the EU (for an overview of EU responses to the crisis, see Alcidi and Corti 2022).

Member States will be supported by the Next Generation EU pillar until 2026 in continuing their public spending, and in particular by its Recovery and Resilience Facility. Starting in late April 2021, and following months of intense discussions with the European Commission Services, Member States started submitting their final National Recovery and Resilience Plans (NRRPs) of investment and reforms for formal approval to start receiving funding.

At the time of writing, the great majority of plans submitted have already received a positive recommendation by the European Commission. All Member States who submitted NRRPs have asked for 100% of the available grants under the RRF, except for Latvia, who only requested 93%. Cyprus, Greece, Italy, Poland, Portugal, Romania, and Slovenia are the only Member States who have also requested loans and of those, only Greece, Italy and Romania have requested that 100% of funds be made available as loans. All Member States who submitted NRRPs, except Ireland and Sweden, have requested the pre-financing of up to 13% of the funds they are entitled to.

The RRF is expected to reinvigorate private and public investment spending in Member States (see Figures 1.7 and 1.8 above) in the coming years until at least 2026, as far as public investment is concerned. A question that arises, however, is how to avoid a sharp adjustment in public investment spending once the RRF has expired. One option would be to turn it into a permanent fiscal capacity. Another option would be to change the fiscal rules. And yet another would be to have some reassurance that the ECB would continue supporting euro area government bonds by buying them in the secondary markets to promote well-defined EU policy objectives such as greater social cohesion and equality, as well as decarbonisation.

The EU economic governance review relaunched

> The EU taxonomy, if done in a way that avoids 'green-' and/or 'social-washing', could be blended into the economic governance reform by helping to redefine the sustainability of public debt for Member States

In October 2021, the European Commission relaunched the EU economic governance review which was first initiated in February 2020 but then put on hold, by publishing a Communication entitled 'The EU economy after COVID-19: implications for economic governance' (European Commission 2021). As its title suggests, the Communication assessed the implications of the changed circumstances but also of the economic governance policy responses following the Covid-19 crisis in order to reframe the public debate on the review. Several interesting points were raised in both this more recent Communication and the previous one (European Commission 2020), suggesting a discernible shift in the ideas informing the Commission proposals from the narratives seen in the aftermath of the Great Recession, when budget deficits and public debt/GDP ratios had also increased following the coordinated stimulus in Europe.

First, while the Communication reiterates the centrality of the need to reduce high and divergent public debt ratios in a sustainable and growth-friendly manner, it also urges caution against doing this too soon and unrealistically fast, lest it entail high and counter-productive economic and social costs for Member States. Secondly, the Communication underlines the crucial role of coordinated discretionary fiscal policy in responding to large economic shocks and limiting their social consequences and any scarring. Interestingly, the Commission highlights at this point, and rightly so, the useful complementarity between fiscal policies and the policies of the ECB, without raising any questions about any explicitly agreed principles guiding this complementarity, given that fiscal policies are decided and run by elected governments whereas the monetary policy of the ECB is not (on which more below). Thirdly, the need to have fiscal rules that preserve public investment even when fiscal consolidation is practiced was acknowledged, especially given the challenges facing Europe. Fourthly, the need for symmetric adjustments of current account deficits was acknowledged. And fifthly, the reliance on unobservable measures to shape fiscal policy recommendations has been recognised as counter-productive.

The official debate on the economic governance review is only just beginning and, besides ideas, it will also depend on political developments in Member States, most notably Germany. If the pandemic has shown anything, however, it is that a bigger role for the state is the only way to address large shocks and challenges, and that if a certain policy objective is considered worthwhile, financial 'limits' suddenly become less rigid.

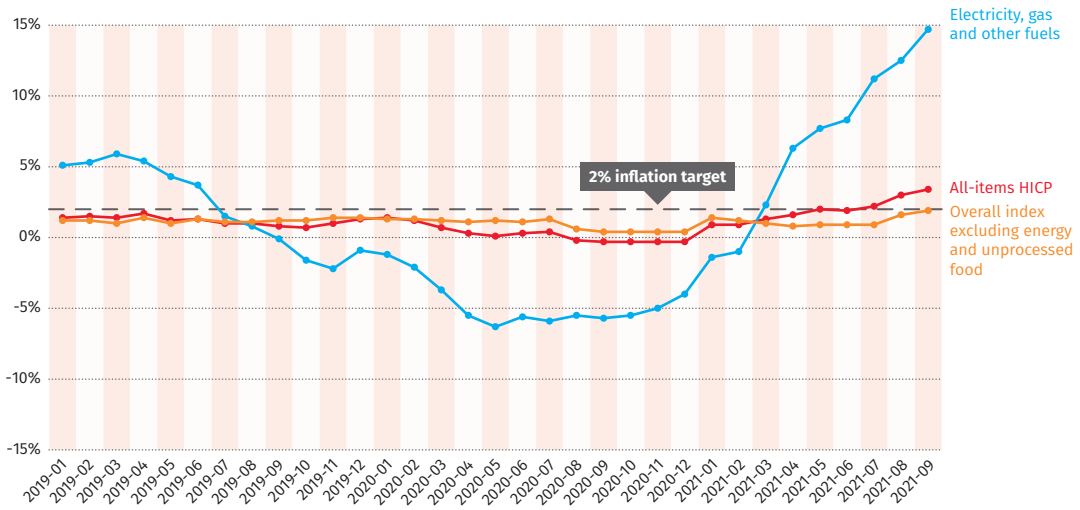
Besides the economic governance review, the EU has been engaged in defining the so-called EU taxonomy of environmentally and socially sustainable activities. This taxonomy should allow assets to be labelled as 'green' or 'social' if they finance activities that fulfil certain standards of environmental and social sustainability. Not surprisingly, the debate on what should be classified as such activities is heated. However, this taxonomy, if done in a way that avoids 'green-' and/or 'social-washing', could be blended into the economic governance reform by helping to redefine the sustainability of public debt for Member States who borrow to pursue environmental or social sustainability goals, of which lower inequality could be one.

Surging inflation in the euro area considered transitory

Following years of hovering well below 2%, the euro area headline inflation (the Harmonised Index of Consumer Prices, HICP), exceeded the 2% target of the ECB in summer 2021 and reached 3.4% in September. Core inflation (the HICP excluding the (often volatile) prices of energy and unprocessed food) remained subdued and only picked up in August and September to reach 1.9%, the highest rate since 2012. As Figure 1.13 illustrates, the development of headline inflation was at least partly driven by energy prices, whose inflation rate started increasing in spring 2021 to reach 14.7% in September, marking the beginning of an energy crisis in Europe. This spike in energy prices has been the result of a combination of factors, including rundown stocks the previous winter and geopolitical issues between the EU and Russia, but also the fact that, in the context of the energy transition, fossil fuel energy production has begun being phased out before it has been ensured that the demand can be covered by cleaner forms of energy.

Other developments on the supply side of the economy have also been driving the current inflation spike. Ongoing disruptions in global supply chains due to the pandemic and the ensuing shortages of production components, combined with brisk demand growth as economies have reopened in earnest, have also been putting upwards pressure on inflation. Moreover, labour shortages have been recorded in some sectors, particularly those involving a lot of social contact, as due to safety considerations, former employees have either been hesitating to return to fill in vacancies (especially for low wages and precarious working conditions) or have moved on to other safer sectors, putting upwards pressures on nominal wages. These developments have cast a shadow over the recovery prospects, opening up questions of whether they are really transitory and whether a tightening of the ECB's and other major central banks' monetary policy would and should be imminent. At the moment of writing, the ECB's governing council is considering the current increases in inflation as transitory and, following its revised monetary policy strategy (ECB 2021a), according to which it would tolerate temporarily higher inflation than the target of 2%, it is not envisaging a tightening of its monetary policy.

Figure 1.13 **Inflation rate in the euro area, Harmonised Index of Consumer Prices (HICP), electricity, gas, and other fuels price index, overall HICP index excluding energy and unprocessed food (monthly annualised rate %), euro area, 2019M1-2021M9**



Source: Eurostat, prc_hicp_manr series.

The ECB response to the pandemic and its new monetary policy strategy

The ECB continued unabated the interventions it had launched at the beginning of the pandemic, most notably keeping its policy interest rates constant and continuing its Pandemic Emergency Purchases Programme (PEPP) and the targeted longer-term refinancing operations (TLTROs) throughout 2021. The PEPP, whose financial envelope goes up to EUR 1.85 trillion, and in the context of which the ECB has bought most of the debt that euro area governments have issued since the pandemic begun, is expected to continue at least until the end of March 2022, whereas the ECB has indicated that net asset purchases will continue until the crisis is over. These interventions have kept the costs of borrowing low for governments despite the aforementioned large increases in budget deficits and debt/GDP ratios, but also for businesses and citizens.

> This is an important departure from the ECB's previous asymmetric preferences in favour of inflation at the expense of output and employment stabilisation

On 8 July 2021, the Governing Council of the European Central Bank announced its new monetary policy strategy, the first since 2003 (ECB 2021b). The process had already begun in January 2020 and had included public consultations with stakeholders and citizens. The review brought three important changes. First, there has been a reinterpretation of the Bank's price stability mandate: whereas the ECB previously considered price stability as 'an inflation rate below but close to 2%', it will now be 'aiming for a 2% inflation over the medium term', implying that the ECB will be willing to tolerate inflation rates moderately above 2% for a transitory period. In practice, this means that the ECB will not hasten to tighten its monetary policy if inflation surpasses 2%, especially if this overshooting has been preceded by periods of lower-than-target inflation, which usually indicate that an economy and employment is slowing down. This is an important departure from the ECB's previous asymmetric preferences in favour of inflation at the expense of output and employment stabilisation. Insofar as this is likely to support the fight against cyclical unemployment, it will also help to prevent, other things being equal, widening inequalities that unemployment can lead to. The second important shift was the inclusion in the Harmonized Index of Consumer Prices of owner-occupied house prices, in which there have been persistent increases in recent years. That would render the HICP more accurate for guiding monetary policy.

The ECB climate change action plan

The third important change in the monetary policy strategy is that it now includes an 'ambitious climate change action plan', to be implemented and further reviewed by 2024. The action plan is meant to underline the ECB's commitment to align more systematically its monetary policy with environmental sustainability considerations.

The ECB has committed to accelerating the development of its modelling approaches to better incorporate the risks from climate change and the transition towards a more sustainable economy in its macroeconomic forecasts, its assessments of financial stability and of the transmission of monetary policy. Concurrently, the ECB has pledged to experiment with the development of new statistics indicators to monitor green financial instruments, the carbon footprint of financial institutions, and their exposure to climate-related physical risks. In this field, the ECB will align itself with progress in EU policies and initiatives in disclosure and reporting on environmental sustainability. These steps would allow it to better adapt monetary policy decisions to the risks from climate change.

Furthermore, the ECB action plan has set out steps to take more actively into account the environmental sustainability of activities financed by assets serving as collateral for its credit operations and/or purchased in the context of the ECB's corporate asset-purchasing schemes. Disclosure requirements for private sector assets will be introduced as an eligibility condition for both collateral and asset purchases, in line with EU policies and initiatives in the field. The ECB will take into account climate change risks when reviewing the valuation of assets purchased and used as collateral . It will

do that by assessing the disclosures of rating agencies and assessing how they incorporate climate change risks in providing their ratings of assets, by developing some internal rating standards and by introducing requirements into the Eurosystem Credit Assessment Framework to address climate change risk, if necessary. The Eurosystem's balance sheet will also be stress-tested to gauge the risks related to climate change.

The ECB will 'assess potential biases' in the market allocation from its collateral framework and asset purchase programmes, especially the corporate sector purchase programme, assess the pros and cons of alternative allocations and potentially propose alternative benchmarks in response to questions on whether these programmes are truly in line with the market neutrality and market efficiency principles of its monetary policy operations. The ECB has recently faced criticism that these operations have been inadvertently financing economic activities that enhance rather than mitigate activities detrimental to the climate. To that end, it will also enhance its due diligence and disclosures related to the corporate sector purchase programme (CSPP) (Dafermos et al. 2020, 2021).

Although the action plan takes steps in the right direction which might have even been unthinkable a few years ago, it has also been criticised for being too timid given the urgency of taking action to meet the EU environmental sustainability objectives and omitting aspects thereof beyond climate change.

More specifically, the emphasis of the action plan is on assessing the risks from climate change on finance and consequently on the way the ECB conducts its policies, but not on the risks that financial activity (including the ECB's policies, especially asset purchases) enhances climate threats, something known as 'double materiality'. This is an important omission given the extent to which the ECB has been engaging in these activities in recent years and evidence that its activities are not 'market neutral' (ibid.).

In a similar vein, the action plan seems to be oblivious to aspects of environmental sustainability other than climate change, such as biodiversity, despite emerging evidence that its activities have an important impact there. It has also been criticised for not going a step further from the EU taxonomy in defining 'dirty assets' (that is, those subsidising climate-detrimental activities) but simply sticking to subsidising 'green' ones (Kedward et al. 2021).

The fact that there is already a date for reviewing the ECB strategy 2024 gives hope that the actions may be stepped up. However, what gives pause for thought are the apparent countervailing forces against taking sufficiently decisive action on greening monetary policy and finance.

> The involvement of the ECB in sovereign debt markets, effectively monetarily financing public debt, calls for an explicit framing of the terms and conditions in coordination with fiscal authorities in Europe

The politics of monetary policy

The aforementioned changes in the ECB's monetary policy strategy for tackling the new challenges that the Bank has been facing in the last decade are all welcome. While it is true that, since 2012, the ECB has found increasingly creative and, given the circumstances, effective ways to support the euro (cf. Bibow 2020), financial stability and the policies of the EU more broadly, the fact that it has done so on its own, led by unelected officials raises questions about the democratic legitimacy of its decisions. Its policy actions, most notably the asset purchases at the scale seen in recent years and the interpretation of the price stability mandate, have important distributional consequences that range from what type of economic activities or governments receive affordable financing to how far higher inflation linked to higher energy prices will be tolerated during the energy transition before monetary policies are tightened and brought to bear upon output and employment. The different economic policy objectives that the ECB has aimed to support involve trade-offs, which should not be left to it alone to decide about (van 't Klooster 2021). Moreover, the involvement of the ECB in sovereign debt markets, effectively monetarily financing public debt, calls for an explicit framing of the terms and conditions in coordination with fiscal authorities in Europe (Gabor 2021). This, however, would call into question one of the cornerstones of the ECB, namely its independence from fiscal authorities, in order to avoid the so-called dominance of fiscal over monetary policy, which in the past has been associated with high inflation.

Looking ahead: rebuilding after the crisis

> The scale of the response to the crisis in terms of both fiscal and monetary policies has shown that there are few limits to how far policymakers can go if they consider it necessary: if there is a will, there is a way

Europe seems to be moving slowly but surely towards adapting to the realities of an endemic coronavirus, but it must also make a greater effort to address the catastrophic increases in average global temperatures towards which current policies seem to be leading (Carbon Brief 2021). Moreover, Europe will have to go through these transitions in a way that simultaneously tackles pre-existing inequalities while mitigating those related to or emerging from climate change and the environmental transition (see also Chapter 4). A bigger role for public spending will be key for developing the new technologies and infrastructure that will be necessary for the indispensable energy transition, for supporting communities, workers and ordinary citizens in shifting to jobs, energy sources and life habits that are consistent with net-zero targets, and for climate change adaptation both in Europe and in the Global South.

A key question is whether Member States will be able to sustain that scale of spending. The main economic policy frameworks in the EU have been in a state of flux, struggling to address shortcomings that were already evident even prior to the pandemic. Given the externalities involved in climate change mitigation and adaptation, but also in moving towards greater equality, there is a strong case for public investment taking the lead to ensure that the necessary actions will be taken on time. Even prior to the pandemic, persistently low interest rates were prompting leading academics to argue that public debt sustainability should not be a concern for governments, which should borrow cheaply to invest (Blanchard 2019).

The scale of the response to the crisis in terms of both fiscal and monetary policies has shown that there are few limits to how far policymakers can go if they consider it necessary (Tooze 2021): if there is a will, there is a way. Not only have public budget deficits and public debts been allowed to balloon as governments have borrowed to deploy their support programmes, but central banks around the world have also been effectively monetising public debt to keep borrowing costs low for governments, even if this is not explicitly stated. This, however, raises questions about the assignment of functions among monetary, fiscal and wage policies, and touches upon pivotal issues such as the dominance of fiscal over monetary policy and central bank independence. In this regard, the next few years will be critical, and certainly interesting.

References

Alcidi C. and Corti F. (2022) The EU response to Covid-19: breaking old taboos? in Vanhercke B. and Spasova S. (eds.) Social policy in the European Union: state of play 2021, Brussels, ETUI. [forthcoming]

Bibow J. (2020) Pushing the limits: the European Central Bank's role in restoring sustainable growth, Working Paper 2020.01, Brussels, ETUI.

Blanchard O.J. (2019) Public debt and low interest rates, American Economic Review, 109 (4), 1197-1229. https://doi.org/10.1257/aer.109.4.1197

Carbon Brief (2021) Analysis: Do COP26 promises keep global warming below 2C?, Analysis, Carbon Brief, 10 November 2021. https://www.carbonbrief.org/analysis-do-cop26-promises-keep-global-warming-below-2c

Dafermos Y., Gabor D., Nikolaidi M., Pawloff A. and van Lerven F. (2020) Decarbonising is easy: beyond market neutrality in the ECB's Corporate QE, London, New Economics Foundation. https://greenpeace.at/assets/uploads/publications/GreenpeaceNEFReportECB.pdf

Dafermos Y., Gabor D., Nikolaidi M., Pawloff A. and van Lerven F. (2021) Greening the Eurosystem collateral framework how to decarbonise ECB's monetary policy, London, New Economics Foundation. https://greenpeace.at/assets/uploads/pdf/Greening-the-Eurosystem-collateral-framework-Report.pdf

ECB (2021a) Interview with Philip R. Lane, Member of the Executive Board of the ECB, conducted by Lluis Pellicer on 3rd November 2021, European Central Bank, 8 November 2021. https://www.ecb.europa.eu/press/inter/date/2021/html/ecb.in211108~c270ad5bc6.en.html

ECB (2021b) The ECB's monetary policy strategy statement, European Central Bank. https://www.ecb.europa.eu/home/search/review/pdf/ecb.strategyreview_monpol_strategy_statement.en.pdf

Eurofound (2018) Upward convergence in the EU: concepts, measurements and indicators, Luxembourg, Publications Office of the European Union. [updated 2021]

European Commission (2020) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee Regions. Economic governance review. Report on the application of Regulations (EU) No 1173/2011, 1174/2011, 1175/2011, 1176/2011, 1177/2011, 472/2013 and 473/2013 and on the suitability of Council Directive 2011/85/EU. COM(2020) 55 final, 5 February 2020.

European Commission (2021) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee Regions. The EU economy after Covid-19: implications for economic governance. COM(2021) 662 final, 19 October 2021.

Gabor D. (2021) Revolution without revolutionaries: interrogating the return of monetary financing, Berlin, Bürgerbewegung Finanzwende and Heinrich Boell Stiftung.

Kedward K., Buller A. and Ryan-Collins J. (2021) Quantitative easing and nature loss: exploring nature-related financial risks and impacts in the European Central Bank's corporate bond portfolio, Policy Report 2021/02, London, UCL Institute for Innovation and Public Purpose. https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/quantitative_easing_and_nature_loss_23_july.pdf

Theodoropoulou S., Picek O. and Galgoczi B. (2019) Macroeconomic policies and developments in Europe: tackling the growth, inequality and climate change challenges, in ETUI and ETUC, Benchmarking Working Europe 2019, Brussels, ETUI, 1-24.

Tooze A. (2021) Shutdown: how Covid shook the World's economy, New York, Viking.

van 't Klooster J. (2021) The ECB's conundrum and 21st century monetary policy: how European monetary policy can be green, social and democratic, Berlin, Bürgerbewegung Finanzwende and Heinrich Boell Foundation.

Wilkinson R. and Pickett K. (2009) The spirit level. Why equality is better for everyone, London, Penguin Books.

All links were checked on 30 November 2021.

2. Labour market and social developments: crisis further entrenches inequality

Authors


Wouter Zwysen


Torsten Müller


Kalina Arabadjieva


Agnieszka Piasna


Jan Drahokoupil


Silvia Rainone


Béla Galgóczi


Zane Rasnača

Topics

> Despite the efforts, the impact of the crisis has not fallen equally on everyone, instead accentuating existing fault lines and potentially entrenching structural disadvantages – in particular, for the young, migrant workers, and the lower educated. There is thus a very real risk of increasing inequality in the post-pandemic period.
>
> **Wouter Zwysen**

Introduction

This chapter documents evolutions in the labour market and related social developments in Europe over the past year. 2020 and 2021 were of course primarily characterised by the Covid-19 pandemic, which led to significant policy interventions in everyday life that strongly impacted on and shaped the labour market. While the recovery now seems well underway, aided by a large vaccination drive across Europe in the first and especially second quarters of 2021, economic growth will likely only reach its pre-crisis level by the summer of 2022, and the recovery of employment, especially in terms of hours worked, is still some way off (Jestl and Stehrer 2021; OECD 2021).

The crisis interrupted the progress that had been made over the preceding couple of years in Europe in terms of employment growth and a push towards more equality. However, thanks to unprecedented public spending and support at national and European level, the working population have so far been relatively shielded. There has been a lower rate of bankruptcies than before, only a modest fall in employment compared, for example, to the United States, and average disposable income has even increased somewhat as well as becoming more equally distributed (Clark et al. 2021; OECD 2021). Despite these efforts, the impact of the crisis has not fallen equally on everyone, instead accentuating existing fault lines and potentially entrenching structural disadvantages – in particular, for the young, migrant workers, and the lower educated. There is thus a very real risk of increasing inequality in the post-pandemic period once short-term public support schemes fall to the wayside (Adams-Prassl et al. 2020; Jestl and Stehrer 2021).

This crisis risks hindering progress towards greater equality in Europe by sharpening the divisions between workers: on the one hand, workers in skilled jobs with good secure conditions that can be done from home; and on the other, workers in insecure positions, with few protections, having to confront greater health risks to do their essential jobs. Problematically, these divisions were already widening due to continued pressure from globalisation, technological change, and deregulation. At the same time, the crisis has increased the risks of long-term unemployment or inactivity for more vulnerable workers. It is thus crucial, as the European labour markets recover, to address these inequalities and limit any further divisions by increasing everyone's chances of finding good and secure employment.

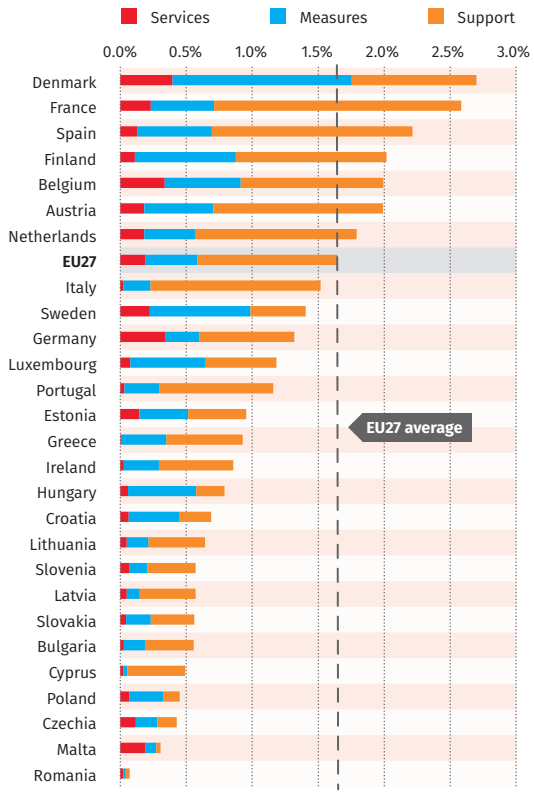
This chapter first discusses the policy responses to the health crisis, and the country differences between them, particularly regarding the use of different types of job retention schemes. The second section then presents the overall trends in the labour market and its structure. It also delves deeper into the inequalities that emerged during the crisis as well as the unequal nature of the recovery that had begun by the second quarter of 2021. It is clear that the pandemic hit vulnerable young workers and the lower educated the most. Finally, the third section discusses selected key aspects of changing labour markets and the European policy frame in depth. It discusses in more detail the evolutions in the labour market from 2020 to 2021: short-term migration and mobility, work-life balance under technological change, gender equality, and the Next Generation EU programme.

Responding to the crisis

Europe has been severely hit by the Covid-19 pandemic in several waves. Governments responded in relatively similar ways across the world, and these responses had substantial economic costs. The most immediate actions taken were a procurement of health and safety material, a closure of borders (and thereby disruption of supply chains and mobility), lockdowns, sectoral shutdowns, and school closures (Cheng et al. 2020). The impact in terms of inequality was likely worse in the first wave, which was characterised by severe lockdowns in many countries, the complete closure of several sectors, and a push for almost universal telework (Brodeur et al. 2020; OECD 2021).

The impact of these policies, all aimed at achieving social distancing and thereby limiting the spread of the virus, differed mainly in terms of (1) the sector in which one works and the extent to which it was hit, (2) the possibility of working remotely, which differs strongly according to occupation and left those performing essential and often lower-paid tasks in the most vulnerable position, and (3) the pressures at home due to sickness, but also care responsibilities and stress. These inequalities regarding sector, home situation, and the possibility to telework along with the need for a regulatory framework safeguarding a good work-life balance are also discussed in more detail and with a focus on occupational health and safety in Chapter 5.

Figure 2.1 **Public spending on labour market policies in 2019 (% of GDP)**



Note: Expenditure on labour market policies as a percentage of GDP in 2019, disaggregated into services (the cost of publicly funded services for jobseekers); measures (specific activation measures such as training, job sharing, incentives, job creation) and LMP support (income maintenance).
Source: Own calculations based on Eurostat (LMP_EXPSUMM).

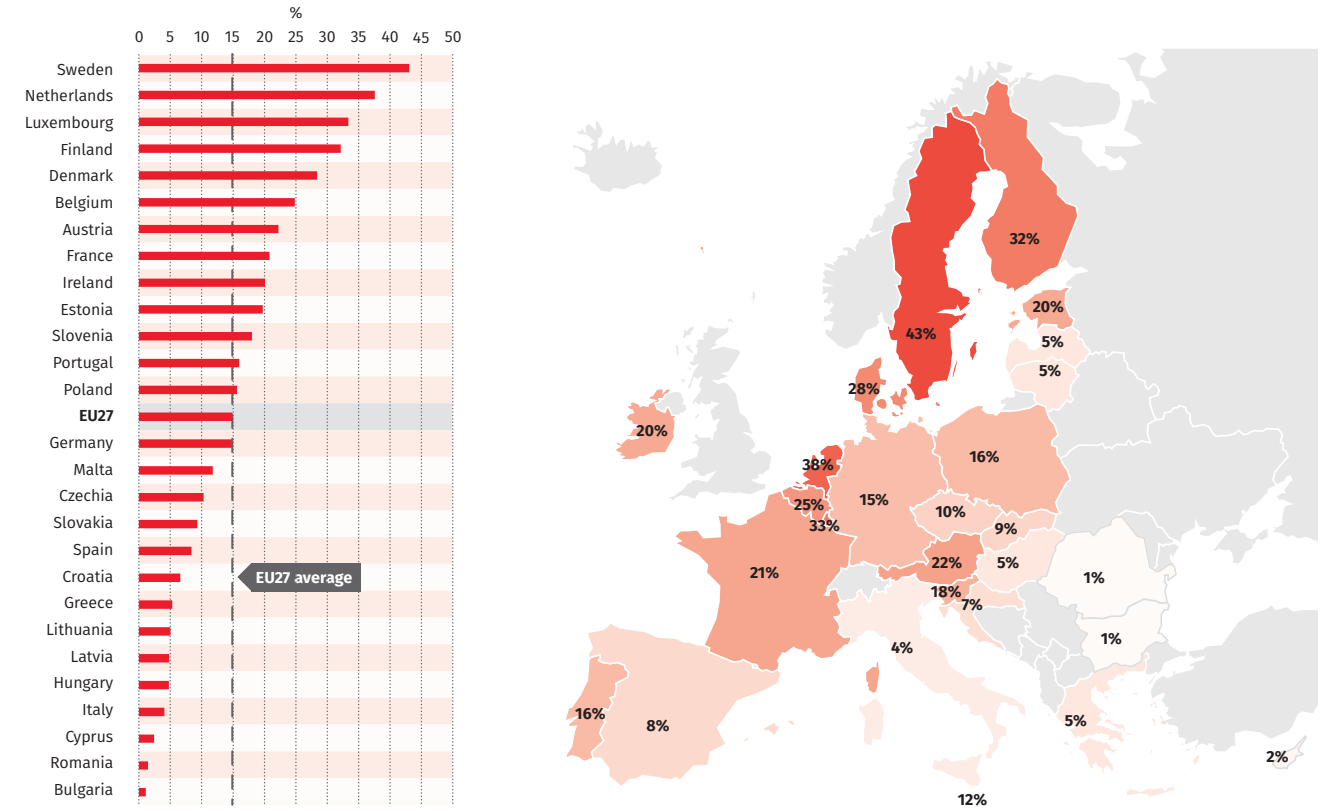
> European countries did not enter this crisis on an even footing

Pre-existing differences

European countries did not enter this crisis on an even footing: they differed in terms of the ability of their employment services to deal with this crisis, the scope and reach of their existing labour market policies, and the prior experience of their populations with teleworking. There is also a sizeable disparity within the European Union in spending on labour market policies (Figure 2.1). The budget for public employment services and for measures aiming to support job-seekers varies substantially and tends to be much lower in many of the southern and eastern countries (e.g. Romania, Greece, Portugal) than in the western and northern countries (Belgium, Denmark, Germany, France). This disparity then affects the capabilities of the state in supporting the labour market during this time of crisis.

Countries also differed substantially in their experience with and capacity to enable telework, which suddenly became the norm wherever possible. In 2019, telework was still overall very rare in the EU, with 5.4% usually working from home and only 15% ever having teleworked. This differed very strongly by sector and occupation, but also between countries (Figure 2.2). There was a clear regional divide, with telework much more used in western and northern Europe on average, and much less in eastern and southern Europe. In 2019, teleworkers also differed strongly by age, with only 12% of younger workers (15-34) doing some work from home compared to 16% of those aged 35-49. These digital divides – in terms of access to good broadband as well as the necessary digital skills – affected the ease with which labour markets could adjust to the crisis (Eurofound 2020a; Milasi et al. 2020).

Figure 2.2 **Share of workers doing telework in 2019 (%)**



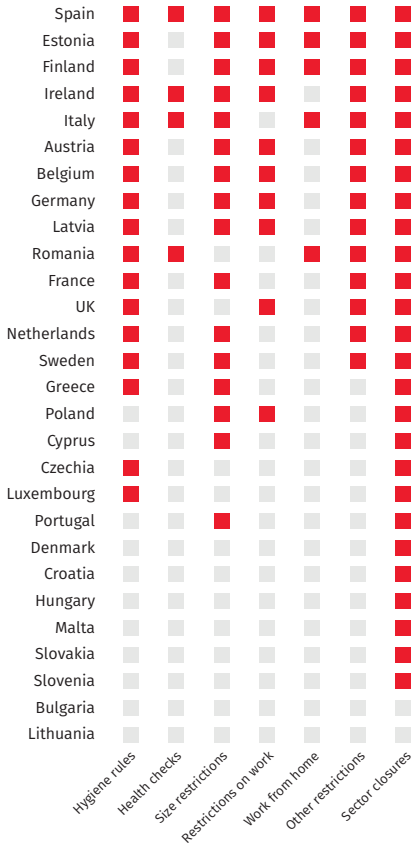
Note: The figure shows the share of workers who carry out some work from home.
Source: Own calculations based on Eurostat (LFSO_19PLWK26).

Restrictions enforced by countries

Countries varied in the restrictions they enforced (Figure 2.3). In many of the hardest hit countries, such as Spain, Italy, Romania, or Belgium, measures were taken to restrict work through the hours worked or through mandated homeworking. There were fewer restrictions in some of the eastern European countries (e.g. Bulgaria, Lithuania, Croatia, Hungary, Slovakia). These differences reflect both differences in the severity of the crisis and in the policy choices made.

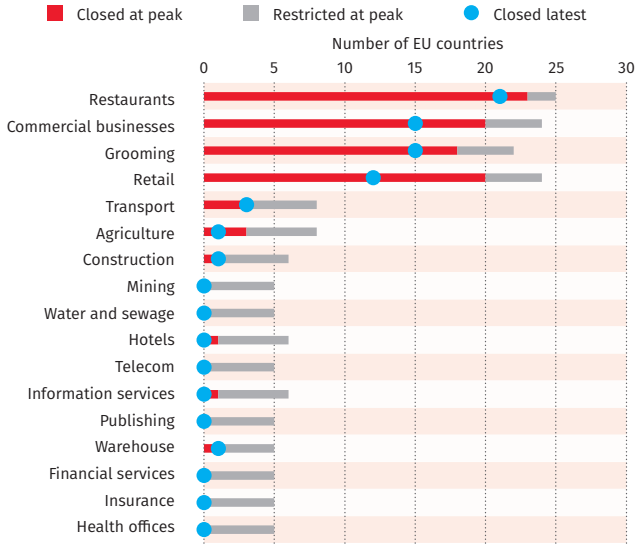
Importantly, many of the measures hit specific sectors harder – particularly service sectors such as retail, personal services, and restaurants and bars, which rely on face-to-face contact and where working from home was difficult (Figure 2.4). To the extent that these sectors tend to have less secure contracts and a more vulnerable workforce, these restrictions can reinforce labour market inequalities.

Figure 2.3 **Business restrictions**



Note: Restrictions taken by a country in the peak quarter (where most measures were taken). These are sector closures, hygiene rules (hygiene and sanitation, masking, social distance); health checks (certifications, questionnaires, or temperature checks mandated); size restrictions (restrictions on nr of workers/customers); work restrictions (hours worked, meetings); work from home; or other rules such as contact tracing.
Source: Own calculations based on Cheng et al. (2020).

Figure 2.4 **Restrictions faced by sectors across countries**



Note: Number of EU countries where sectors were closed or faced restrictions, at their highest level since the start of the pandemic and in 2021-Q1.
Source: Own calculations based on Cheng et al. (2020).

School closures

Across Europe, almost all schools were closed in the second quarter of 2020 (Figure 2.5a). In the school year 2020-2021 more schools were open, but some closures occurred in up to half of the European countries (Figure 2.5b). Schools were closed for long stretches of time in Latvia, Slovakia, Slovenia, Czechia, Poland, Bulgaria and Italy, but relatively briefly in France, Luxembourg, Spain and Sweden. School closures also likely had adverse impacts on the educational progress of children (Engzell et al. 2021) and primarily affected less advantaged children. These school closures also increased the burden on parents and the difficulty of combining work (possibly from home) and childcare. This burden tends to fall disproportionally on women, even though there has been an increase in men doing housework (Del Boca et al. 2020; Farre et al. 2020).

School closures also affected the employment rate of younger adults (Figure 2.6). Workers aged 25-49 were somewhat less likely to be employed when schools were closed for a longer period within the year quarter. However, among workers aged 30-34, the impact was by far the largest on women, who are most likely to have to deal with the extra demands on childcare. There was also a large decline in the employment rate of young men (25-29), related to school closures. The association with employment is mainly driven by changes in the employment rates of the lower educated, who may have fewer opportunities and resources to find alternative solutions (not shown here).

Figure 2.5b **Share of school days where schools were open, partly open, or closed**

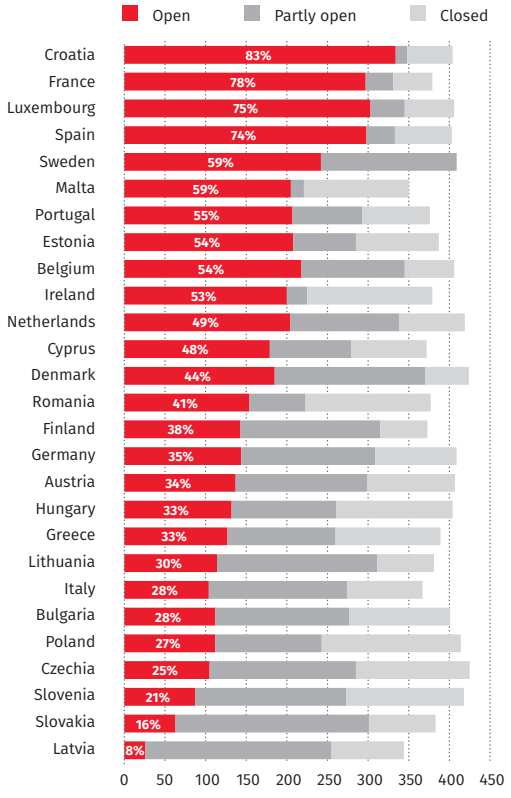
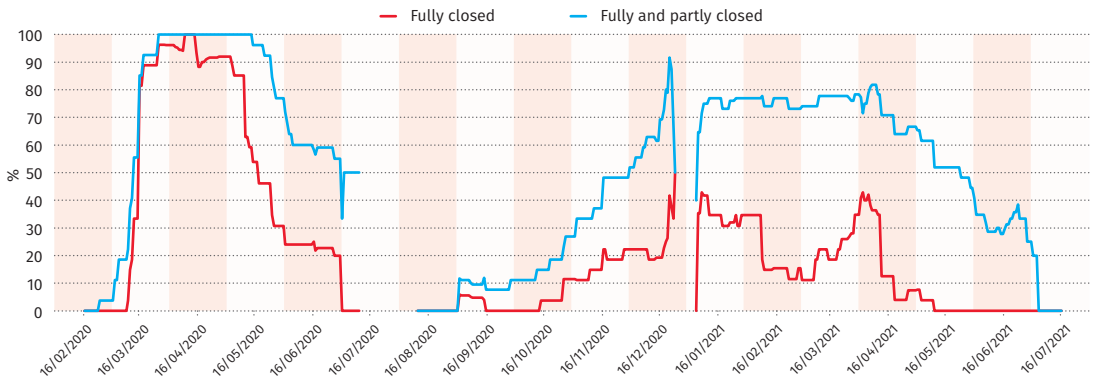
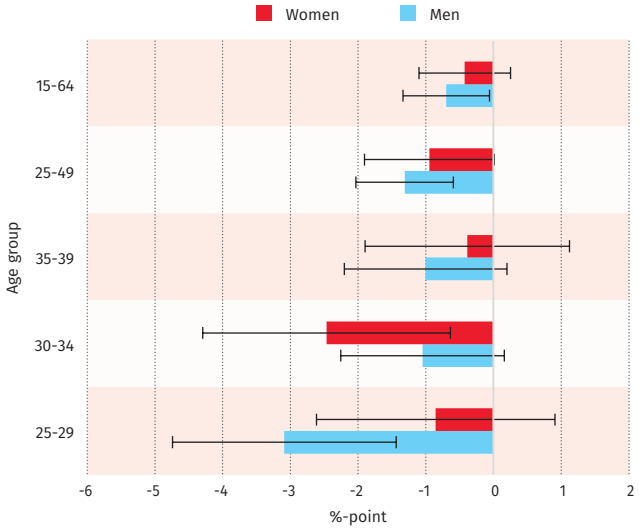


Figure 2.5a **Share of countries imposing school restrictions**



Note: Figure 2.5a shows the share of countries in which schools were fully closed or at least partially closed in the EU27 on a given day. Figure 2.5b shows the number of days for which schools were closed, partially open, or open, and the share of days they were closed for.
Source: Own calculations based on UNESCO (2021).

Figure 2.6 **Relation between school closures and employment rate**



Note: Estimated impact of quarterly change in school closures (proportion) on changes in the employment rate (pp) by age and gender, from regression with country and quarter controls.
Source: Own calculations based on Eurostat (LFSQ_ERGAN), UNESCO (2021).

Job retention schemes

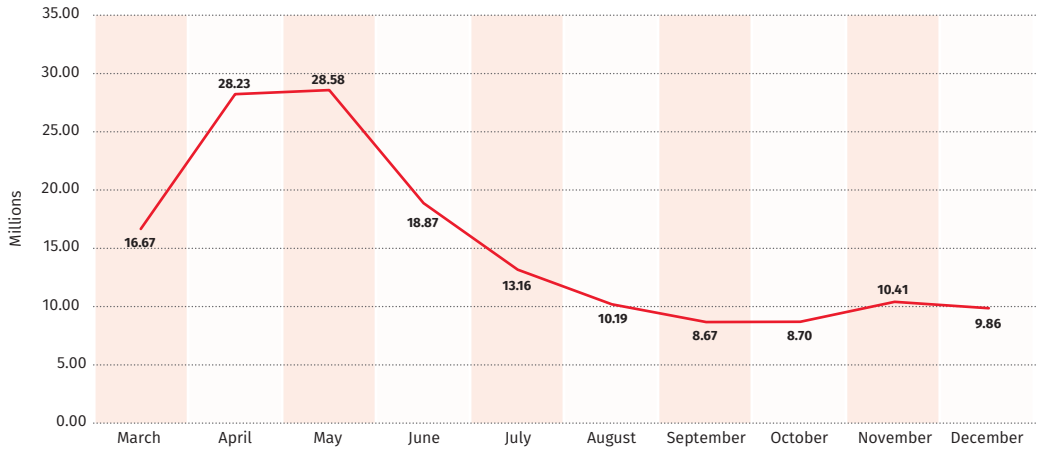
EU-wide use of job retention schemes protected businesses and workers

Job retention schemes (JRS) have become a hallmark of the European approach to dealing with economic downturns, promising a more humane and effective adjustment to economic crises. JRS are aimed at preserving employment in firms that experience a temporary drop in demand. They preserve the links between companies and their employees, which may be costly to re-establish once broken. They also support workers' incomes, who keep their employment contract even if work is suspended. The first widespread use of JRS was in the Great Recession. In 2009, they were used in 16 EU Member States (Hijzen and Venn 2011). In 2020, all EU Member States, as well as Norway, Switzerland, and the United Kingdom, used some form of JRS (Drahokoupil and Müller 2021 for an overview). Many were just temporary, but the experience of the crisis put the introduction of permanent schemes on the agenda in a number of countries.

JRS come in different shapes and sizes. Two indicators for the size of the various schemes during the pandemic are the rates of take-up and spending. Take-up peaked in May 2020, near the beginning of the pandemic, with a total of 28.6 million workers recorded accessing the schemes in EU Member States for which data are available (Figure 2.7). The use of JRS dropped rapidly after May, with the lowest number of workers that year (8.7 million) on some form of JRS in September-October 2020. The second wave of the pandemic then drove the number up again, but to a much lower level (10.4 million) in November 2020. These figures are calculated on an employee/month basis. They do not take into account whether a worker used a JRS on a full-time basis or just for 10% of their time.

Analyses of take-up in the first wave point to underlying factors that explain variation, namely the stringency of the respective lockdowns and the share of contact occupations that make employment structures vulnerable to social distancing (OECD 2021; Eurofound 2021). The high take-up, particularly at the beginning of the crisis, is also explained by the decisions to make JRS more open and flexible, with broader categories of workers allowed to access the schemes. The key objective was to provide timely and broad-based support.

Figure 2.7 **Take-up of job retention schemes across EU in 2020**



Note: Data are not available for Greece and Hungary. The figures are based on incomplete data reported in Malta, Romania, and Latvia. In Malta, take-up figures were not reported for March, June, August, October, and December 2020. In Romania, take-up is not available for August-November 2020. For Latvia, take-up was not reported in November 2020. For Netherlands, quarterly figures were used. The figures do not take into account the number of hours on the JRS.
Source: ETUI survey of job retention schemes (Drahokoupil and Müller 2021).

Country variation in take-up directly linked to spending

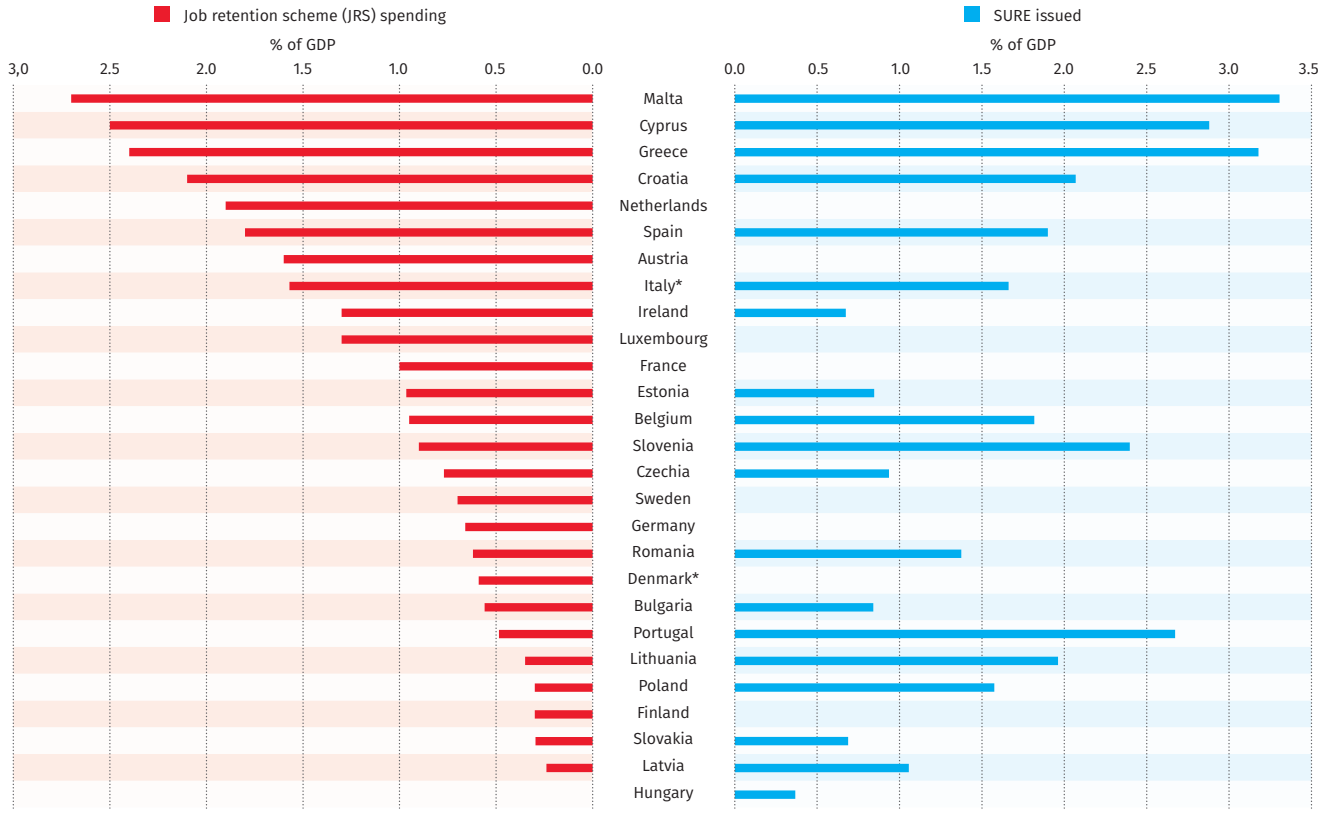
As regards the sectoral composition, at the beginning of the crisis, take-up was greatest in accommodation and food, arts and entertainment and other services, wholesale and retail trade, and manufacturing (OECD 2021). With the exception of the latter, these were all sectors particularly hard hit by government-imposed lockdowns and social distancing measures. As government restrictions were lifted, take-up decreased, and disproportionally so in the aforementioned service sectors, but it picked up again strongly in November and December 2020 when the second wave of the pandemic hit and was met by government restrictions once again.

Variation in take-up was directly linked to the differences in spending across countries. Figure 2.8 provides an overview of how much EU countries spent on JRS in 2020 as a percentage of GDP. This clearly illustrates that the highest spenders (Malta, Cyprus, Croatia and the Netherlands) are also among those countries with the highest take-up (Drahokoupil and Müller 2021). The spending figures indicate that the size of the JRS was not related to differences in the capability to raise funding. JRS could be financed through SURE (Support to mitigate Unemployment Risks in an Emergency), a system of joint borrowing that was adopted by the EU in May 2020. As indicated in Figure 2.8, SURE funding was used by a large number of EU countries that took advantage of the borrowing costs, which were lower than what would have been available to them on the financial markets (see chapter 1).

Eligibility criteria for JRS initially kept wide to provide inclusive support

Take-up and spending during the Covid-19 pandemic was much higher than during the Great Recession, due to the unprecedented nature of the pandemic crisis. As a consequence, all countries initially aimed to provide broad coverage and generous support for workers and companies. The eligibility criteria were made as inclusive as possible everywhere, to ensure that all companies and workers on different types of contracts received support. This meant that countries with a pre-existing permanent scheme adjusted their schemes so that previously excluded sectors and categories of workers (such as workers on part-time and/or fixed-term contracts and temporary agency workers) also benefitted from the system. Examples include

Figure 2.8 **Spending on job retention schemes**



Note: * Denmark: short-time work spending only (not available for the furlough scheme), Italy: spending for March–October 2020. No spending figures available for Hungary.
Source: ETUI survey of job retention schemes (Drahokoupil and Müller 2021).

One lesson learned from the Great Recession is that job retention schemes play an important role in cushioning the employment impact of an economic crisis

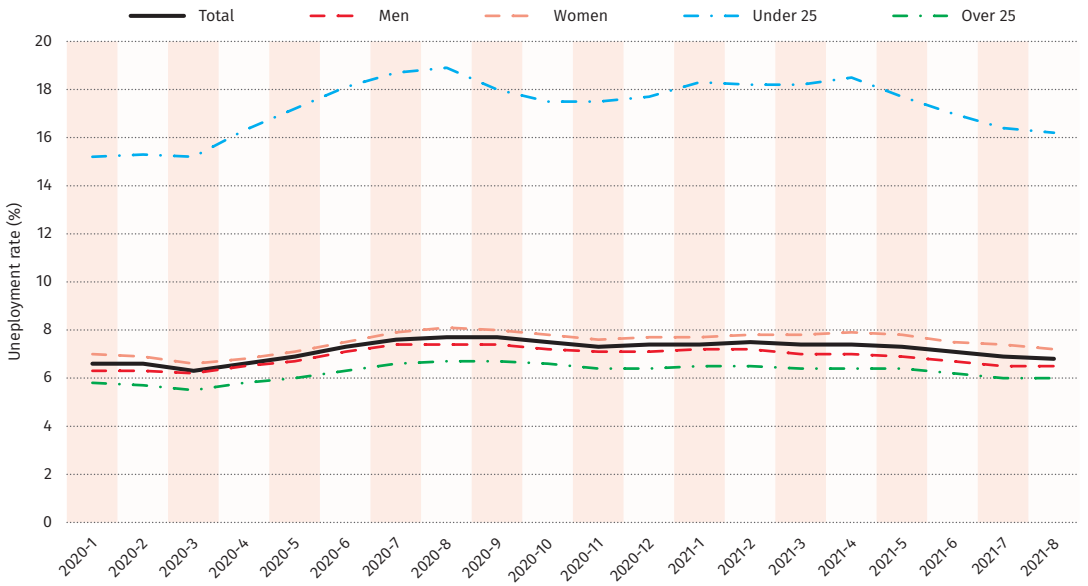
Germany, where temporary agency workers, who are normally not eligible, were included in the scheme; France, where the scope of the standard JRS scheme was extended to almost all categories of workers including executives, temporary and part-time workers, domestic workers and childminders, travelling salesmen and employees at most public companies; and Italy, where all the restrictions of the traditional scheme as regards sectors and small companies were removed under the Covid-19 JRS scheme to cover all workers, all sectors, and also companies with fewer than five employees. Those countries with newly established schemes, in particular in central and eastern European countries, set up inclusive eligibility criteria. The broad scope of the JRS helped to avoid not only further advancing the segmentation of the workforce but also leaving behind the most vulnerable categories of workers by excluding them from JRS support.

Eligibility criteria have remained inclusive during the pandemic. In countries in which changes have taken place, they have reflected a growing concern about deadweight losses, i.e. supporting jobs that do not need support. As a consequence, the criteria have been made more restrictive during low ebbs of the pandemic and loosened during peaks. In some countries, growing concern about deadweight losses is furthermore reflected in attempts to make them more sector-specific by channelling financial support to the sectors hardest hit by the pandemic. The same concern has led some countries to establish special provisions that exclude from eligibility companies that pay out dividends or bonuses, operate from tax havens, or buy back shares.

One lesson learned from the Great Recession is that job retention schemes play an important role in cushioning the employment impact of an economic crisis. The experience of the Covid-19 pandemic illustrates that JRS have been an integral part of a more demand-focused crisis management. Such schemes have allowed companies to weather the economic crisis by sustaining their financial liquidity, preventing unnecessary job losses and serving as an automatic economic stabiliser by sustaining internal demand through the protection of workers' wages. Studies that focused more closely on the impact of JRS on employment, furthermore, confirm that the negative effects as regards job reallocation were only limited, with the balance tilted well in favour of the positive effects (OECD 2021). In essence, during the Covid-19 crisis job retention schemes have provided a lifeline for companies, workers and the economy at large.

Labour market trends

Figure 2.9 **Evolution of unemployment rate (%) in EU27**



Note: The figure shows the unemployment rate by age groups and by gender, in the EU27.
Source: Own calculations based on Eurostat (une_rt_m).

Unemployment and inactivity

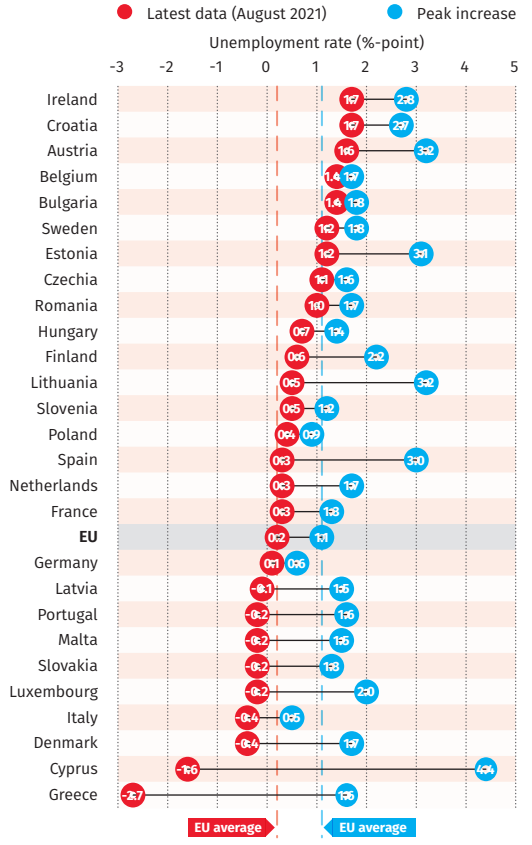
Rising risk of long-term exclusion from the labour market

The Covid-19 crisis disrupted a period of steadily declining unemployment in Europe, down from its peak in 2013 (Piasna et al. 2020). From March 2020 onwards the unemployment rate rose rapidly, from 6.4% to 7.7% by August 2020. In April 2021, the rate began to decline again, down to 6.8% by August 2021.

Importantly, this increase remained relatively modest compared to other regions, or to the larger impact on GDP growth, due to a huge policy effort aimed at mitigating the impact of the pandemic on employment through different job retention schemes (OECD 2021; Drahokoupil and Müller 2021). By comparison, the unemployment rate in the United States rose from 4.4% in March 2020 to a staggering 14.8% in April, although it had dropped back down to 8.4% by August.

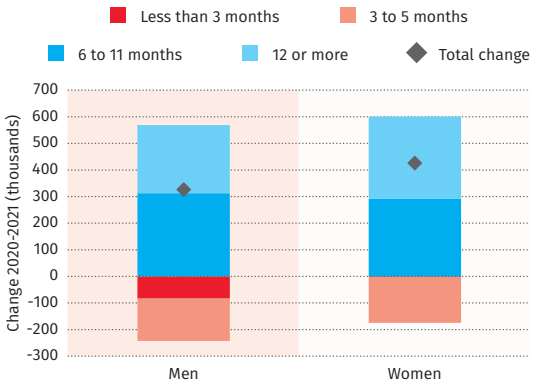
Despite these efforts at retaining employment, the rising unemployment in Europe also brought with it a widening of gaps between different groups of workers (Figure 2.9). Initially, unemployment rose more for men than women, although this gap diminished again over time. Strikingly, unemployment rose much more among workers aged under 24: at its peak, 15%

Figure 2.10 **Change in the unemployment rate from early 2020**



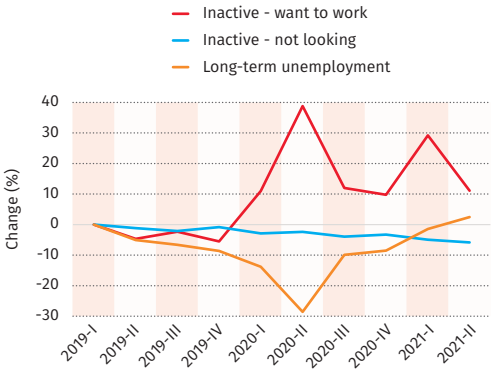
Note: The figure shows the change in the unemployment rate from February 2020 at the peak - the month with the highest level in the period from April 2020 to August 2021 - and the value in August 2021.
Source: Own calculations based on Eurostat (UNE_RT_M_country_gender).

Figure 2.11 **Change in unemployment by duration**



Note: Shows change in the number of employed (thousands) by the duration of unemployment in EU27 from 2020-I to 2021-II.
Source: Own calculations based on Eurostat (LFSQ_UGAD).

Figure 2.12 **Change in number of long-term unemployed and inactive**



Note: Figure shows the relative change from 2019 in the EU27.
Source: Own calculations based on Eurostat (UNE_LTU_Q and LFSQ_IGAWW).

more were unemployed than at the start of 2019, compared to 9% for older workers.

By the summer of 2021, the numbers of unemployed were dropping again and the recovery now seems truly underway. While the unemployment rate in 2021 is still higher in most countries than it was in February 2020 (Figure 2.10), improvement is visible. Unemployment rose the most in several central and eastern European countries, such as Czechia, Bulgaria, and Croatia, but also in Austria, Ireland and Belgium. The impact in terms of unemployment remained relatively modest in Greece, France, Germany, Italy and Spain.

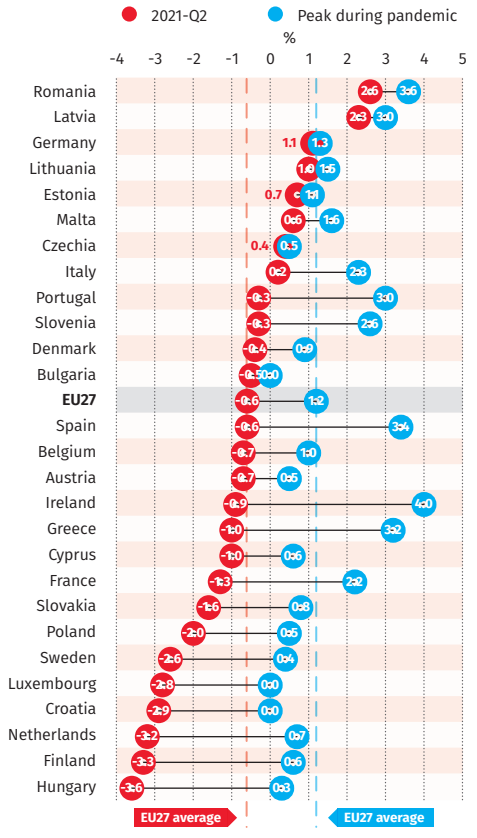
Unemployment in itself can negatively affect the probability of finding work later on due to a stigma in the eyes of prospective employers or to the depreciation of human capital (Gregg and Tominey 2005). This means rising long-term unemployment is not only problematic in and of itself, but can have long-lasting scarring effects, leading to growing inequality in the labour market.

The growth in unemployment from the start of 2020 to 2021-Q2 is accounted for by an increase in the long-term unemployed (Figure 2.11).

An increasing number of people of working age across Europe left the labour force altogether during the pandemic and became inactive. From 2020 to 2021-Q1, the number of inactive workers in the EU27 increased by 890,000. This was driven by a massive increase of around two million in the inactive population who would like to work. By the second quarter of 2021, this rise had subsided once again. This could reflect the fact that more people were postponing employment due, for instance, to them prolonging their studies, to a greater need to provide care (which leads to exiting employment), or to an increase in the number of discouraged workers not actively looking for work at that moment in time. Importantly, the definition of unemployment requires a commitment to look for work, which likely was low among those who lost their job during the pandemic, as there were few available jobs.

Along with the involuntary inactive, long-term unemployment rose after the start of the pandemic (Figure 2.12). The number of inactive who were not seeking work declined steadily

Figure 2.13 **Change in inactivity rate**



Note: Relative change in inactivity rate (percentage from population) from 2020-I (2019-IV for Germany) to 2021-II.
Source: Own calculations based on Eurostat (LFSQ_IPGA).

however. Inactivity generally increased more for men than for women.

In most countries the inactivity rate was generally lower in 2021-Q2 than 2020-Q1 (Figure 2.13). This reflects the decline in the number of inactive who are not looking to work. However, in almost all countries, there has been a sizeable increase in inactivity at the worst moment of the pandemic, averaging at 1 percentage point (pp) across the EU27. Inactivity rates are still above their level at the start of the pandemic in Romania, Latvia, Germany, Lithuania, Estonia, Czechia, and Italy.

The Covid-19 crisis had an initially very negative effect on employment transitions. From the last quarter of 2019 to the 2nd quarter of 2020 the outflow from employment to unemployment or inactivity rose from 4% to 5% while the inflow into employment dropped from 22% to 15% of the unemployed and 3.5% to 3% of the inactive. However, by the fourth quarter of 2020 these rates had recovered (source: Eurostat (lfsi_long_q)).

Young people were especially hard hit by the pandemic (Figure 2.14). In the EU as a whole the rate of young people who are neither in employment nor in education and training (NEET) had been steadily decreasing from its height of 16.1% in 2013 to 12.6% in 2019, and increased again to 13.7% in 2020. With the exception of Romania and the Netherlands, the share of NEET increased in every country, most of all in Ireland, Estonia, Lithuania, Portugal and Latvia. It increased the least in Belgium, Slovenia, Croatia, and Denmark.

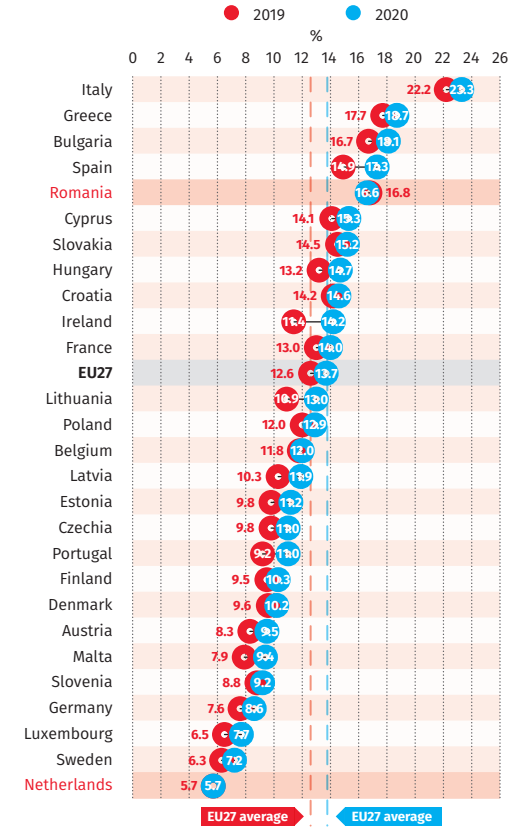
Employment

Declining employment, but recovery underway

The impact of the crisis on employment rates differed strongly between countries (see Figure 2.15 for the rates and Figure 2.16 for the changes). While employment declined substantially in most countries, the drop was sharpest in some of the countries initially most hard hit such as Romania, Italy, Sweden, and Spain. On the other hand, the drop was modest or completely absent in Poland, Hungary, the Netherlands, and Lithuania.

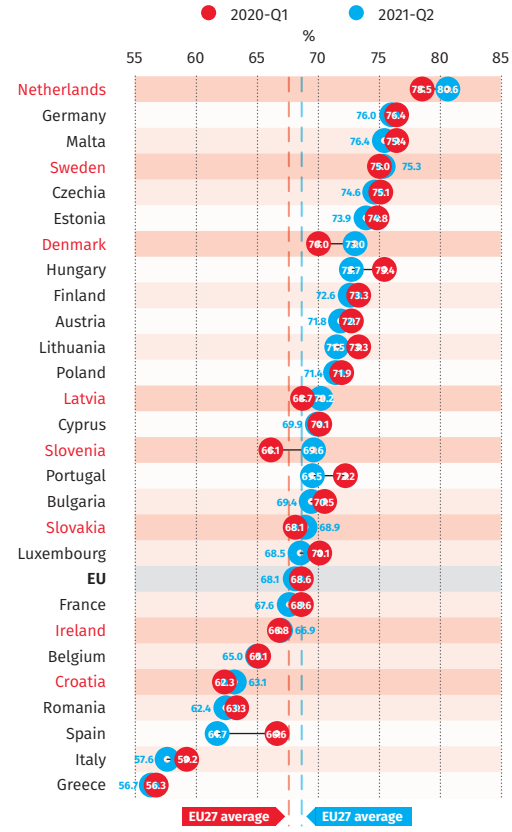
The decline in employment was particularly harsh for those not in standard employment relations. For instance, employment fell the most for the self-employed (Figure 2.17). It had already

Figure 2.14 **NEET rate for youth (15-29)**



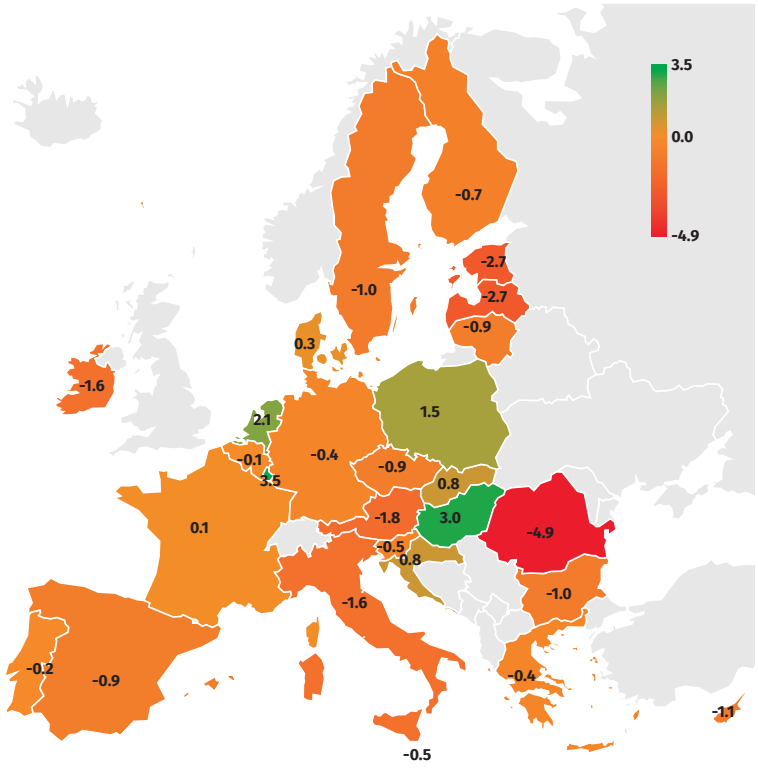
Note: Level of youth NEET rate in 2019 and 2020.
Source: Own calculations based on Eurostat (YTH_EMPL_150).

Figure 2.15 **Employment rate by country**



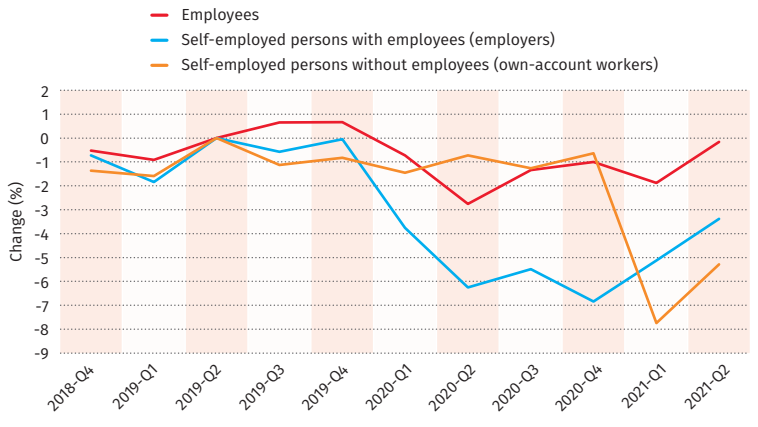
Note: Employment rate by country in 2020 and 2021.
Source: Own calculations based on Eurostat (lfsi_emp_q).

Figure 2.16 **Change in employment rate 2020-Q1 to 2021-Q2**



Note: Change in employment rate from 2020-Q1 to 2021-Q2 by country.
Source: Own calculations based on Eurostat (lfsi_emp_q).

Figure 2.17 **Relative change in the number of workers by employment status (%)**



Note: Relative change in the number of employees, and self-employed with and without employees.
Source: Own calculations on Eurostat (LFSQ_EGAIS).

started falling in the first quarter of 2020 for employers (self-employed with employees) and only dropped steeply for own-account workers in 2021. By the second quarter of 2021 there were 5% fewer self-employed compared to the same time in 2019 while in 2020 (Q2) the decline compared to the same period had only been 1%.

The decline among those employed on temporary contracts was also particularly steep, with on average 10% fewer working on a temporary contract in the second quarter of 2020 compared to the first quarter (Figure 2.18). This likely reflects temporary contracts – used much more prominently in the hardest-hit sectors – not being renewed. By 2021, though, more men and especially women were once again working on temporary contracts, with a smaller decline compared to the pre-crisis period of 2-5%.

The number of people who work on part-time contracts also fell substantially, and slightly more so for men than for women. The overall share of workers who are underemployed – meaning working part-time but who would like to work more hours – went up only very slightly for men between 2020 and 2021, from 23% to 25%, while it remained at 16% for women.

Employment dropped particularly sharply for the self-employed in Romania, Germany and Cyprus, while the rate of self-employed increased in some other countries, particularly in Hungary, Luxembourg and Latvia. The decline in employment among workers on non-standard contracts was heaviest in Slovakia, Bulgaria, Poland, Portugal and Latvia (Figure 2.19).

Sectoral and occupational trends

Drop in employment concentrated in specific occupations

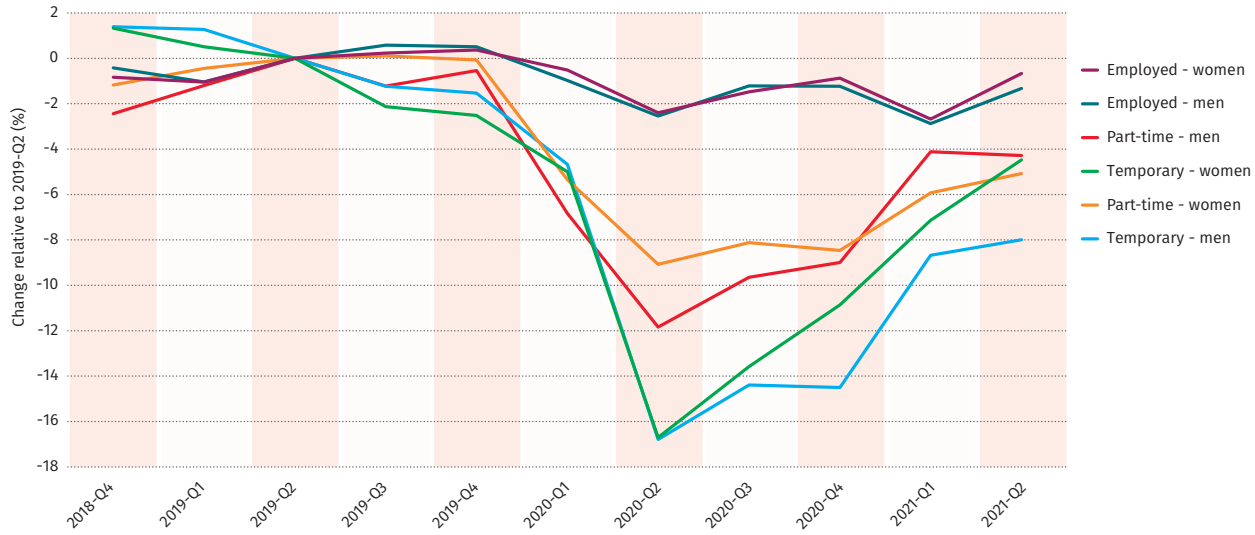
Sector-specific policy measures, a pandemic-induced disruption of supply chains, and a decrease in demand all further impacted the labour market along sectoral lines (Brodeur et al. 2020).

Four sectors stand out as particularly affected in terms of employment (Figure 2.20). Employment dropped by a third in accommodation and food services, close to 20% in arts and recreation and in agriculture, and around 10% in administrative support. Importantly, in none of these sectors was there a clear recovery visible by the second quarter of 2021. These are the sectors that have faced the strictest restrictions for public health reasons, but are also sectors where telework is difficult. There were also substantial drops in employment in the education sector, but this has largely recovered as schools have re-opened.

Several sectors have actually experienced employment growth during the crisis: the ICT sector, electricity and utilities, and to a lesser extent health and social work all stand out in this regard.

The sectors that were the most heavily impacted were also those that employ the most workers

Figure 2.18 **Relative change in the number of workers by employment type and gender (%)**

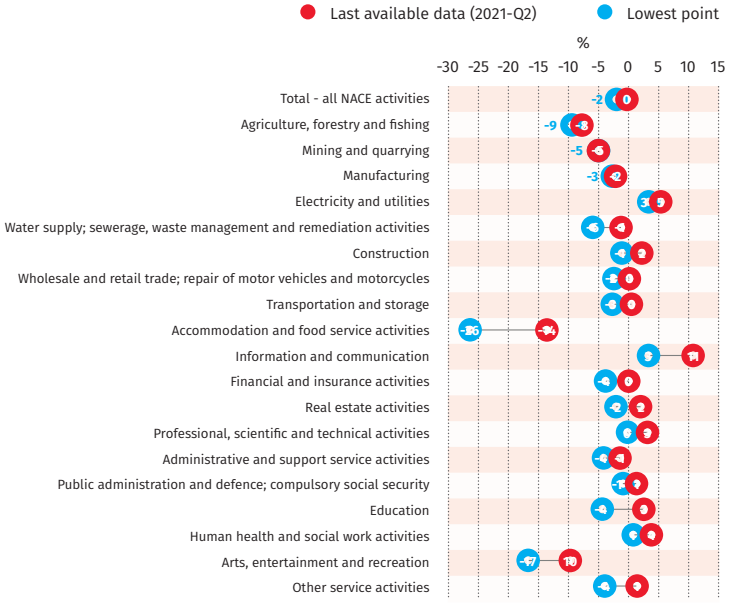


Note: Relative change in number of workers by employment type and gender as % change to 2019 Q2.
Source: Own calculations based on Eurostat (LFSQ_EGAIS, LFSI_PT_Q).

Figure 2.19 **Changes in non-standard employment 2019-2021 (Q2)**

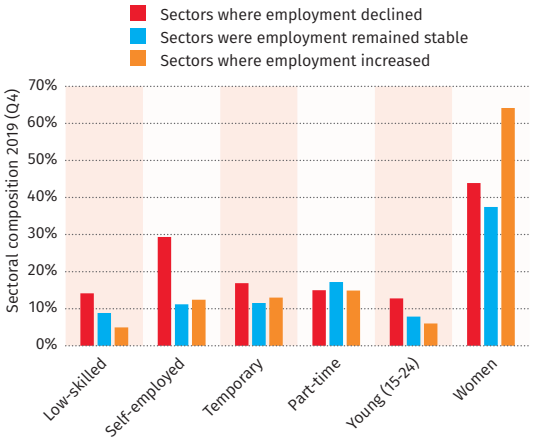
Note: Change in number of workers relative to 2019-Q2 (%).
Source: Own calculations based on Eurostat (LFSQ_EGAIS, LFSI_PT_Q).

Figure 2.20 **Change in employment by industry**



Note: Employment change expressed as percentage change compared to 2020-Q1.
Figure shows the trough since 2020-Q2 and the level in 2021-Q2.
Source: Own calculations based on Eurostat (LFSQ_EGAN2).

Figure 2.21 **Composition of industries prior to pandemic, by the evolution during the pandemic**



Note: The 2019 (Q4) composition of sectors depending on the evolution in their employment until 2021 (Q2). Employment declined in agriculture, mining and quarrying, accommodation and food service, arts and recreation. It rose in electricity and utilities, ICT, professional services, education, and human health and social work; and it was stagnant (declined or rose no more than 2%) in manufacturing, water supply and sewerage, construction, trade and repair, transport and storage, financial and insurance, real estate, administrative and support, public administration and defence, other service activities.
Source: Own calculations based on Eurostat (lfsq_eisn2, lfsq_esgan2, lfsq_etgan, lfsq_epgan, lfsq_egan2).

in low-skilled occupations and on temporary contracts, as well as including more self-employed workers, and young workers aged 15-24 (Figure 2.21). Importantly, the share of women in the hard-hit sectors was higher than in those where it stagnated, but women are also over-represented in the sectors that did particularly well. This means that those sectors where the pandemic cost most jobs also employed more vulnerable workers, thereby further increasing inequality.

The impact of the pandemic also varied strongly according to occupation (Figure 2.22). Employment dropped most in those occupations linked to closed sectors and where social distancing was difficult: in particular, agriculture workers and service and sales workers. The number of workers employed in elementary occupations and as plant and machine operators also dropped substantially. On the other hand, employment among professionals and clerical support workers went up – these are, incidentally, both groups who were more likely to be able to work from home.

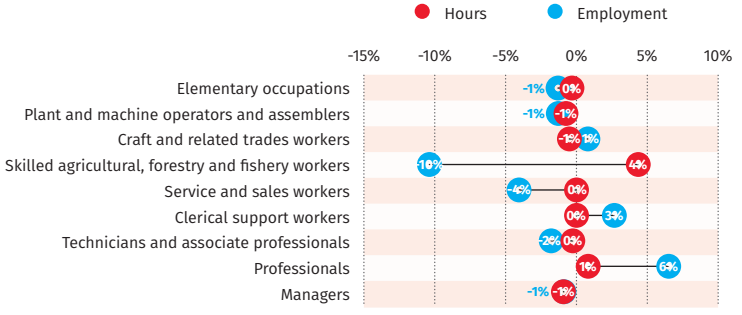
Among those who retained their jobs, the average hours worked dropped for most groups, increasing only slightly for professionals, although substantially for those in skilled agricultural, forestry and fishery work.

Working time

Re-distribution of work through shorter hours reproduces inequalities

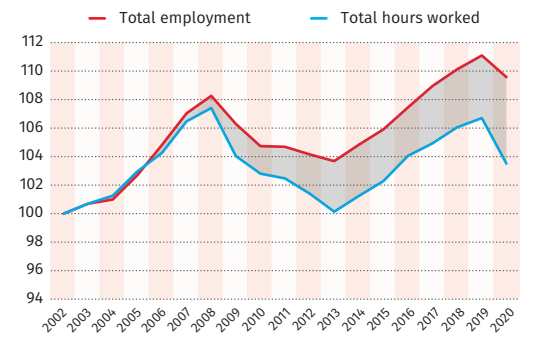
Employment losses in the EU during a downturn tend to be partly offset by a decline in working hours. This was previously shown for several macroeconomic shocks of the early 2000s and the post-2008 recession (De Spiegelaere and

Figure 2.22 **Change in employment and hours worked from 2020-Q1 to 2021-Q2**



Note: Relative change in the number of employed and the hours worked from 2020-Q1 to 2021-Q2.
Source: Own calculations based on Eurostat (LFSQ_EWHUIS and LFSQ_EGAIS).

Figure 2.23 **Trends in employment and total actual hours worked in the EU27 (Index 2002=100)**

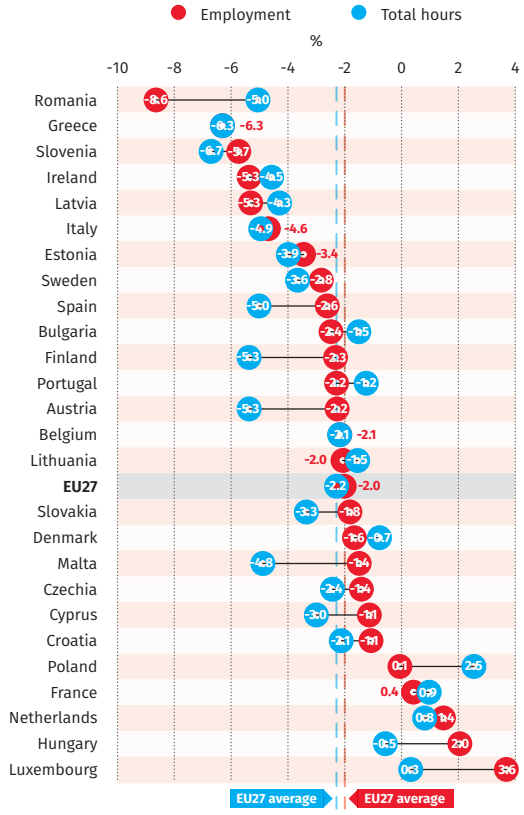


Source: Own calculations based on Eurostat (lfsa_egan, lfsa_ewhais).

Piasna 2017, 2021). In both these periods, the decline in the number of people in employment was cushioned by a more profound decline in the total volume of work (that is, the sum of all hours worked by all in employment at a given time). In periods of economic recovery, employment levels also pick up much faster than working hours. This means that those who stay employed work, on average, shorter hours than they did before the crisis. However, this has not simply been due to job preservation policies. In fact, much of these changes have been driven by composition effects and a continuous rise in part-time employment. Full-time jobs have been disappearing in, for example, some manufacturing sectors, while part-time jobs have been created mostly in service sectors (Piasna and Myant 2017).

The Covid-19 crisis inflicted changes in employment and hours worked that closely resemble those from previous macroeconomic shocks (Figure 2.23). In the EU27, total hours worked dropped by twice as much as employment (3% rather than 1.4%) from 2019 to 2020. This mirrors the trends in the period 2008-2009 (declines of 1.8% and 3.1%, respectively).

Figure 2.24 **Country differences in work redistribution effects between 2020 and 2021, comparison of first quarters**



Source: Own calculations based on Eurostat (lfsq_ewhais, lfsq_eftpt).

Much of the reduction in working hours during the Covid-19 crisis has been a direct result of job retention schemes used massively in the first months of the lockdowns in 2020. By the end of April 2020, an estimated 50 million employees in Europe were participating in short-term work schemes, meaning almost 50% of the workforce in some countries (Müller and Schulten 2020). A Eurofound (2020b) survey equally found that one in two employees in Europe has seen a decrease in working time since the lockdown measures were introduced, of which one third said their working time decreased a lot.

There are sizeable differences between countries in the extent to which a drop in employment was partly avoided by reducing working hours (Figure 2.24). Significant financial support for job retention schemes came from the SURE (Support to mitigate Unemployment Risks in an Emergency) programme, through which the European Commission provided favourable loans of up to EUR 100 billion. However, financing was not accompanied by a coherent policy plan, and there was significant variation in the extent to which SURE was taken up (see Figure 2.8). While some attempted to hastily establish new schemes, others were able to extend and implement existing policies more swiftly. There were also differences across countries in the duration of the financial compensation for the hours not worked (Drahokoupil and Müller 2021). Looking at the situation in early 2021 (first quarter, compared to the same period in the previous year) in terms of a discrepancy between the drops in employment and in total hours worked, we observe a considerable work redistribution effect in Austria, Malta, Finland and Spain. On the other hand, in Romania, employment declined much more than total hours worked, while in Poland there was almost no change in employment, but workers worked on average one hour longer in 2021-Q1 than they did in 2020-Q1.

Inequalities persisted not only across countries, but also between groups of workers. Comparing changes in working hours in the past year clearly shows that the loss of jobs was particularly stark for non-standard contracts, while those on standard contracts were spared more (OECD 2020). For instance, average working hours in part-time jobs in the EU27 have seen almost no change since the outbreak of the pandemic, but the number of these jobs dropped markedly, a trend persisting well into 2021, with the biggest employment losses observed in 2021-Q1 (Figure 2.25). The protective role of working time reduction with regard to employment losses benefitted primarily full-time workers. While full-time employment fell by only about

Figure 2.25a **Change in weekly hours of work, EU27**

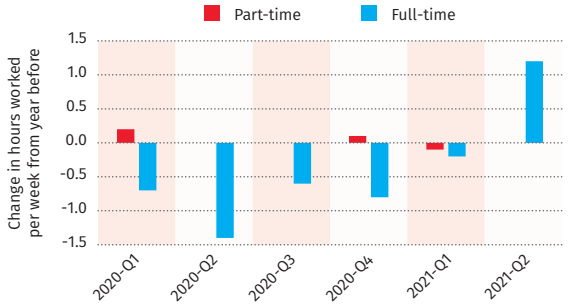
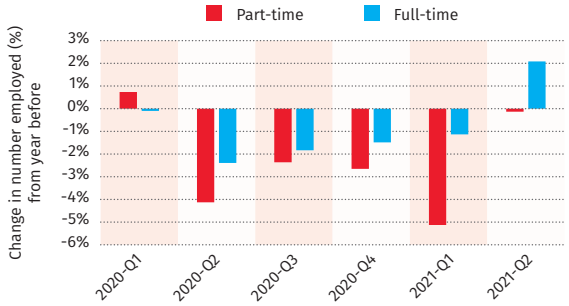


Figure 2.25b **Change in employment, EU27**



Note: Shows for each quarter the actual change from the same quarter in the previous year.
Source: Own calculations based on Eurostat (lfsq_ewhais, lfsq_eftpt).

1% among 2021-Q1 compared to a year before, part-time jobs shrank by over 5%.

The recovery was underway by the second quarter of 2021, but still only for full-time employment. Average hours worked by the full-time employed increased by a little over an hour, most likely due to the rollback of job retention schemes and the return of workers to full employment. Employment among full-time workers increased by close to 2%. However, there seems to be no recovery of part-time employment underway.

Inequalities in the labour market

The crisis exacerbated existing inequalities in employment

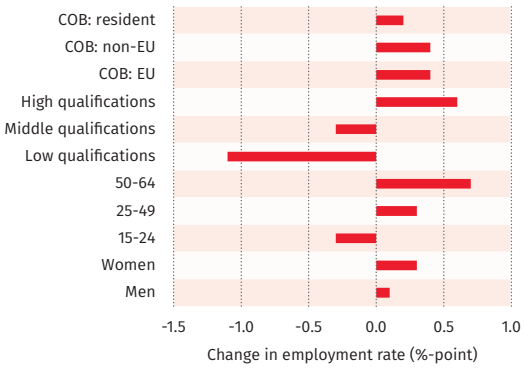
The Covid-19 crisis and the policy responses to it have had a sizeable economic cost and profoundly disturbed the labour market. This burden is not divided equally, however. Those groups who were already most at risk have borne the brunt of these labour market disturbances. First, the most heavily hit sectors also tend to disproportionally employ young people and lower-skilled workers, and offer less secure positions. Second, the crisis put into sharp focus the difference between those workers who have the possibility and the resources to work from home – who tend to be in professional and managerial positions doing more highly skilled work – and those who had to face health risks in going to work and who are generally lower paid with worse protection. Third, while efforts have been made to make them accessible, job retention schemes may in fact deepen the divide between those who have access to them thanks to their employment history and type of career, and those who do not. This could be particularly damaging for young and migrant workers. These rifts were already being exacerbated by the pressures of globalisation and technological/digital change, and the danger is now that the current crisis has only caused these processes to speed up.

Unequal access to employment

Employment gaps reinforce existing inequalities

What is important is that the recovery is underway. In the first quarter of 2021 the employment rate was still lower than its 2020 level for each group, but by the second quarter there was already some improvement for most workers. However, the decrease in employment has been concentrated among those without university qualifications and among young workers (Figure 2.26). Conversely, employment among the highly qualified and among older workers has increased. The substantial employment loss among the lower educated reflects the distributional effects of the pandemic (Adams-Prassl et al. 2020; OECD 2021). As telework is mainly possible for the more highly educated and those in higher-skilled jobs, this move to telework has only increased the divide, and helped to safeguard the jobs of

Figure 2.26 **Change in employment in the EU from 2020 to 2021**



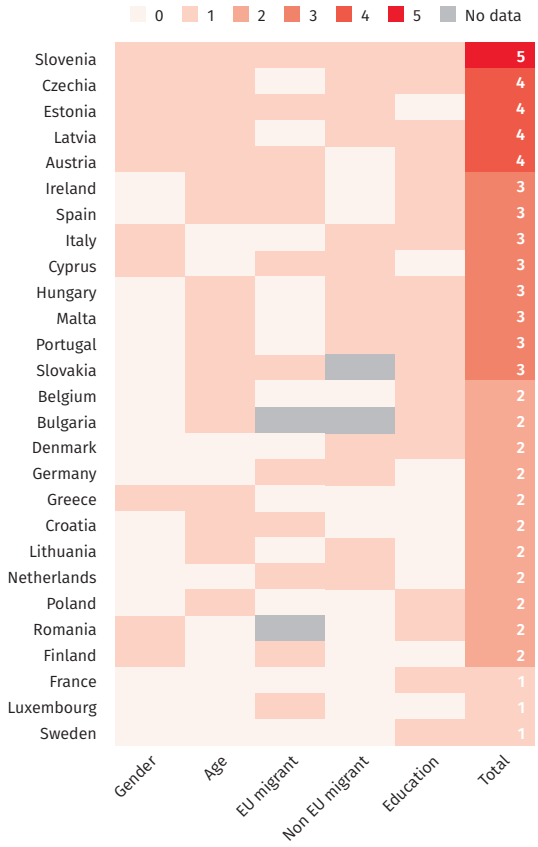
Note: The figure shows the change in the employment rate (pp) for the EU27 as a whole from 2020-Q1 to 2021-Q2. Qualifications are divided into low (at most lower secondary), middle (upper secondary or post-secondary non-tertiary) and high (tertiary).
Source: Own calculations based on Eurostat (lfsq_ergan, lfsq_ergacob, lfsq_ergaed).

the more highly educated while employment has dropped more among the less educated.

It is the young (aged 15-24) who have borne the brunt of the employment impact, while older workers (50-64) have been largely spared. This reduced employment has a long-lasting impact on young people's labour market experiences later in life, due to stigmatisation or the detrimental effects on this generation's human capital and skills (Gregg and Tominey 2005). Such scarring during the early career stage can have a long-lasting impact and further exacerbate inequalities between age cohorts (Zwysen 2016).

Overall, the employment rate among migrant workers has increased more than that of those born in the country of residence, diminishing some of the employment gaps between these groups that existed in the first quarter of 2020. However, migrants may still be particularly at risk due to the jobs they work in (Fasani and Mazza 2020). Overall, there has been little difference between the employment rates of men and women, which likely reflects the contradictory effects of two opposing situations: on the one hand, women were harder hit by certain sectors closing and by the added pressures of care; but, on the other, women make up a disproportionally large part of the essential and frontline workforce and were also over-represented in the sectors that did well during the crisis (OECD 2021).

Figure 2.27 **Widening dimensions of inequality, by Member State**



Note: The figure shows which dimensions of inequality in accessing employment widened from 2020 (Q1) to 2021 (Q2).
Source: Own calculations based on Eurostat (lfsq_ergan, lfsq_ergacob, lfsq_ergaed).

Employment gaps widen in most countries: primarily by age, and education

This inequality in access to employment did not deepen in all Member States. Inequalities widened the least in central and western EU Member States – with some exceptions such as Belgium and Ireland – and generally more so in the south and east, as well as in Scandinavia (Figure 2.27). All types of inequality – age, gender, education, or country of birth – widened in Slovenia, while four different dimensions deteriorated in Austria, Latvia, Estonia, and Czechia, including age and gender in all four, and education in all but Estonia. Three dimensions of inequality increased in Slovakia, Portugal, Malta, Hungary, Cyprus, Italy, Spain, and Ireland: in education for seven out of these eight countries; between young (15-24) and older (50-64) workers for six out of the eight; and between those born in the country and non-EU migrants for five. Inequality increased the least in Sweden, France (only in education) and Luxembourg (only between EU migrants and those born in Luxembourg).

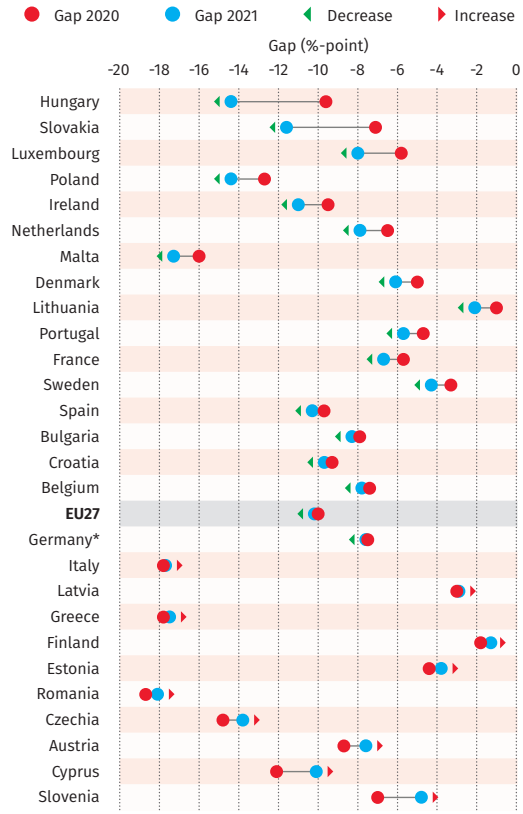
The change in the employment gap between women and men is shown in Figure 2.28. Gender gaps improved in most of the countries, especially so in Hungary, Slovakia, and Luxembourg. However, the gap did widen in 10 Member States, most so in Slovenia and Cyprus.

The employment gap between older (50-64) and younger (15-24) workers closed slightly in Finland, the Netherlands, Luxembourg, and Sweden (Figure 2.29). On the other hand, it widened on average, and greatly so in Poland, Slovenia, Greece, Portugal, Slovakia, and Hungary.

The employment gap between workers with university degrees and those with at most lower secondary qualifications is very high, at around 40 pp on average (Figure 2.30). It worsened on average during the pandemic, particularly in Slovakia, Romania, Latvia, Hungary, and France. It improved somewhat in Finland, Lithuania, the Netherlands, and Luxembourg.

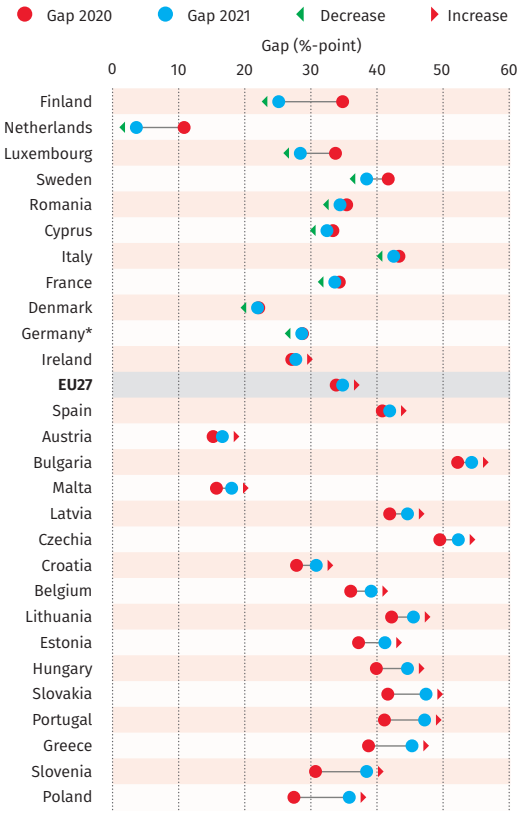
On average, workers born in another EU27 country are slightly more likely to be employed than those living in their country of birth (Figure 2.31). In 12 of the Member States the relative position of EU-mobile workers deteriorated over time. Meanwhile, third-country migrants are, on average, less likely to be employed than those

Figure 2.28 **Employment gap between men and women in 2020 and 2021**



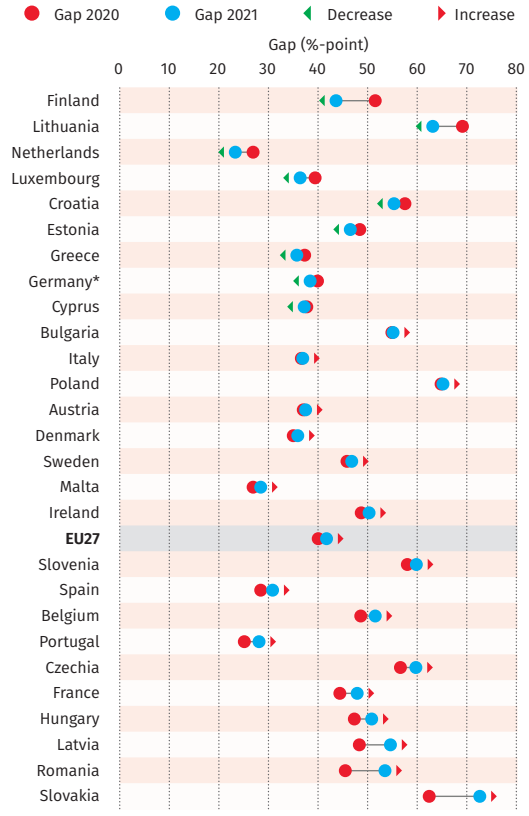
Note: Difference in employment rate of women to that of men from 2020-Q1 to 2021-Q2. * For Germany the 2020 data is not available, and 2019-Q1 is used.
Source: Own calculations based on Eurostat (LFSQ_ERGAN).

Figure 2.29 **Employment gap between older and younger workers in 2020 and 2021**



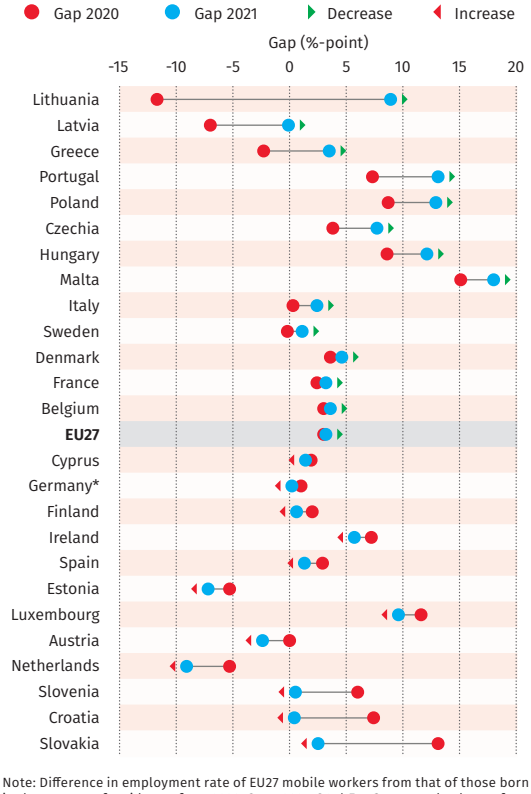
Note: Difference in employment rate of older (50-64) to younger workers (15-24), from 2020-Q1 to 2021-Q2. * For Germany the 2020 data is not available, and 2019-Q1 is used.
Source: Own calculations based on Eurostat (LFSQ_ERGAN).

Figure 2.30 **Employment gap between highly and lower educated workers in 2020 and 2021**



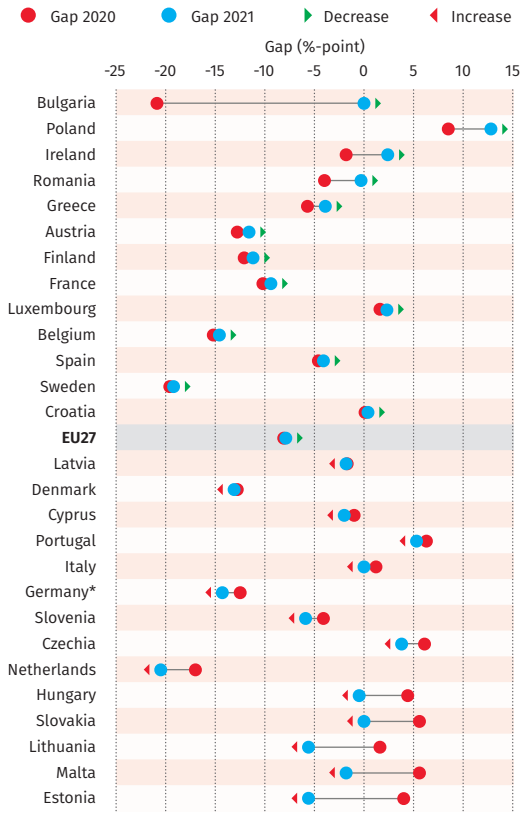
Note: Difference in employment rate of highly educated (university) to lower educated (at most lower secondary) workers, from 2020-Q1 to 2021-Q2. *For Germany the 2020 data is not available, and 2019-Q1 is used.
Source: Own calculations based on Eurostat (LFSQ_ERGAED).

Figure 2.31 **Employment gap between EU mobile workers and those born in country of residence in 2020 and 2021**



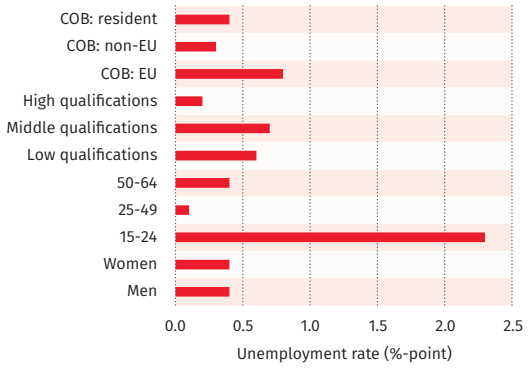
Note: Difference in employment rate of EU27 mobile workers from that of those born in the country of residence, from 2020-Q1 to 2021-Q2. * For Germany the data refers to 2019-Q1 to 2021-Q1.
Source: Own calculations based on Eurostat (LFSQ_ERGACOB).

Figure 2.32 **Employment gap between third-country migrants and those born in country of residence in 2020 and 2021**



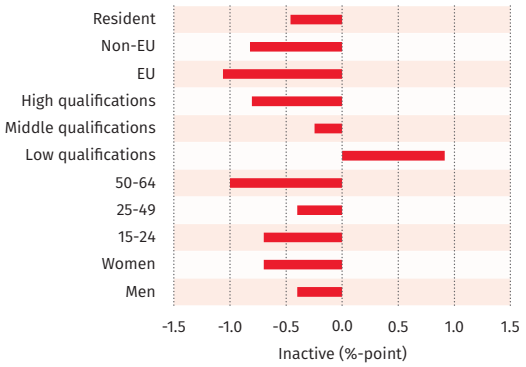
Note: Difference in employment rate of third-country migrants from that of those born in the country of residence, from 2020-Q1 to 2021-Q2. * For Germany the 2020 data is not available, and 2019-Q1 is used
Source: Own calculations based on Eurostat (LFSQ_ERGACOB).

Figure 2.33 **Change in gap in unemployment rate from 2020 to 2021**



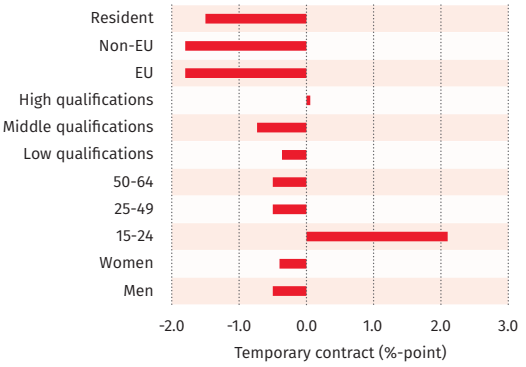
Note: The figure shows the change in the unemployment rate (pp) for the EU27 as a whole from 2020-Q1 to 2021-Q2. Qualifications are divided into low (at most lower secondary), middle (upper secondary or post-secondary non-tertiary) and high (tertiary).
Source: Own calculations based on Eurostat (lfsq_urgaed lfsq_ipga lfsq_urgaed lfsq_urgacob).

Figure 2.34 **Change in share inactive from 2020 to 2021**



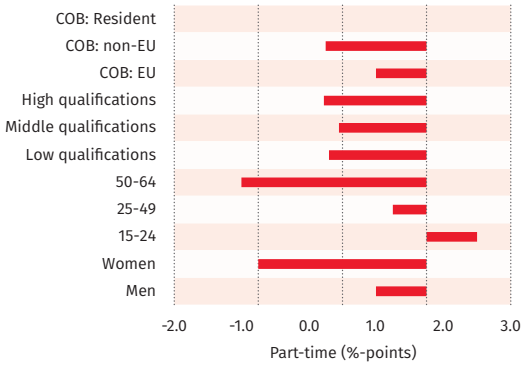
Note: The figure shows the change in the inactivity rate (pp) for the EU27 as a whole from 2020-Q1 to 2021-Q2. Qualifications are divided into low (at most lower secondary), middle (upper secondary or post-secondary non-tertiary) and high (tertiary).
Source: Own calculations based on Eurostat (lfsq_ipga lfsq_igaed lfsq_pgaed lfsq_pgawcs).

Figure 2.35 **Change in gap of working on temporary contracts from 2020 to 2021**



Note: The figure shows the change in the share of employees working on temporary contracts in the EU as a whole. The change from 2020-Q1 to 2021 Q3 (and 2019 to 2020 in migrant status).
Source: Own calculations based on Eurostat (lfsq_etpga, lfsq_eegaed, lfsa_etpgacob,lfsq_etgaed).

Figure 2.36 **Change in gap of working part-time from 2020 to 2021**



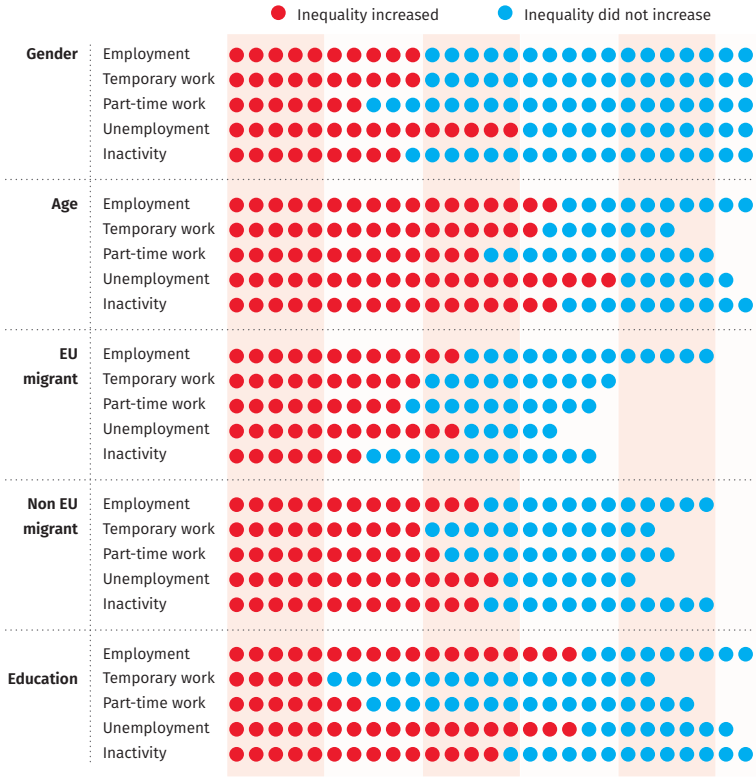
Note: The figure shows the change in the share of employed working on part-time contracts in the EU as a whole. Change from 2020-Q1 to 2021-Q3 (and 2019 to 2020 for migrant status). COB: Resident: the change is zero.
Source: Own calculations based on Eurostat (lfsq_eegaed, lfsq_eppga, lfsq_epgaed,lfsa_eppgacob).

living in their country of birth (Figure 2.32). This position deteriorated in 14 of the Member States, particularly Estonia, Malta, and Lithuania.

Rising gaps in non-employment

Most of those who left employment became unemployed. The unemployment rate for third-country migrants, the low- and middle-qualified, and especially the young increased substantially (Figure 2.33). Some workers also left the labour market altogether and entered inactivity. This mainly increased among the lower-educated (Figure 34). Rising inactivity and unemployment can have long-term negative effects as these spells of not working could reduce the probability of working in the future: due to scarring or eventual disengagement with the labour market.

Figure 2.37 **Number of countries where gaps increased**



Note: The figure shows the number of countries out of those with valid data where the gap by gender (women vs men), age (50-64 vs 15-24), country of birth (EU migrant vs resident; non-EU migrant vs resident), and education (tertiary qualification vs at most lower secondary qualifications) in employment rate, rate of employed working on temporary contracts, rate of employees working part-time, unemployment rate, and rate of inactive out of the population widened.
Source: Own calculations based on Eurostat (lfsq_ergan, lfsq_ergacob, lfsq_ergaed, lfsq_etpga, lfsq_etpga, lfsq_eegaed, lfsa_etpgacob, lfsq_eppga, lfsq_eppgaed, lfsa_eppgacob, lfsq_urgaed, lfsq_ipga, lfsq_urgaed, lfsq_ipga, lfsq_igaed, lfsq_pgaed, lfsq_pgawcs).

Inequalities in contract type decline

As the most vulnerable workers – on non-standard contracts – were more likely to lose their jobs, inequality in terms of contract type amongst the (remaining) employed decreased somewhat (Figure 2.35 for temporary contracts and Figure 2.36 for working part-time). This indicates that the more vulnerable were among the first to lose their part-time or temporary jobs.

The glaring exception is a large increase in the share of young workers working on temporary and on part-time contracts, which came about as a result of the recovery gaining speed in the second quarter of 2021.

Summary: employment gaps by education and age most affected

Divisions within Europe by age, country of birth, and education all increased during the Covid-19 pandemic, while the average gender gap remained rather stable.

There is substantial country variation however (Figure 2.37). Employment gaps by age and education widened in around two thirds of the EU Member States, while the relative position of third-country migrants deteriorated in around half. The gaps in terms of temporary and part-time work generally declined, except for the young. On the other hand, changes in unemployment followed the traditional patterns, meaning it was generally women, the young, the lower educated, and migrants who suffered the most.

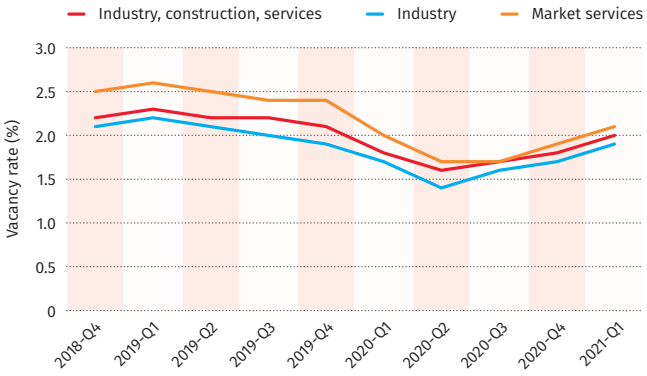
This section has shown how the effect of the pandemic and the way the recovery is now taking place do not affect everyone equally. Great care has to be taken that inequality does not widen any more as the recovery continues (Jestl and Stehrer 2021).

Job vacancies

Initial plummet in vacancy rate, now picking up fast in many sectors

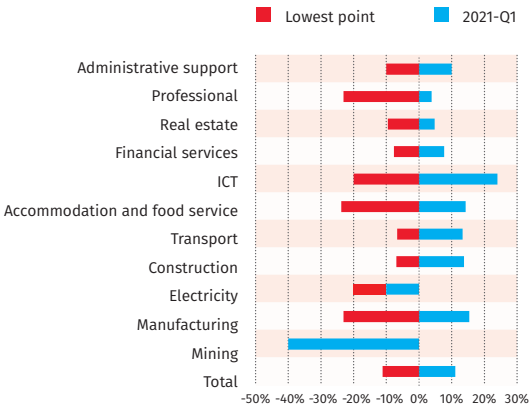
One of the narratives of the recovery has been of a large uptick in labour demand, particularly in the lower-paying segment of the labour market, without these positions being filled. And it is true that the job vacancy rate (the share of

Figure 2.38 **Vacancy rates across EU27**



Source: Own calculations based on Eurostat (JVS_Q_NACE2).

Figure 2.39 **Change in vacancies from 2020 to 2021 by industry**



Note: The figure shows the relative change in the vacancy rate from 2020 to 2021-Q2.
Source: Own calculations based on Eurostat (JVS_Q_NACE2).

unoccupied positions out of total employment in a sector) has risen consistently since its lowest point in the second quarter of 2020 (Figure 2.38). By the second quarter of 2021, it was back to its pre-Covid rate.

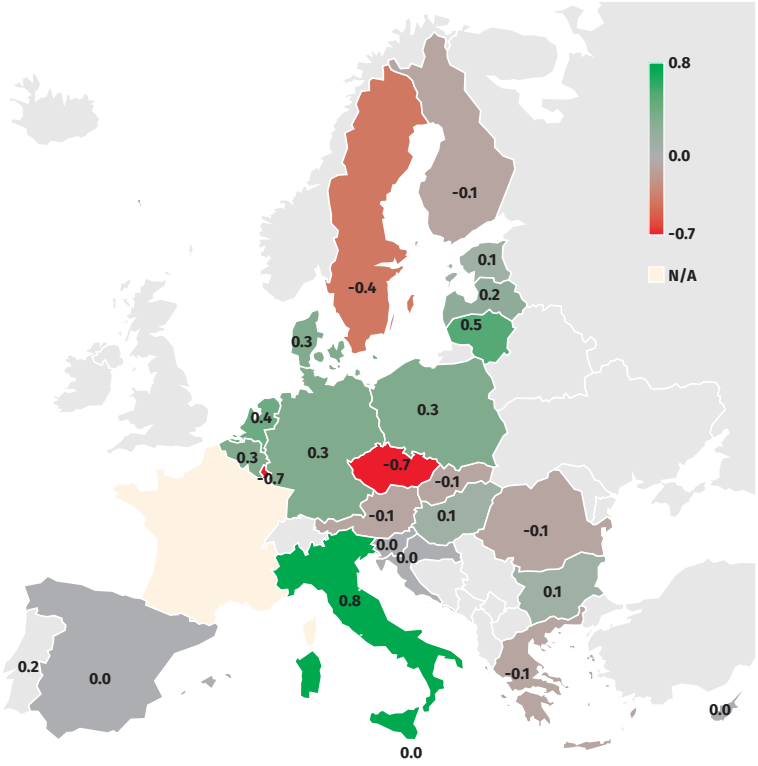
However, this pattern masks variation between industries (Figure 2.39). Those sectors that were hard hit in terms of employment (accommodation, mining, and administrative support) also saw a large decline in their vacancy rate at the peak of the crisis – although, with the exception of mining, the rate in all of these sectors has recovered to at least the level of the first quarter of 2020. The vacancy rate also increased significantly in those sectors that did relatively well in terms of employment, such as ICT. This sector saw a sizeable decline in demand at the peak of the crisis, but in 2021 had a 20% higher rate of vacancies than in 2020.

High sectoral vacancy rates can indicate that a sector was generously protected during the crisis through different governmental schemes, but found it difficult to attract workers due to possibly low wages or heightened worries about keeping safe.

This suggests that a recovery in labour demand is indeed underway in most sectors. The question remains, however, how easily these vacancies will get filled and whether these will be good positions with adequate occupational safety.

This uptick in job vacancies is not present in all countries (Figure 2.40). There was a large increase from 2020 to 2021 (Q1) in Italy, Lithuania, the Netherlands, Poland, Germany, Belgium, and Portugal, but a sizeable decrease in Czechia, Luxembourg, and Sweden. This possibly indicates the extent to which a third wave hit during the first quarter of 2021, and the timing of the recovery in different countries.

Figure 2.40 **Change in vacancies (% point) by country from 2020-2021**



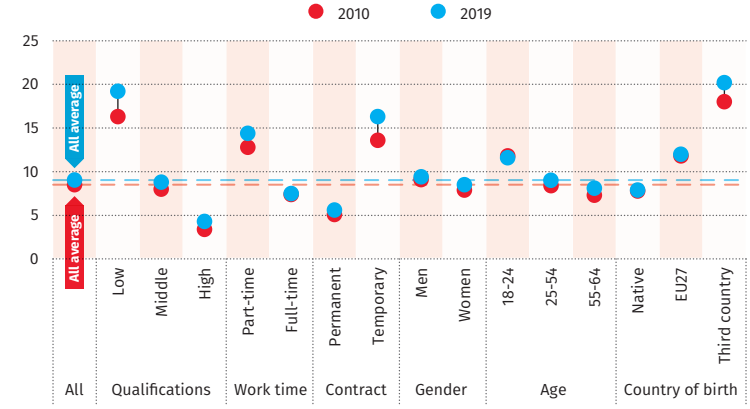
Note: Change in the vacancy rate in all industries per country, 2020 to 2021-Q1.
Source: Own calculations based on Eurostat (JVS_Q_NACE2).

Unequal earnings and poverty

As the Covid-19 pandemic has increased inequality in terms of access to employment, hitting more vulnerable workers the most, this is likely, in the long term, to also increase inequality in terms of income and earnings.

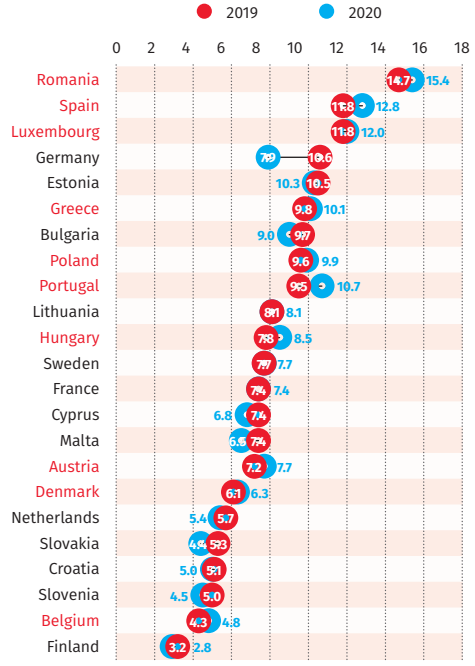
While there is not yet data available on the prevalence of poverty as a result of the pandemic, we can consider the evolution of

Figure 2.41 **Working at risk of poverty in EU27**



Note: ISCED - low is at most lower secondary; middle is upper secondary or post-secondary non-tertiary; and high is tertiary.
Source: Own calculations based on Eurostat (ILC_IW01, ILC_IW04, ILC_IW05, ILC_IW07, ILC_IW16).

Figure 2.42 **Rate of working population at risk of poverty, by country**



Source: Own calculations based on Eurostat (ILC_IW01).

> The crisis is expected to further exacerbate inequality and poverty across Europe

inequality and the risk of poverty over time right up to the pandemic.

In 2019, 9% of the working population in the EU lived in a household at risk of poverty, meaning the disposable household income is 60% or lower than the median (Figure 2.41). This number was slightly higher than in 2010, when it was 8.5%, despite the aim to reduce the households at risk of poverty, and the rate of the 'working poor' more specifically, by 2020. The risk of poverty increased particularly and almost exclusively for the vulnerable workers – the lower educated, those on part-time or temporary contracts, and migrants from outside of the EU.

Thanks to the substantial support provided to households, the prevalence of working poverty did not increase enormously in most Member States from 2019 to 2020, for the countries where data is available (Figure 2.42). It even decreased by 1pp or more in Portugal and Spain, and decreased modestly in Romania, Hungary, Belgium, and Austria. However, the rate of working poor did increase a lot in Germany, by 2.7pp, and by close to 1pp in Slovakia and Malta.

The crisis is expected to further exacerbate inequality and poverty across Europe, but this rise has so far been mitigated by the above-mentioned support. In the short run, therefore, it seems that average income inequality in many countries has actually reduced (Clark et al. 2021; Angelov and Waldenström 2021).

Key labour market challenges

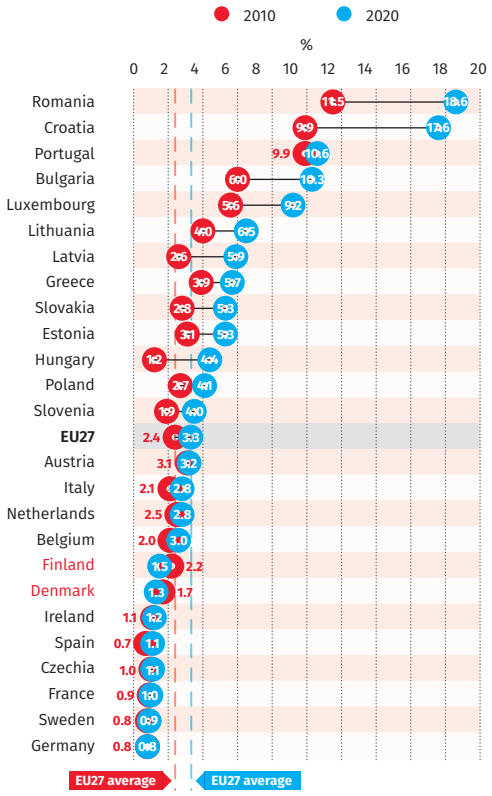
This section highlights a selection of key issues confronting the labour market today and in the future, with a focus on areas where the European Commission is planning to take or has recently taken action. These challenges vary, and the selection made here is in no way exhaustive but builds on work currently being done at the ETUI. First are the changes in third-country migration and intra-EU mobility; one issue in particular that has gained visibility during the pandemic is the institutionalised inequality and working conditions that seasonal migrants in Europe face. The second topic concerns work-life balance and inequality. The section first discusses the challenges posed by new forms of work, particularly platform work. It then focuses on the gender dimension of work-life balance and its link to the gender pay gap, discussing European policies currently being developed to address these issues. Finally, the section concludes with a reflection on the European Pillar of Social Rights and whether it has lived up to expectations.

Mobility and migration

Intra-EU labour mobility

In 2020, 3.3% of EU citizens of working age (20-64), resided in an EU Member State other than that of their citizenship, up from 2.4% in 2010. As Figure 2.43 shows, there are huge differences between Member States, with the share of mobile workers in the working age population ranging from 0.8% in Germany to 18.6% in Romania. Croatia (17.6%), Portugal (10.6%) and Bulgaria were the next three Member States with the highest share of mobile workers, while with 1.1% Spain had one of the lowest shares of mobile workers in the EU. Intra-EU labour mobility has not been seriously affected by the impact of the pandemic. Despite a marginal decrease from 2019 to 2020, driven by a decline in Polish and Romanian mobile workers, the overall picture has been one of consistent growth in intra-EU mobility between 2010 and 2020. The greatest increases in the share of mobile workers in the last decade were recorded in Hungary, Latvia, Croatia and Bulgaria, but were also significant in Slovakia, Slovenia and Greece.

Figure 2.43 **Share of EU mobile workers in working age population (%)**



Note: EU citizens of working age (20-64 years) who usually reside in another EU/EFTA country in % of their home country resident population.
Source: Own calculations based on Eurostat (LFST_LMBPCITA).

As regards the absolute numbers, in 2020 the most numerous national groups of mobile EU citizens aged 20-64 were those from Romania (2,300,100 persons), Italy (1,027,800 persons), Poland (1,005,500 persons) and Portugal (679,600 persons). It should be noted that these numbers do not include workers from these countries in the UK.

According to Eurostat (2021c), people with tertiary-level education were generally slightly less mobile than the rest of the population, and this was especially the case in Portugal, Greece, Croatia and Romania. On the other hand, the most mobile French, German, or Finnish citizens were much more likely to have a tertiary degree than the general population in those countries.

Third-country migrants in the EU

Refugees and asylum seekers

Since March 2020, the pandemic has suppressed irregular migrant arrivals to the EU, contributing to a temporary easing of related political tensions in terms of a common Pact on Migration and Asylum. In 2020, most asylum applications were placed in Germany, France, Spain, Greece, and Italy. The labour market integration of non-EU migrants, and particularly asylum seekers, remains difficult, with employment rates among non-EU migrants around 50%. For refugees and asylum seekers, one of the biggest challenges is the huge gender gap, as only 19% of female refugees work in Denmark, and 29% in Germany. A recent ETUI publication looking at different country studies points to some progress in the labour market integration of refugees (Galgóczi 2021). However, no structural improvements have been made on a common European approach.

Seasonal workers from third countries

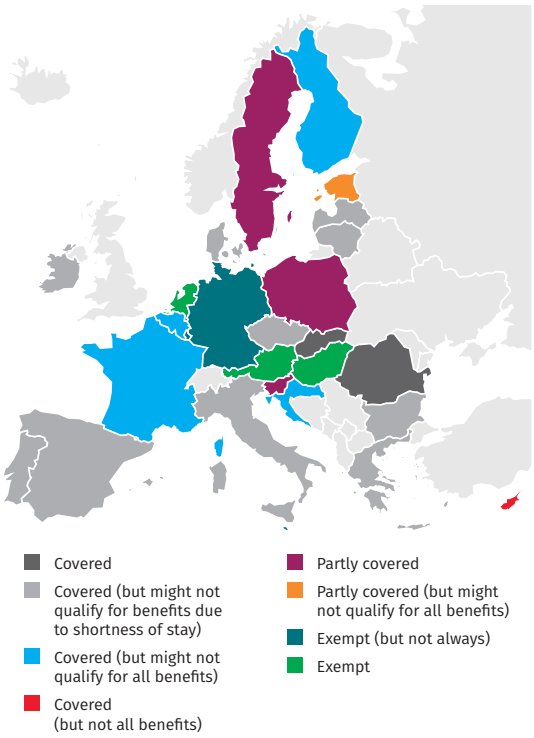
An oft-ignored group of migrants in the EU are third-country nationals who migrate temporarily, often for seasonal work. This group has become very visible during the Covid-19 pandemic, which has highlighted the numbers of seasonal workers and their often problematic working conditions (Rasnača 2020). Their vulnerability has even been recognised by the European Commission (European Commission 2020b). Inequality between local workers and migrants has increased in general during the Covid-19 pandemic, and this could have potentially serious consequences for these more vulnerable migrants.

Even though equality is one of the core EU values, protected in Article 2 of the Treaty on European Union, some of the inequalities in the European labour market have actually been created by law, both national and European. There are those who enjoy the full set of labour and social rights while working in secure, permanent employment contracts, and those who work on short (fixed-term) contracts who have only fragmentary social protection.

Nowhere, though, are these inequalities more pronounced than between migrant and local workers (Amo-Agyei 2020). The latter tend to work in lower-paid jobs, enjoy less protection at the workplace, and are much more often exploited than their local counterparts.

In the case of third-country migrants – the most vulnerable category – the law enables their different (less advantageous) treatment.

Figure 2.44 **Social security coverage of seasonal workers**

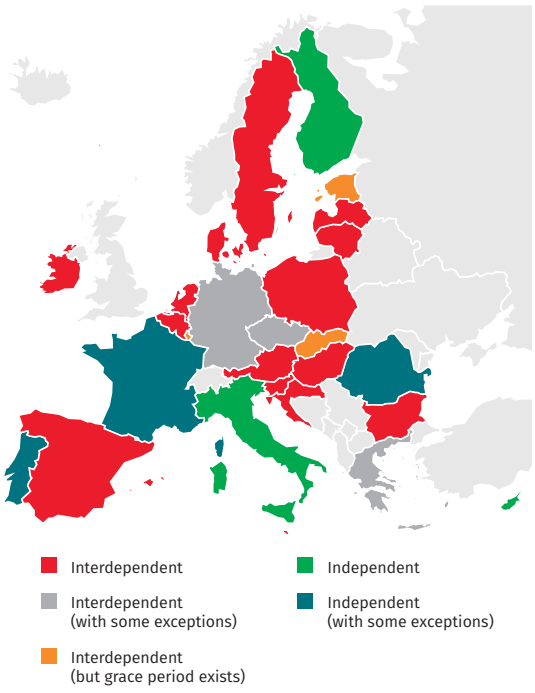


Source: Bogoeski and Rasnača (2022).

First, they often work on less secure contracts than the local workforce and are also more weakly organised. Second, it is enshrined in law that these migrants have only 'secondary access' to jobs, with priority being given to EU citizens. Third, they are not entitled to social assistance and sometimes do not even enjoy full access to social security benefits. For example, seasonal workers (Figure 2.44) are exempt from the social security system in some EU Member States (Austria, Germany, Hungary, Luxembourg, and the Netherlands). In others, while they contribute to the system, in practice they are rarely or never eligible for benefits due to incomplete contribution periods (in Belgium, Czechia, Finland, Ireland, Latvia and Spain, among others).

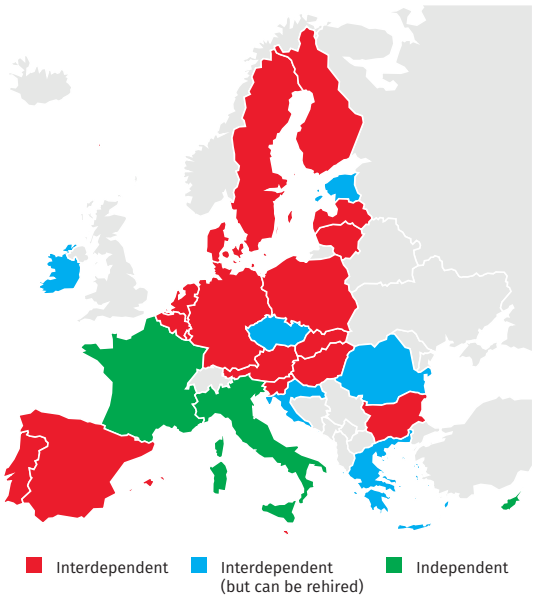
The aspect that distinguishes such workers from the local workforce the most, however, is not the difference in their substantive rights but their immigration status and its direct dependence on an existing employment relationship. In the vast majority of EU Member States, the residence permit is actually interdependent with the existing employment relationship (Figure 2.45). If the contract is terminated, the migrant worker from outside of the EU will in most cases have to leave the EU territory almost immediately. In very few countries (Italy, Cyprus, Finland, France, Portugal and Romania) the residence permit is not (automatically)

Figure 2.45 **Relation between immigration and labour market status for third-country migrants**



Source: Rasnača and Bogoeski (2022).

Figure 2.46 **Relation between immigration and labour market status for third-country seasonal workers**



Source: Rasnača and Bogoeski (2022).

cancelled in case of termination, or at least not in the majority of situations. In yet some others, such as Luxembourg, Slovakia and Estonia, there is a grace period within which the worker can find another job. However, such an approach to regulating immigration for work purposes is the exception rather than the rule.

Even in situations where the expected stay of the workers on the territory is relatively short (typically nine months out of every twelve), their right to reside is still most often directly dependent on an employment contract with one single employer. Such dependency does not create the necessary flexibility for them to change jobs if, for example, they are mistreated by the employer.

While local constituencies might indeed prefer circular and temporary migration, it does not always mean a better situation for the workers, and in fact this temporary status is often used as an excuse for excluding them from some rights, either de jure or de facto. The EU Member States have so far not seen the necessity to untangle the immigration status of seasonal workers from their employment status (see Figure 2.46), which only further exacerbates the inequality they already experience with regard to local workers due to other circumstances (including a lack of resources, limited language knowledge, dependent accommodation, and others). In the European labour market some are thus certainly more equal than others, and vulnerable migrant workers from third countries are amongst the most disadvantaged. This legal vulnerability could be one of the factors pushing third-country migrants to settle for worse jobs with fewer prospects, thereby perpetuating longer-term inequalities.

Work-life balance and inequality

Flexibility for workers and employers

'Flexibilisation': not just one concept

An ongoing labour market trend is the change in working time organisation regarding flexible, fragmented and variable work schedules (Messenger 2011; Snyder 2016). Deregulation of labour standards, a decline in trade union strength, and changing career paths and preferences have all contributed to this trend. Yet the key drivers of recent working time adjustments are the maximisation of staffing efficiency and the lowering of labour costs, which are achieved by a closer alignment between the number of working hours and workload, such as

in zero-hour contracts and on-demand or on-call work (Piasna 2018; Piasna 2019). The pandemic, if anything, has only accelerated these changes.

Technological innovation is pushing this forward even more. Companies can now implement computerised systems that co-ordinate the scheduling of a large number of workers, minimising human mistakes or avoiding overtime and associated extra payments. In doing so, an automated approach takes advantage of a large volume of data to predict staffing needs in a very fine-grained manner.

The benefits for employers of the use of automated flexible scheduling are plentiful, with greater staffing efficiency, less need for managerial work, lower costs, and greater control. However, these changes are generally introduced as if they would also benefit workers by achieving a better work-life balance. This view has also been taken up in policymaking as, for instance, in the recent EU Work-Life Balance Directive (Piasna 2021).

However, the flexibility requested by workers – such as taking time off at short notice or temporarily reducing working hours to manage care duties – is completely different from the flexibility of the 'just-in-time' workforce. Referring to these different logics jointly as 'flexibility' is highly misleading. Academic literature is more rigorous in distinguishing employer- and employee-oriented working time flexibility (Chung and Tijdens 2013; Piasna 2020), but such nuance is all too often lost in the policy discussion, which tends to equate all flexibility with positive outcomes for workers.

The case of platform workers

Online labour platforms are a leading example of technology use in the management of flexible working hours. Just like in low-level hourly jobs in the traditional service sector, most work on platforms is characterised by uncertain work hours, unpredictable income and low pay levels (Piasna and Drahokoupil 2019; Urzi Brancati et al. 2020). However, online platforms have successfully inserted an aspirational tone into their communication with prospective workers, focused on an extreme working time flexibility, which they associate with freedom and entrepreneurial spirit.

Platform workers could indeed take advantage of irregular and uncertain hours if they were in a position to refuse tasks and only work when it suits them (Piasna and Drahokoupil 2021). However, this is rarely attainable. 'Matching' through platforms relies on access to a large pool of readily available workers. While this improves efficiency and drives prices down, it also means that work is scarce and insufficient to meet the needs of all workers. Workers thus spend a lot of time on the unpaid work of searching or waiting for tasks (Berg 2016). When attempting to turn flexible hours to their advantage, such as sign off a shift that no longer suits them or take time off for holidays, workers are penalised and may even lose their accounts. The more dependent workers are on their earnings from platforms, the more constrained they are and the less freedom they have in choosing clients, tasks, or times to work. This results in committing longer hours to work on a platform, which resembles a full-time job and leaves a limited scope for exercising schedule flexibility. Not surprisingly, workers who expected that platform work would allow them to plan work around other spheres of life, notably education or care, in fact end up having to adjust their private lives to fit around platform work (Goods et al. 2019).

There is growing recognition of the relationship between inequalities and platform work. In the first instance, these forms of work tend to attract segments of the labour market that are already in a position of vulnerability, lacking any substantial bargaining power, and are effectively asked to enter contractual arrangements that are often obscure or premised on 'boilerplate' terms. A recent ILO report noted: 'While adhesion contracts offer great efficiencies and savings through the reduction of transaction costs, the frequent inequality of bargaining power can lead to unfair terms' (ILO 2021: 198). Additionally, these unfair working conditions invariably exacerbate the inherent vulnerabilities of many platform workers as vulnerable low-income earners and workers with non-linear working careers are unlikely to enjoy adequate levels of protection, which may in turn aggravate inequalities, including gender inequalities (Behrendt et al. 2019). Issues of gender and intersectional inequality are also increasingly recognised as prevalent in the 'gig economy', including in relation to the vexed question of algorithmic management and 'customer reviews' (Vyas 2021). Any (EU or national) regulatory response to the challenges posed by the proliferation and growth of platform work will undoubtedly have to confront and address these dimensions of inequality.

Collective rights to protect all workers

Achieving work-life balance in a highly flexible economy where working hours are carved out by apps seems impossible without an extension of collective rights to all workers, irrespective of their contract or intermediation

by a labour platform. This would give workers a chance of influencing employers' decisions and negotiating the terms and conditions of their work. But it requires regulatory support. There is some hope to be had in the ongoing transposition of the EU Directive on transparent and predictable working conditions, which can put limits on highly exploitative practices in working time organisation and offer protection to workers who ask for better conditions. Equally important is the currently discussed EU initiative on improving the working conditions in platform work.

Work-life balance and gender inequality

The Covid-19 pandemic has shone a spotlight on work-life imbalances. These are particularly relevant for women who continue to perform a greater share of unpaid care work in the household. Not very surprisingly, women may also make greater use of some types of online 'flexible' work, with some indications that they are more likely to engage in brief online tasks and freelance services (Piasna and Drahokoupil 2019).

The impact of the measures taken to curb the spread of the pandemic – closing schools and childcare, increasing telework, and in some cases closing or restricting sectors where women are heavily present – has not always been gender-neutral (Eurofound 2020b). As discussed earlier, school closures primarily hit young men and women, and reduced the employment rate of women aged 30-35 by over 2pp.

Unequal division of unpaid care work

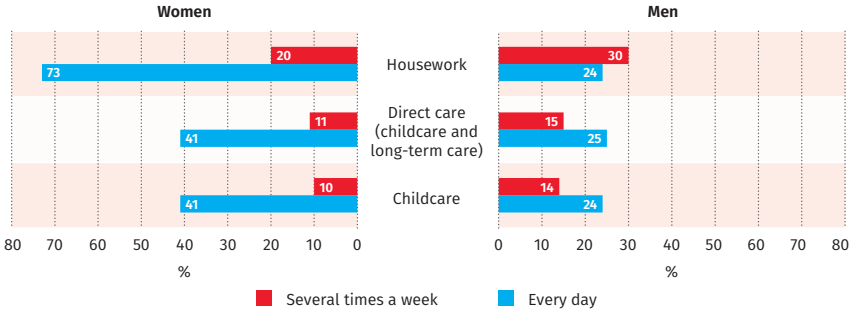
Employed women still spend substantially more time on unpaid care work than men in a usual week (Figure 2.47). Of those involved in unpaid care work on a daily basis, employed women spend 3.9 hours per day on care work, compared to 2.6 hours for men across the EU (EIGE 2021c: 16). These numbers differ significantly between Member States, but women spend more time on such work than men in every Member State. The amount of time spent by employed people on unpaid care almost doubles where childcare is involved (EIGE 2021c: 18). The report finds that women in couples with children spend 5.3 hours per day on unpaid care work, compared to 2.4 hours for women living in couples without children (EIGE 2021c: 18).

The 'double burden' of employment and unpaid care work affects women's physical and psychological well-being (Artacoz et al. 2011), as well as their participation in the labour market and their earnings (EIGE 2021c). In 2019, women who were inactive due to care responsibilities constituted around 17% of the total population of the EU28 (EIGE 2021c: 74). Unequal distribution of unpaid care work is one of the main drivers of the gender gap in employment, which stood at 11.1pp in 2020 in the EU27 (Eurostat 2021a).

Care responsibilities are also a significant factor in women taking up temporary or part-time employment. This affects women's earnings, not only because of the part-time nature of the work as such, but also because part-time and temporary work is often less well-paid per hour than full-time work, as well as being less secure (EIGE 2021c; Boll et al. 2017). It contributes to the gender pay gap (14.1% in 2019 across the EU27 (Eurostat 2021c)), the gender gap in overall annual earnings (36.7% in 2018 (Eurostat 2021b)) and the gender pension gap (30.1% in 2018 (Eurostat 2020)), affecting women's economic position and independence.

The pandemic has increased the amount of unpaid care work for both women and men, but emerging data shows that this is having a greater toll on women (EIGE 2021b: 35-36). The Eurofound Covid-19 e-survey conducted in July 2020 across the EU27 shows significant disparities in the amount of time spent on childcare and housework by men and women

Figure 2.47 **Time spent on childcare**



Source: EIGE 2021c: 16.

(Eurofound 2020a: 23). The burden is greater for parents (particularly women), including single parents (particularly single mothers). Around 85% of all single parents in the EU are women, with 48% of single mothers at risk of poverty in 2016 (EIGE 2016).

Other studies at national level confirm that most of the burden of increased unpaid care work has fallen on women (Adams-Prassl et al. 2020; Del Boca et al. 2020; Oreffice and Quintana-Domeque 2020; Farre et al. 2020). In one German study, 40% of couples with at least one young child who shared work equally before the pandemic indicated that this was no longer the case during the pandemic, with the number rising to 52% for couples with a household income below EUR 2,000 (Kohlrausch and Zucco 2020: 7). However, some studies also show an increase in the involvement of fathers in unpaid care work, which could offer opportunities to challenge gender stereotypes related to care work (Farre et al. 2020; Hupkau and Petrongolo 2020; EIGE 2021b).

The increase in care responsibilities has had an impact on women's work-life balance, mental health and productivity. As discussed in Chapter 5, work-life balance conflicts seem to have increased during the pandemic, especially for women, and this seems to be affecting the mental health of women more than men.

Under these pressures, women have been more likely to take leave from work or to reduce their working hours (Kohlrausch and Zucco 2020; Kalayhoglu et al. 2020; EIGE 2021b: 37), or even drop out of the labour market to accommodate care responsibilities (Eurofound 2020b: 15). For example, in Germany a quarter of women reported reducing their working hours to accommodate the increase in childcare needs, compared to only a sixth of men (Kohlrausch and Zucco 2020: 8). It is likely that this, at least in part, reflects the fact that it makes more financial sense for women to reduce their working hours rather than their male partners – who generally are the higher earner in the household (Kohlrausch and Zucco 2020: 8). Women in households with a lower income were more likely to have reduced their working hours than women in higher-income households (Kohlrausch and Zucco 2020: 9).

Longer-term impacts

These trends could have effects on women and gender equality in the longer run in various ways. Reducing working hours or temporarily giving up work to accommodate care responsibilities will affect earnings in the short term, but could also have a longer-term impact on the probability of fully re-entering the labour market. This may therefore further reinforce the gender pay gap in the longer term (Kohlrausch and Zucco 2020; Eurofound 2020b). This is in addition to the fact that more women than men have lost their job or had their hours reduced as a result of the economic impact of the pandemic (EIGE 2021b: 8). The effects on their job performance could mean that women might also be more likely to suffer redundancies in the post-Covid economic crisis (Wenham 2020: 33) or see their prospects for promotion damaged, which in turn could further perpetuate structures of gender inequality.

How to address inequalities in unpaid care

The effects of the pandemic highlight the need to strengthen efforts to promote the equal sharing of care responsibilities between men and women, including through work-life balance measures. Member States are due to transpose the EU's Work-Life Balance Directive 2019/1158/EU by August 2022. The Directive sets out minimum standards regarding paternity leave (two weeks), parental leave (four months), carers' leave (five days per year) and flexible working arrangements. Although some Member States already have more generous work-life balance provisions, others are unlikely to go beyond the Directive, which already represents a big leap for them. For example, in eleven Member States paternity leave is less than 10 working days long, and four of those have no paternity leave at all (Germany, Hungary, Italy and Slovakia). On the other hand, seven Member States offer longer paternity leave than what is provided for by the Directive: Austria, Bulgaria, Spain, Finland, France, Lithuania and Slovenia (European Commission 2018).

Whilst a positive development, the Directive leaves much room for improvement (Chieregato 2020). For example, paternity leave is to be paid only at the level of sick pay, which was below 60% of earnings in 13 Member States in 2018 (European Commission 2018: 5). Regarding parental leave, stipulations on receiving 'adequate' remuneration – though it is unclear what this means – and on the leave not being transferable between parents only apply for two out of the full four months. There are, moreover, no provisions regarding remuneration of carers' leave. In other words, the Directive does not provide sufficient incentives for uptake of leave by men (Chieregato 2020). It also leaves space for Member States to set relatively high eligibility thresholds, and for significant employer discretion when it comes to flexible working arrangements.

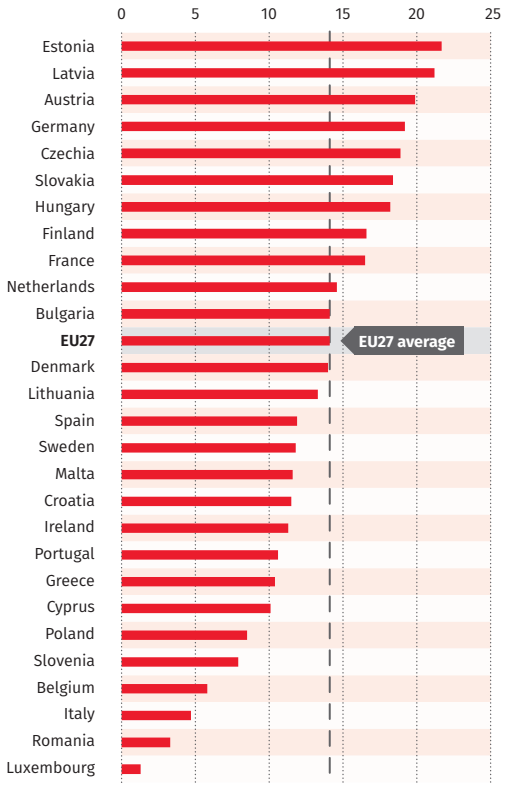
Aside from more robust provisions on leave, flexible working arrangements and predictable working patterns, it is necessary to ensure investment in care and social infrastructure, the availability and affordability of childcare services, and other policies that encourage the equal sharing of care responsibilities and challenge gender stereotypes (EIGE 2021b: 68-71). Ensuring gender equality when it comes to unpaid care work also requires recognition of the significant social and economic value of this kind of work and the establishment of working time norms which are built on the ideal of all workers engaging in it, regardless of gender.

Addressing gender inequalities in pay

Gender inequalities in pay remain a significant issue at the European and global level. According to Eurostat data, women on average still earned 14.1% less than men per hour across the EU27 in 2019, with significant differences between Member States (Figure 2.48). The gender pay gap in the EU has closed by only 1.7pp since 2010 and actually increased from 2018 to 2019 in Romania, Latvia, Portugal, Hungary and Ireland. Underlying this gap are a number of different factors. These include: vertical (different opportunities for career progression) and horizontal (gender concentration in different kinds of jobs) occupational segregation; the fact that more women than men tend to work on contract types with typically lower pay (e.g. part-time, temporary); the fact that women take more career breaks to accommodate care responsibilities; direct and indirect pay discrimination; and the undervaluation of work performed predominantly by women (EIGE 2021c; Oelz et al. 2013). The latter refers to the 'insufficient recognition, appreciation and remuneration of the skills and tasks related to the work performed in female-dominated occupations' (Müller 2019: 6).

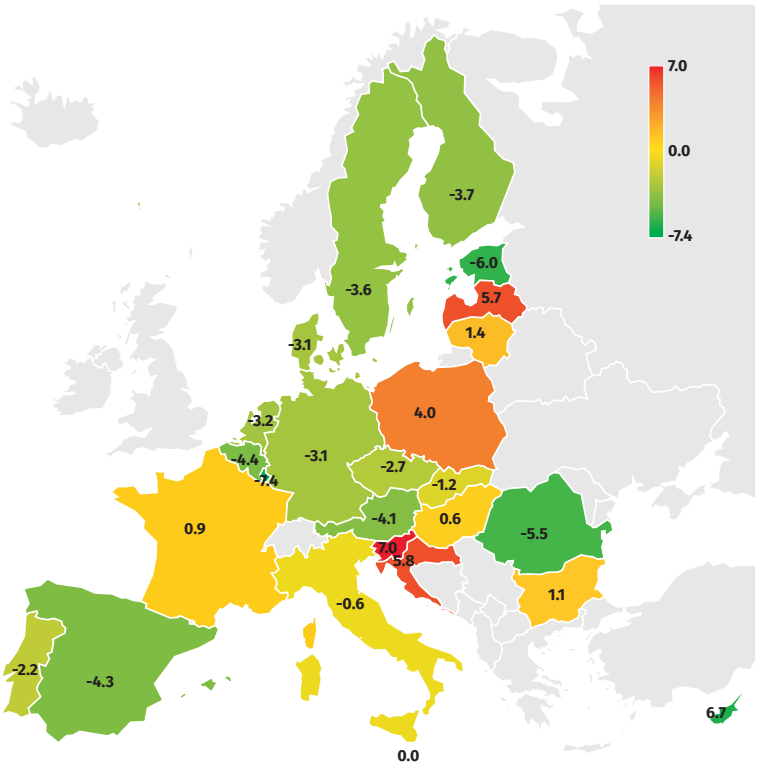
The Covid-19 pandemic has underscored this issue and brought it to the fore of policy debates. It has served as a reminder that the majority of frontline, essential workers – such as nurses, carers, cleaners and cashiers – are women, and that these workers continue to be among the most underpaid in the EU (EIGE 2021a). Evidence also suggests that workers in more highly feminised occupations have a lower relative income than those in which the proportion of women is lower (Müller 2019: 16; Murphy and Oesch 2016). This reality highlighted by the pandemic has generated renewed momentum behind demands to address inequalities in pay (ILO 2020).

Figure 2.48a **Unadjusted gender pay gaps in 2019 (%)**



Source: Own calculations based on Eurostat (sdg_05_20).

Figure 2.48b **Change in unadjusted gender pay gaps 2010-2019 (pp)**



Note: Changes in the unadjusted gender pay gap from 2019 to 2020.
Source: Own calculations based on Eurostat (sdg_05_20).

Proposal for directive on equal pay

In March 2021, the European Commission published a proposal for a directive strengthening the implementation of the principle of equal pay between men and women though pay transparency and enforcement mechanisms (European Commission 2021c). The principle of equal pay for the same work or for work of equal value is one of the foundational principles of the EU, first set out in the Treaty of Rome 1957. Article 4 of Directive 2006/54/EC implements this principle by prohibiting direct and indirect discrimination on the grounds of sex with regard to remuneration for the same work or work to which equal value is attributed. Besides tackling pay discrimination, this framework seeks to address to some extent the undervaluation of work predominantly performed by women, which is often reflected in gender-biased job evaluation schemes that overlook or undervalue skills and characteristics associated with such work (Grimshaw and Rubery 2007; Müller 2019).

The Commission proposal aims to address long-standing issues concerning the implementation of this framework, including the lack of clear definition of legal concepts such as 'work of equal value'; a lack of transparency in pay systems and availability of information on pay levels, broken down by sex; and procedural obstacles to bringing equal pay claims, such as long and costly judicial proceedings or lack of adequate compensation (European Commission 2013; European Commission 2020a). In 2014, the Commission published a non-binding Recommendation on pay transparency (European Commission 2014) to address some of these challenges, but with limited uptake and success (European Commission 2017). Although the new initiative was planned before the onset of the Covid-19 pandemic, the crisis constitutes an important part of the context for the proposal. It has attracted considerable public attention to the issue of equal pay and generated momentum around demands to address it. However, the resulting economic recession has also given impetus to concerns about additional burdens on employers, who oppose EU pay transparency legislation (BusinessEurope 2018).

The Commission proposal, if it becomes law, would mark an important new stage in efforts to eliminate pay discrimination and gender bias in pay structures. The proposal includes three key innovations. First, it seeks to clarify how the value of work is to be assessed and compared, which would make it easier for workers to identify a suitable comparator in bringing equal pay claims, and for employers to develop non-discriminatory pay scales. In this connection, it sets out objective criteria to be used in determining the value of work, and requires that states take measures to ensure that tools and methodologies are established to assess the value of work. Notably, it provides that where no real comparator can be established, the use of a hypothetical comparator or other evidence allowing the presumption of alleged discrimination shall be permitted. This would assist workers in highly gender-segregated workplaces, where there is no real comparator with regard to the other sex, to bring a claim.

Second, the proposal contains requirements regarding the availability of information on pay. It requires that job applicants be provided with the initial pay level or its range for a given position. It contains a right for workers to receive information on their individual pay level and the pay levels of categories of workers doing the same work or work of equal value, broken down by sex. Employers with at least 250 workers must provide information on pay gaps between male and female workers across the organisation, and on pay gaps by categories of workers. Where a gap of more than 5% in any category is established that cannot be objectively justified, employers are obliged to conduct a joint pay assessment with workers' representatives.

However, this limitation of certain obligations to employers with more than 250 workers leaves out all small and medium-sized enterprises, which account for two thirds of employment in the EU (Eurostat 2018). This broad exemption is motivated by concerns about additional burdens on businesses, although the costs estimated by the Commission are moderate (European Commission 2021a). It has attracted strong criticism from various corners (ETUC 2021; European Women's Lobby 2021) and it remains to be seen whether the threshold will be reduced in subsequent negotiations.

Third, the document also sets out a series of significant proposals on remedies and enforcement. For example, it provides that equality bodies and workers' representatives shall be able to act on behalf of several workers; that victims of pay discrimination shall be able to obtain full compensation; and that claimants who prevail in an equal pay claim shall be able to recover reasonable legal costs, whereas defendants who prevail shall generally not be able to recover such costs. Furthermore, it requires that a monitoring body be designated to raise awareness of the principle of equal pay and tackle the causes of the pay gap, among other tasks.

Problematically, unlike the 2014 Recommendation, there is no requirement in

the proposal to promote collective bargaining on equal pay (ETUC 2021). This is a missed opportunity, since collective agreements have been shown to be beneficial in reducing pay inequalities and establishing gender-neutral job classification criteria (Pillinger 2014). The ETUC has objected to the lack of definition regarding the term 'workers' representatives', arguing that this could undermine the prerogatives of unions at the workplace and open the door to employers to select workers' representatives instead (ETUC 2021).

Overall, the proposal is an important and positive development, but it could be strengthened further. It places much emphasis on removing barriers to enforcement through equal pay claims, but less on employer obligations and collective bargaining as a means to promote equal pay. These, however, could lead to deeper structural changes. It would be desirable to see, at the very least, broader coverage of reporting and assessment obligations and a stronger role for trade unions and collective bargaining. Whether this will happen, and whether some of the Commissions' more ambitious proposals will hold in the face of opposition by employers and some Member States, remains to be seen.

The Action Plan and the Next Generation EU programme

The European Pillar of Social Rights: between rhetoric and reality

At its proclamation on 17 November 2017 at the Social Summit in Gothenburg, the European Pillar of Social Rights (EPSR) was presented as a key instrument for strengthening the social dimension of the European Union and achieving a 'social triple A'. The EPSR was hoped to be a game changer for the process of European integration, which in the previous decade had developed mainly around the objectives of competitiveness, economic growth and macroeconomic stability (Hendrickx 2018).

The ambitious rhetoric with which the EPSR was presented, however, obscured two concrete weaknesses that limited its impact on European social and labour policy. The first is a substantial limitation: the 20 principles set out in the Pillar still place great emphasis on the objectives of growth and competitiveness – primarily on the modernisation and inclusiveness of the labour market, a priority that pervades the EPSR more strongly than the improvement of working conditions. This reflects an approach to labour policy that values access to the labour market more than regulating labour itself (Giubboni 2018).

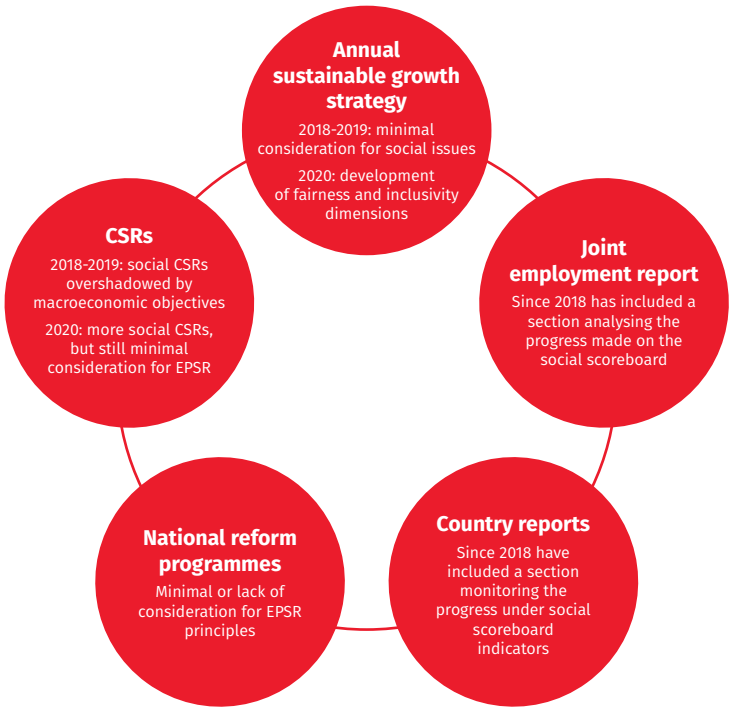
The second limitation of the EPSR, which is procedural, is its lack of binding legal force (Rasnača 2017). More so than in the case of the European legislative agenda, the implementation of the Pillar has been devolved to Member States in the context of European governance and, in particular, the European Semester.

Formally, the ESPR became part of the European Semester process by influencing the definition of the annual economic and social priorities, and in identifying the social and employment challenges of Member States via the Social Scoreboard, a benchmarking instrument that reflects some of the principles of the EPSR. The EPSR was then supposed to be reflected in the Country-Specific Recommendations (CSRs) that the Council adopts annually upon proposal from the Commission. Yet, as illustrated in Figure 2.49, the impact of the EPSR and the Social Scoreboard in the 2018, 2019 and 2020 European Semester cycles was rather modest (Rainone and Aloisi 2021). Even the increased social reach of the 2020 CSRs is more attributable to the political decision to suspend fiscal policy surveillance to leave room for spending by national governments in the midst of the Covid-19 crisis, rather than to any adherence to the EPSR (European Commission 2021a).

In March of this year, the Commission published its Action Plan to implement the EPSR and this was politically endorsed two months later at the Social Summit in Porto, opening a new window of opportunity for the ESPR to finally become a game changer in EU social policy. With a renewed rhetorical momentum, the European institutions announced their commitment to reach ambitious social and employment targets by 2030: poverty will be reduced by 15 million, 60% of adults will be engaged in annual training courses, and 78% of the population aged 20-64 will be in employment. The implementation of the EPSR principles was presented as central to the achievement of these goals. Furthermore, it was announced that the implementation of the EPSR would be integrated into the EU recovery strategy 'NextGenerationEU' in the context of the activation of the financial support instrument provided by the Recovery and Resilience Facility (RRF). The Commission also adopted a revised Social Scoreboard that included more social policy indicators.

If we take rhetoric and political proclamations as an indicator, it seems that substantial progress has been made in overcoming the two aforementioned limitations. But is this really the case? It is certainly too early to make any

Figure 2.49 **The modest impact of the EPSR and Social Scoreboard in the 2018/2019/2020 European Semester cycles**



Source: Rainone and Aloisi (2021).

conclusive assessments. However, it is worth mentioning a couple of elements that might reduce the social significance of these recent initiatives.

First of all, the Action Plan does not correct the primacy of labour market functioning and inclusivity over the need to improve working and living conditions. The primary focus is rather on giving the workforce the adequate skills and resources to cope with the labour market adjustments and displacement that the digital and green transitions will generate (Rainone and Aloisi 2021). There is also cause to doubt the EPSR's impact on the national recovery policies and in the revisited European Semester cycle that followed the launch of the Recovery and Resilience Facility. In defining their National Reform and Resilience Plans (NRRPs), national governments had to take the EPSR into account, but it was sufficient for them to explain how their RRP contributes to implementing the EPSR. Failure to adequately address the Pillar principles does not therefore appear to be decisive for the approval of the NRRPs and the disbursement of financial support. In fact, the Commission has given a positive assessment of NRRPs despite their shortcomings in solving challenges highlighted by the Social Scoreboard (the 'old' version). This is the case for the Croatian, Czech, French, Greek, Irish, Latvian, Portuguese and Slovak RRPs.

This raises concerns about the still too limited role of the EPSR in the context of European and national policies and encourages a continued monitoring of its impact during the next governance cycles.

Conclusion

This chapter began by providing an overview of recent evolutions within the labour market, with a focus on how the crisis has affected labour market inequalities. The European Union has been hit very hard by the Covid-19 crisis. The Member States have reacted with lockdowns, closing sectors and restricting businesses with the aim of limiting social contacts. At the same time, large-scale support has been provided to businesses and employees in the form of job retention schemes and short-time work schemes, which were opened up to be more inclusive. While these efforts have been successful in limiting job losses, there has been a significant drop in hours worked which is likely to linger on for a while (Jestl and Stehrer 2021). While a recovery in terms of jobs now seems underway, partly due to the successful vaccine rollout, the recovery risks leaving certain groups behind – particularly the young and the lower educated. It is therefore very important to monitor the developments over time and to make sure inequalities are not further increased as support diminishes.

While overall job losses have been limited, the adverse effects of the crisis have been borne disproportionally by those workers who were already more vulnerable: the young, the lower skilled, and to some extent migrants. These divisions according to age, country of birth and skill level or occupation were already generally widening prior to the pandemic as a result of the pressures of automatisation and globalisation, as well as a general trend towards deregulation. They have only been widened further by the Covid-19 crisis, and the risk now exists that a more entrenched dichotomisation of the labour market has emerged, divided between those with secure jobs who are able to work from home and lower-paid insecure workers who do not have any of this flexibility but are at risk both economically and in terms of their health. In other words, the brunt of this crisis is being borne by the most narrow shoulders.

This chapter also expanded on several current and near-future key issues facing the European labour market, and on various significant regulations that are currently under development. First, while migrant labour is an important cornerstone of the European labour market, third-country nationals who migrate for short-term work, such as seasonal work, face a legal system that permits their being treated differently and enhances their precariousness. Second, working time is undergoing a change, under pressure in particular from technological innovation. The greater flexibility this grants to businesses, especially in work arrangements like platform work, places the burden mainly onto the workers, who then find themselves with a much worse work-life balance. Relatedly, the chapter discussed the still prominent gender pay gap, as well as certain innovations in the regulatory framework that are aiming to provide greater transparency and general improvement. One contributing factor to the gender pay gap is the unequal burden of care, which still primarily falls on women. Finally, the chapter discussed how the European Pillar of Social Rights has not had the expected impact of placing social concerns more at the centre of European social and labour policies.

The key question now is: to what extent have the various trends that were already deepening divisions between workers prior to the pandemic, such as new technologies, ever greater flexibility and the green transition, been accelerated by this crisis, and how will inequality further evolve in the recovery?

References

Adams-Prassl A., Boneva T., Golin M. and Rauh C. (2020) Inequality in the impact of the coronavirus shock: evidence from real time surveys, IZA Discussion Paper 13183, Bonn, Institute of Labor Economics.

Amo-Agyei S. (2020) The migrant pay gap: understanding wage differences between migrants and nationals, Geneva, ILO.

Angelov N. and Waldenström D. (2021) COVID-19 and income inequality: evidence from monthly population registers, CEPR Discussion Paper 16333, London, Centre for Economic Policy Research.

Artacoz L., Cortes J. and Borrell C. (2011) Work and family: 'double workload' overurdens women's health, HesaMag #3, 21-25.

Berg J. (2016) Income security in the on-demand economy: findings and policy lessons from a survey of crowdworkers, Geneva, ILO.

Behrendt C., Nguyen Q. and Rani U. (2019). Social protection systems and the future of work: Ensuring social security for digital platform workers, International Social Security Review.

Bogoeski V. and Rasnača Z. (eds.) (2022) Social security rules in the context of posting and short-term migration of third-country nationals (TCNs) in the European Economic Area', Brussels, ETUI. [Forthcoming]

Boll C., Rossen A. and Wolf A. (2017) The EU gender earnings gap: Job segregation and working time as driving factors, Jahrbücher fuer Nationalökonomie und Statistik, 237 (5), 407-452. https://doi.org/10.1515/jbnst-2017-0100

Brodeur A., Gray D., Islam A. and Bhuiyan S.J. (2020) A literature review of the economics of COVID-19, IZA Discussion Paper 13411, Bonn, Institute of Labor Economics.

BusinessEurope (2018) EU action plan on tackling the gender pay gap - a BusinessEurope position paper, Brussels, BusinessEurope.

Cheng C., Barcelo J., Spencer Hartnett A., Kubinec R. and Messerschmidt L. (2020) COVID-19 government response event dataset (CoronaNet v.1.0), Nature Human Behaviour, 4, 756-768.

Chieregato E. (2020) A work-life balance for all? Assessing the inclusiveness of EU Directive 2019/1158, International Journal of Comparative Labour Law and Industrial Relations, 36 (1), 59-80.

Chung H. and Tijdens K. (2013) Working time flexibility components and working time regimes in Europe: using company-level data across 21 countries, International Journal of Human Resource Management, 24 (7), 1418-1434.

Clark A. E., D'Ambrosio C. and Lepinteur A. (2021) The fall in income inequality during COVID-19 in four European countries, The Journal of Economic Inequality, 19 (3), 489-507.

Clauwaert S. (2019) The country-specific recommendations (CSRs) in the social field: an overview and comparison. Update including the CSRs 2019-2020, Background analysis 2019.03, Brussels, ETUI.

De Spiegelaere S. and Piasna A. (2017) The why and how of working time reduction, Brussels, ETUI.

De Spiegelaere S. and Piasna A. (2021) Arbeitszeitentwicklung in Europa: von kollektiven zu individuellen Verkürzungen, in Müller M. and Reiff C., Arbeitszeit. Rahmenbedingungen - Ambivalenzen – Perspektiven, Wien, OGB Verlag, 57-75.

Del Boca D., Oggero N., Profeta P. and Rossi M.C. (2020) Women's work, housework and childcare, before and during COVID-19, IZA Discussion Paper 13409, Bonn, Institute of Labor Economics.

Drahokoupil J. and Müller T. (2021) Job retention schemes in Europe: a lifeline during the Covid-19 pandemic, Working Paper 2021.07, Brussels, ETUI.

EIGE (2016) Poverty, gender and lone parent in the EU, Vilnius, European Institute for Gender Equality. https://eige.europa.eu/publications/poverty-gender-and-lone-parents-eu

EIGE (2021a) COVID-19 and gender equality: essential workers. https://eige.europa.eu/covid-19-and-gender-equality/essential-workers

EIGE (2021b) Gender equality and the socio-economic impact of the COVID-19 pandemic, Luxembourg, Publications Office of the European Union.

EIGE (2021c) Gender inequalities in care and consequences for the labour market, Luxembourg, Publications Office of the European Union.

Engzell P., Frey A. and Verhagen M.D. (2021) Learning loss due to school closures during the COVID-19 pandemic, PNAS, 118 (17), e2022376118. https://doi.org/10.1073/pnas.2022376118

ETUC (2021) Adopted Resolution: ETUC Response to the EU Commission Proposal for a Directive to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, Adopted 22 March 2021. https://www.etuc.org/en/document/adopted-resolution-etuc-response-eu-commission-proposal-directive-strengthen-application

Eurofound (2020a) Living, working, and Covid-19. First findings - April 2020, Luxembourg, Publication Office of the European Union.

Eurofound (2020b) Women and labour market equality: has COVID-19 rolled back recent gains?, Luxembourg, Publications Office of the European Union.

Eurofound (2021) COVID-19: implications for employment and working life, Luxembourg, Publications Office of the European Union.

European Parliament (2015) Report on the application of Directive 2006/54/EC of the European Parliament and of the Council of 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation, A8-0213/2015, 25 June 2015.

European Commission (2013) Report from the Commission to the European Parliament and the Council. Report on the application of Directive 2006/54/EC of the European Parliament and of the Council of 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation, COM (2013) 861 final, 6 December 2013.

European Commission (2014) Commission Recommendation of 7 March 2014 on strengthening the principle of equal pay between men and women through transparency, Official Journal of the European Union, L 69, 8 March 2014, 112-116.

European Commission (2017) Report from the Commission to the European Parliament, the Council and the European Economic and Social Committee, Report on the implementation of Commission Recommendation on strengthening the principle of equal pay between men and women through transparency, COM (2017) 671 final, 20 November 2017.

European Commission (2018) Paternity and parental leave policies across the European Union: Assessment of current provision, Luxembourg, Publications Office of the European Union.

European Commission (2020a) Commission staff working document. Evaluation of the relevant provisions in the Directive 2006/54/EC implementing the Treaty principle on 'equal pay for equal work or work of equal value', SWD (2020) 50 final, 5 March 2020.

European Commission (2020b) Communication from the Commission. Guidelines on seasonal workers in the EU in the context of the Covid-19 outbreak, C (2020) 4813 final, 17 July 2020.

European Commission (2021a) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions. The EU economy after COVID-19: implications for economic governance, COM (2021) 662 final, 19 October 2021.

European Commission (2021b) Commission staff working document impact assessment. Accompanying the document. Proposal for a Directive of the European Parliament and of the Council to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, SWD (2021) 41 final, 4 March 2021.

European Commission (2021c) Proposal for a Directive of the European Parliament and of the Council to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, COM (2021) 93 final, 4 March 2021.

European Women's Lobby (2021) Pay transparency directive - a milestone in closing the gender pay gap?, EWL News, 19 March 2021.

Eurostat (2018) Statistics on small and medium-sized enterprises.

Eurostat (2020) Closing the gender pension gap?, News, 07 February 2020. https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200207-1

Eurostat (2021a) Employment and activity by sex and age - annual data.

Eurostat (2021b) Gender statistics. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Gender_statistics#Earnings

Eurostat (2021c) EU citizens living in another Member State - statistical overview. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_citizens_living_in_another_Member_State_-_statistical_overview

Farre L., Fawaz Y., Gonzalez L. and Graves J. (2020) How the COVID-19 lockdown affected gender inequality in paid and unpaid work in Spain, IZA Discussion Paper 13434, Bonn, Institute of Labor Economics.

Fasani F. and Mazza J. (2020) Being on the frontline? Immigrant workers in Europe and the COVID-19 pandemic, IZA Discussion Paper 13963, Bonn, Institute of Labor Economics.

Galgóczi B. (ed.)(2021) Betwixt and between: integrating refugees into the EU labour market, Brussels, ETUI.

Giubboni S. (2018) The rise and fall of EU labour law, European Law Journal, 24 (1), 7-20.

Goods C., Veen A. and Barratt T. (2019) 'Is your gig any good?' Analysing job quality in the Australian platform-based food-delivery sector, Journal of Industrial Relations, 61 (4), 502-527.

Gregg P. and Tominey E. (2005) The wage scar from male youth unemployment, Labour Economics, 12 (4), 487-509.

Grimshaw D. and Rubery J. (2007) Undervaluing women's work, Working Paper Series 53, Manchester, Equal Opportunities Commission.

Hendrickx F. (2018) European labour law and the Millennium shift: from post to (social) pillar, in Hendrickx F. and De Stefano V., Game changers in labour law: shaping the future of work, The Hague,Kluwer Law International, 49-63.

Hijzen A. and Venn D. (2011) The role of short-time work schemes during the 2008-09 recession, OECD social, employment and migration working papers 115, Paris, OECD Publishing.

Hupkau C. and Petrongolo B. (2020) Work, care and gender during the COVID-19 crisis, IZA Discussion Paper 13762, Bonn, Institute of Labor Economics.

ILO (2020) Prioritize pay equity in COVID-19 recovery, Press release, 18 September 2020.

ILO (2021) World employment and social outlook 2021: the role of digital labour platforms in transforming the world of work, Geneva, ILO

Jestl S. and Stehrer R. (2021) (Post-)pandemic employment dynamics in a comparative perspective, Policy Brief. European Economic, Employment and Social Policy 2021.12, Brussels, ETUI.

Kalayhoglu Y., Mert Ozturk A. and Eker G. (2020) The economic and social impact of COVID-19 on women and men: rapid gender assessment of COVID-19 implications in Turkey, Istanbul, UN Women Turkey Office.

Kohlrausch B. and Zucco A. (2020) Die Corona-Krise trifft Frauen doppelt. Weniger Erwerbseinkommen und mehr Sorgearbeit, WSI Policy Brief 40, Düsseldorf, Hans-Böckler-Stiftung.

Messenger J. (2011) Working time trends and developments in Europe, Cambridge Journal of Economics, 35 (2), 295-316.

Milasi S., Gonzalez-Vazquez I. and Fernandez-Macias. (2020) Telework in the EU before and after the COVID-19: where we were, where we head to, Science for Policy Briefs, Joint Research Centre.

Müller T. (2019) She works hard for the money: tackling low pay in sectors dominated by women - evidence from health and social care, Working Paper 2019.11, Brussels, ETUI.

Müller T. and Schulten T. (2020) Ensuring fair short-time work - a European overview, Policy Brief. European Economic, Employment and Social Policy 7/2020, Brussels, ETUI.

Murphy E. and Oesch D. (2016) The feminization of occupations and change in wages: a panel analysis of Britain, Germany, and Switzerland. Social forces, 94 (3), 1221-1255. https://doi.org/10.1093/sf/sov099

OECD (2020) OECD Economic outlook 2020, Paris, OECD Publishing.

OECD (2021) OECD Employment outlook 2021, Paris, OECD Publishing.

Oelz M., Olney S. and Tomei M. (2013) Equal pay: an introductory guide, Geneva, ILO.

Oreffice S. and Quintana-Domeque C. (2020) Gender inequality in COVID-19 times: evidence from UK prolific participants, IZA Discussion Paper 13463, Bonn, Institute of Labor Economics.

Piasna A. (2018) Scheduled to work hard: the relationship between non-standard working hours and work intensity among European workers (2005-2015), Human Resource Management Journal, 28 (1), 167-181.

Piasna A. (2019) The space for regulation beyond borders? The role of the EU in regulating zero hours work, in O'Sullivan M., Lavelle J., McMahon J., Ryan L., Murphy C., Turner T. and Gunnigle P., Zero hours and on-call work in Anglo-Saxon countries, Singapore, Springer, 179-194.

Piasna A. (2020) Standards of good work in the organisation of working time: fragmentation and the intensification of work across sectors and occupations, Management Revue, 31 (2), 259-284.

Piasna A. (2021) Gig-life balance?, in The transformation of work, Social Europe and Friedrich Ebert Stiftung, 32-38.

Piasna A. and Drahokoupil J. (2019) Digital labour in central and eastern Europe: evidence from the ETUI internet and platform work survey, Working Paper 2019.12, Brussels, ETUI.

Piasna A. and Drahokoupil J. (2021) Flexibility unbound: understanding the heterogeneity of preferences among food delivery platform workers, Socio-Economic Review, 19 (4), 1397-1419.

Piasna A. and Myant M. (2017) Myths of employment deregulation: how it neither creates jobs nor reduces labour market segmentation, Brussels, ETUI.

Piasna A., Galgóczi B., Rainone S. and Zwysen W. (2020) Labour market and social developments: from shock to crisis, in ETUI and ETUC, Benchmarking Working Europe 2020, Brussels, ETUI, 43-73.

Pillinger J. (2014) Bargaining for equality: how collective bargaining contributes to eliminating pay discrimination between women and men performing the same job or job of equal value, Brussels, ETUC.

Rainone S. (2020) An overview of the 2020-2021 country-specific recommendations (CSRs) in the social field, Background analysis 2020.01, Brussels, ETUI.

Rainone S. and Aloisi A. (2021) Time to deliver? Assessing the action plan on the European Pillar of Social Rights, Policy Brief. European Economic, Employment and Social Policy 2021.08, Brussels, ETUI.

Rasnača Z. (2017) Bridging the gaps or falling short? The European Pillar of Social Rights and what it can bring to EU-level policymaking, Working Paper 2017.05, Brussels, ETUI.

Rasnača Z. (2020) Essential but unprotected: Highly mobile workers in the EU during the Covid-19 pandemic, Policy Brief. European Economic, Employment and Social Policy 9/2020, Brussels, ETUI.

Rasnača Z. and Bogoeski V. (eds.) (2022) Between a rock and a hard place: Short-term labour (i-) migration in the European Economic Area, Brussels, ETUI. [Forthcoming]

Snyder B. (2016) The disrupted workplace: time and the moral order of flexible capitalism, New York, Oxford University Press.

Stantcheva S. (2021) Inequalities in the times of the pandemic, 73 rd Economic Policy Panel Meeting, 15 April 2021. https://www.economic-policy.org/wp-content/uploads/2021/04/9103_Inequalities-in-the-Times-of-a-Pandemic.pdf

UNESCO (2021) Global tracking of COVID-19 caused school closures and re-openings: methodological note, Paris, UNESCO. https://en.unesco.org/sites/default/files/en_methogological_note_-_unesco_map_on_covid-19_caused_school_closures_reopening_final.pdf

Urzi Brancati M., Pesole A. and Fernandez-Macias E. (2020) New evidence on platform workers in Europe. results from the second COLLEEM survey, Luxembourg, Publications Office of the European Union.

Vyas N. (2021) 'Gender inequality - now available on digital platform': an interplay between gender equality and hte gig economy in the European Union, European Labour Law Journal, 12 (1), 37-51.

Wenham C. (2020) The gendered impact of the COVID-19 crisis and post-crisis period, Brussels, EP.

Zwysen W. (2016) Crowding out of disadvantaged young adults in Germany: Background matters depending on local labour market, European Sociological Review, 32 (5), 662-674.

All links were checked on 17 November 2021.

3. Wages and collective bargaining: is social Europe really back on the agenda?

Authors

Torsten Müller

Kurt Vandaele

Wouter Zwysen

Topics

> In the field of wages and collective bargaining in particular, a new discourse has emerged that recognises adequate minimum wages and strong collective bargaining as an institutional precondition for a more sustainable and inclusive economic development
>
> **Torsten Müller**

Introduction

At the Porto Social Summit on 7 May 2021, the European Commission, the European Parliament and the Portuguese EU Presidency confirmed their commitment to the implementation of the European Pillar of Social Rights by signing a so-called 'Social Commitment'. Among other things, this included a clear pledge to ensure 'decent working conditions and fair pay for all workers'. Does this mean that after years of neoliberal dominance, 'social Europe' is back on the agenda? At least rhetorically this seems to be the case. In the field of wages and collective bargaining in particular, a new discourse has emerged that recognises adequate minimum wages and strong collective bargaining as an institutional precondition for a more sustainable and inclusive economic development (Schulten and Müller 2021).

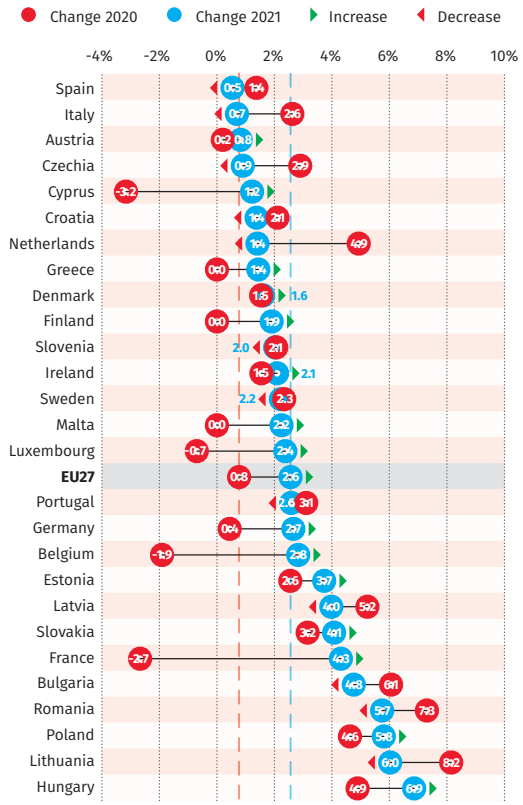
The clearest expression of this new approach to wages and collective bargaining is the proposed directive on adequate minimum wages (European Commission 2020a), which explicitly aims at ensuring adequate minimum wages for all workers in the EU and at strengthening collective bargaining in order to reduce in-work poverty and wage inequality. However, while the proposed directive has the potential to improve working conditions for millions of workers, the proof of the pudding will be in the eating. Only by adopting a directive on adequate minimum wages that really deserves its name, can European and in particular national policymakers prove that their applause for the many 'essential and front-line workers' that kept our societies going during the pandemic was not merely rhetorical. And in order to fulfil their 'social commitment' made at the Porto Social Summit, the European Commission and the European Parliament must fend off attempts by various national governments to water down the content of the directive.

Against this background, this chapter will chart the development of wages, minimum wages, collective bargaining and strike activity, with a particular focus on how minimum wages help to address the problem of wage inequality. The findings demonstrate the need for legislative support at the European level, as national-level policymakers either lack the capacity or the will to tackle the problems of in-work poverty and wage inequality.

Wage developments

After a collapse of wage growth in 2020 (see ETUI and ETUC 2020: 102), nominal wage growth recovered slightly in 2021. Figure 3.1, which illustrates the development of nominal wages in 2020 and 2021, shows that in 16 EU Member States, nominal wages grew more strongly in 2021 than in the previous year. Overall, it is possible to distinguish three groups of countries. The smallest group, of four countries with a nominal wage growth of more than 5%, is exclusively comprised of CEE countries, ranging from Romania (5.7%) and Poland (5.8%) to Lithuania (6%) and Hungary (6.9%). Since this group of countries also reported the strongest nominal wage growth in 2020, the trend of converging wages between CEE countries and western European countries continued in 2021. The second and largest group consists of 11 countries with an increase of between 2% and 5%. This group ranges from Slovenia (2%) and Ireland (2.1%) to France (4.3%) and Bulgaria (4.8%). It is followed by a third group of 10 countries with a very modest increase of 2% or less, which ranges from the southern European countries Spain (0.5%) and Italy (0.7%) to the Nordic countries Denmark (1.6%) and Finland (1.7%).

Figure 3.1 **Development of nominal wages* in 2020 and 2021 (change in percentage compared to previous year)**



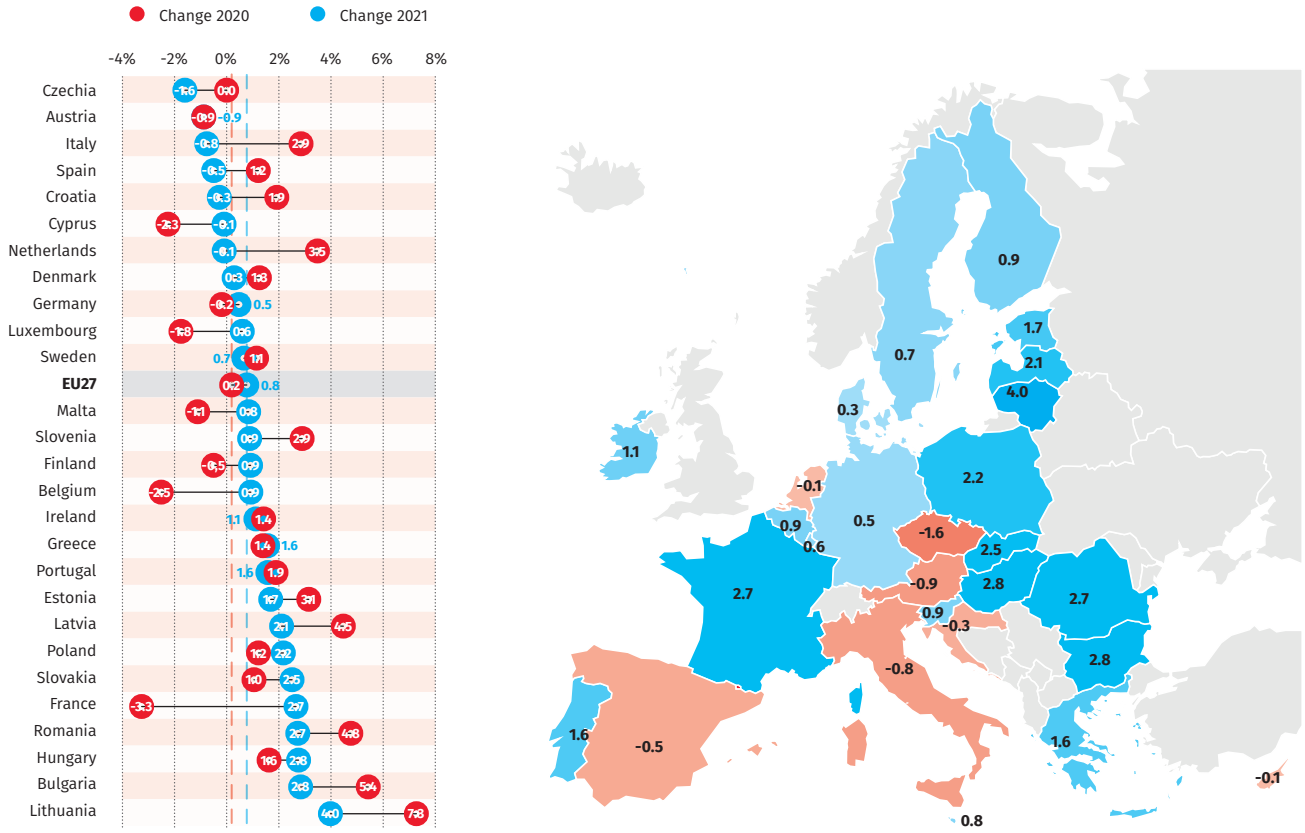
Note: *Nominal compensation per employee: total economy (national currency).
Source: AMECO database (HWCDW), 8 September 2021.

The wage data for 2021 should, however, be treated with some degree of caution. First of all, they are partly based on forecasts, which in a pandemic situation are necessarily more uncertain than during normal times. Second, it should be emphasised that in line with the European Commission's AMECO database, nominal wages are measured as 'nominal compensation per employee', which, in addition to wages and salaries, also includes the employer's social security contributions. Under normal circumstances, nominal compensation and wages develop largely in parallel. During the pandemic, however, all EU countries made frequent use of job retention schemes to preserve employment. In many countries this involved relieving employers from paying social security contributions as a tool to adjust their costs (Drahokoupil and Müller 2021). This policy, however, reduces the growth of nominal compensation.

Third, wage developments in 2021 were heavily influenced by two opposing trends. The first trend concerns the above-mentioned frequent use of job retention schemes, which tended to lower nominal compensation per employee. This is because, as a rule, employees only receive a part of their original wage for the time not worked while being enrolled in these schemes, while also keeping their employment status. And the impact of job retention schemes on nominal wage growth per employee gets even more complicated, because depending on the type of scheme – such as those in which the benefit is directly paid to the employee (da Silva et al. 2020) – the benefits may be counted as social transfers and therefore not included in the statistical measures of compensation. The second trend is linked to composition effects and points in the opposite direction: an increasing rate of nominal compensation per employee. This is due to the fact that low-paid workers – for instance on fixed-term or part-time contracts – are, as a rule, the first ones to lose their jobs. Their exit from the labour market thus potentially increases the nominal compensation per employee of the remaining workforce.

With these caveats in mind, the overall development of nominal wages in the EU in 2021 followed the economic cycle: as, over

Figure 3.2 **Development of real wages* in 2020 and 2021 (change in percentage compared to previous year)**



Note: *Real compensation per employee, deflator private consumption: total economy.
Source: AMECO database (RWCDC), 8 September 2021.

The long-term trend of the decoupling of wage and productivity developments continued in 2021

time, economic activity resumed, hours of work normalised and the use of job retention schemes receded, nominal compensation per employee adjusted in many countries and the EU overall.

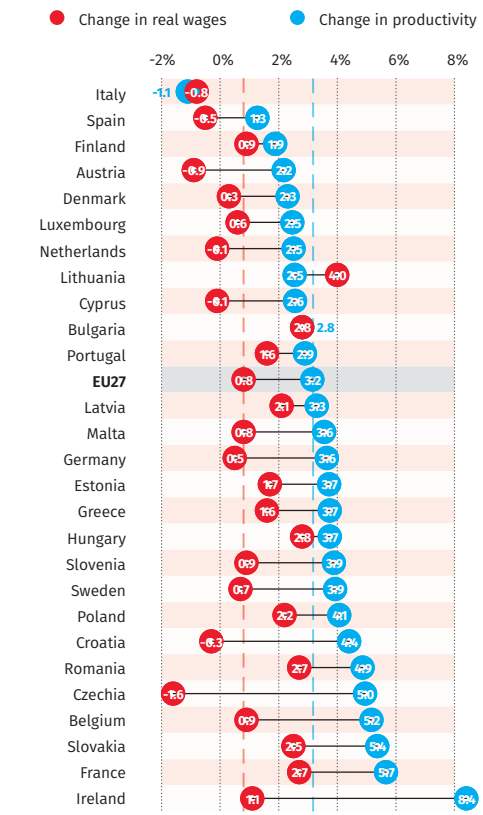
Figure 3.2, however, illustrates that the recovery of nominal wage growth only partially translated into a corresponding recovery of real wage growth. According to the European Commission's AMECO database, in 2021 only 12 countries reported a stronger growth of real compensation per employee than in the year before. This applies in particular to those countries which saw negative real wage developments in 2020. In 2021, real wage developments were negatively affected by rising energy and commodity prices, as well as production bottlenecks due to the shortage of some input components and raw materials, which in turn put pressure on consumer prices (European Commission 2021). A large part of the nominal wage growth was thus eaten up by the increase in inflation.

As a consequence, the long-term trend of the decoupling of wage and productivity developments continued in 2021. Figure 3.3 compares the development of real compensation per employee and the development of labour productivity (measured as GDP per person employed). If real wages develop in line with labour productivity, wage growth not only compensates for inflation but also ensures that workers get their fair share of the wealth they created. With the exception of Lithuania and Bulgaria, this was not the case in 2021.

It should, however, be borne in mind that the growth of productivity in 2021 is as much the result of statistical effects as it is a reflection of the economic recovery (linked to the easing of the restrictions imposed on companies to contain the spread of Covid-19). According to Maqui E. and Morris R. (2020), there is, furthermore, some ground to believe that the pandemic forced some companies to improve efficiency by optimising their process through increased digitalisation and automatisation.

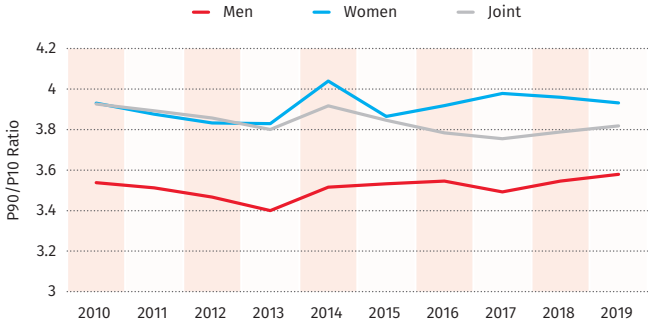
Statistical effects played an important role in several respects. First, average productivity may have increased because of a so-called 'cleansing effect' as the pandemic forced the least productive firms to exit. For France, for instance, Hadjibeyli et al. (2021) found that the average level of productivity increased at a lower level of output. Second, productivity increases in 2021 were also the result of base effects caused by the pandemic-induced collapse of productivity in 2020. Third, and closely related to the previous point, productivity per person

Figure 3.3 **Development of labour productivity* and real wages in 2021**



Note: * Gross domestic product per person employed.
Source: AMECO database (RVGDE), 8 September 2021.

Figure 3.4 **Evolution of wage inequality in the EU as a whole**



Note: Own calculations based on EU-SILC data on ratio of 90th to 10th percentile on hourly gross wage, weighted average of Member States; data only available until 2018 for Ireland and Italy. The scale does not start at 0.
Source: EU-SILC 2010-2019.

employed is closely linked to working time developments. This means that the extensive use of job retention schemes in 2020 and the corresponding decrease in working hours caused a substantial decrease of productivity per person. To some extent the drop in productivity in 2020 was the flipside of the success of job retention schemes in preserving employment (Lübker 2020). By the same token, the receding use of job retention schemes in 2021 caused an increase in productivity per person. Against this background, the following section will shed some light on the development of wage inequality during the pandemic.

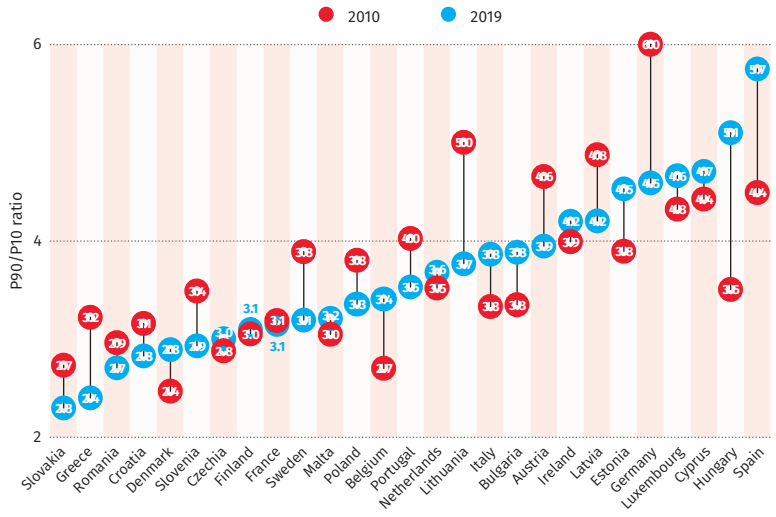
Wage inequality in Europe

Wage inequality in Europe increased substantially up to and during the Great Recession of 2008/2009. Since then it has, on average, remained relatively stable or even decreased slightly in Europe in terms of hourly wages (see Figure 3.4). The overall decline in wage inequality can be attributed to a decrease in inequality in the upper half of the wage distribution, as the wages between the top (90th percentile) and the median converged. However, inequality in the bottom half of the wage distribution remained stable and actually increased again from 2016/2017 onwards. Furthermore, while wages converged slightly for the whole population, the picture is different when looking at the distribution of wages for men and women separately. Wage inequality increased between 2013 and 2019 within both gender categories; the overall reduction in wage inequality is due to a decrease over time in the gender pay gap (measured in hourly wages), from 17% in 2010 to 15% in 2019.

Figure 3.5 illustrates that there is substantial country variation regarding changes in inequality (measured according to the P90/P1o ratio). Wage inequality declined the most from 2010 to 2019 in Germany, Lithuania, Greece, Latvia, Slovenia, Austria, Portugal, Poland, and Croatia. There were sizeable increases in wage inequality in generally more unequal countries – Spain, Hungary and Estonia – but also in less unequal countries, such as Bulgaria, Italy and Belgium.

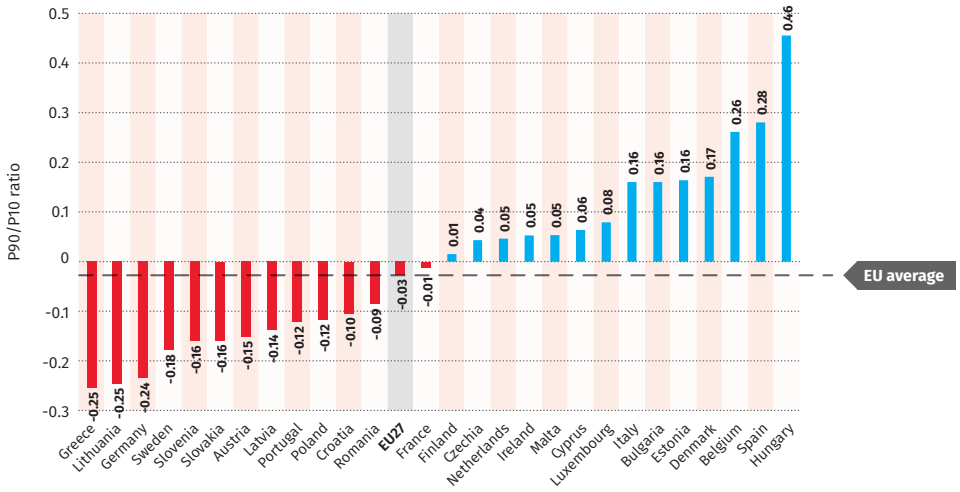
Figure 3.6, which illustrates the relationship between changes in collective bargaining coverage/the relative value of minimum wages and changes in wage inequality, demonstrates that some of the national variation in wage inequality can be explained by these two factors. On average, an increase in wage inequality is associated with a decrease in the share of

Figure 3.5a **Wage inequality, 2010-2019, EU Member States**



Note: Scale does not start at 0.
Source: EU-SILC 2010-2019.

Figure 3.5b **Changes in wage inequality, 2010-2019, EU Member States**

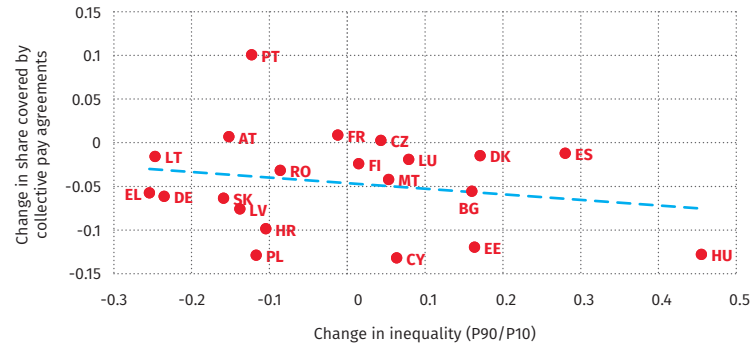


Note: Scale does not start at 0.
Source: EU-SILC 2010-2019.

workers covered by a collective pay agreement. By the same token, higher bargaining coverage is generally associated with a more equal distribution of wages. As the coverage rate of these agreements decline, the resulting wage distribution is generally less equal. Figure 3.6 also provides a rough indicator of the potential impact of the development of minimum wages on wage inequality. Wage inequality increased in four out of the seven countries where the relative value of the statutory minimum wage as a percentage of the median or average wage (i.e. the Kaitz Index) decreased, and in four out of the seven countries without a statutory minimum wage in 2010. Germany is included in this group because it only introduced a statutory minimum wage in 2015. However, the country's eventual introduction of the minimum wage contributed to a drop in wage inequality by substantially raising wages in typically low-wage sectors, particularly in east Germany (Herzog-Stein et al. 2020). Conversely, wage inequality decreased in eight of the fourteen countries where the Kaitz Index increased.

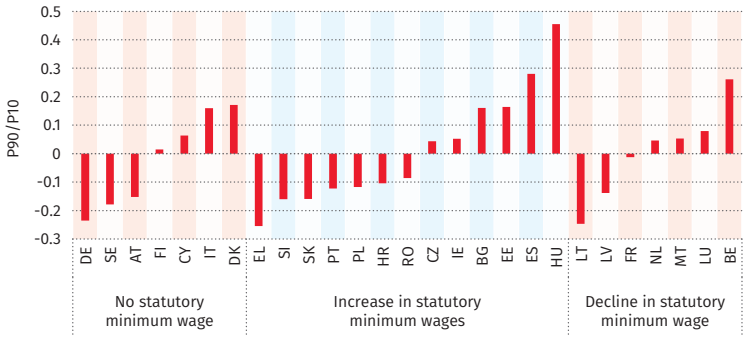
The overall picture prior to Covid-19 was one of stagnating inequality, with a slight increase again from 2018 onwards. There is not yet any comparable European-level data available to study the impact of Covid-19 on wage inequality. However, an early analysis by the ILO of the development of the overall wage bill in the first and second quarters of 2020 suggests that the pandemic altered the wage distribution in favour of the highest-earning workers because the bottom 50% of the wage distribution suffered

Figure 3.6a **Changes in inequality and collective bargaining coverage (2010-2019)**



Source: EU-SILC 2010-2019 data for wage inequality (2018 for Italy and Ireland), EARN_SES10_01 and EARN_SES18_01.
Note: Relation between the change in inequality (P90/P10) from 2010 to 2019 and the change in the share of workers in establishments with at least 10 employees covered by any type of collective pay agreement.

Figure 3.6b **Relation between change in inequality and statutory minimum wages (2010-2019)**



Source: Kaitz index (minimum wage in relation to median wage [in relation to average wage in Bulgaria]) according to OECD earnings database (OECD 2021). For Bulgaria, Croatia and Malta: European Commission (2020).

larger wage losses than the top 50% (ILO 2020: 47). The research by the ILO also suggests that the pandemic increased gender wage inequality because female workers are over-represented in the sectors that were hardest hit by the crisis and therefore suffered larger wage losses than male workers (ILO 2020: 47). Another interesting finding is that job retention schemes helped to mitigate the impact of the crisis on wage inequality in Europe 'by reducing the decline in the share of the total wage bill received by those at the bottom 50 per cent of the wage distribution from 3.7 to 1.7 percentage points' (ILO 2020: 50).

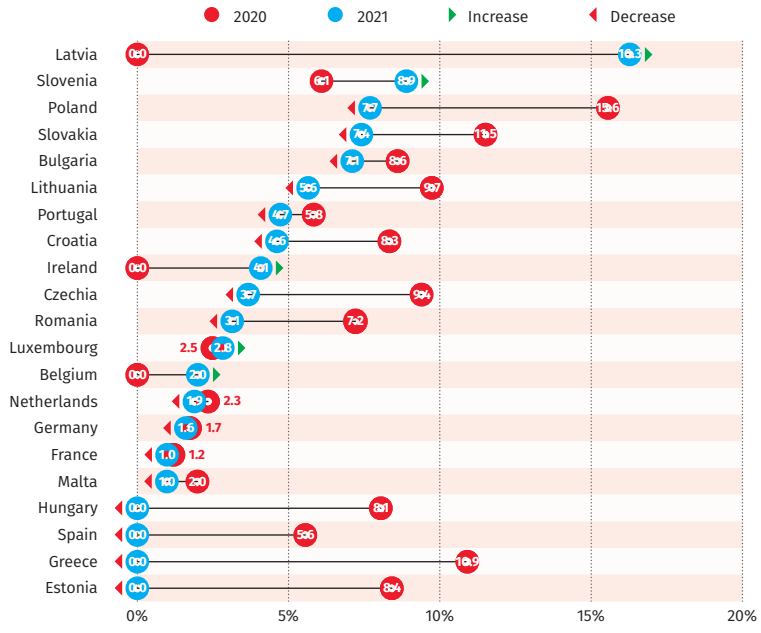
While there has so far been little further research on the impact of the pandemic on wage inequality, several papers have looked at the inequality of income, including wages but also other sources of income such as benefits. Simulation studies of the impact of lockdown on income inequality indicate it would, in theory, lead to a sizeable increase, due to those already earning less being more likely to lose their jobs and those with higher earnings being more likely to benefit from working from home (Brunori et al. 2020; Palomino et al. 2020). However, financial support policies have been widespread across Europe and substantially aided poorer households, thereby mitigating the rise of income inequality. As a result, average income inequality in many countries has actually declined (Clark et al. 2021; Angelov and Waldenström 2021; Stantcheva 2021; OECD 2021). Once this short-term support stops, however, the distributional impacts on employment will likely result in a widening of income inequality across Europe.

Minimum wage and collective bargaining developments

An increase in minimum wages that exceeds the general wage development contributes to reducing wage inequality by compressing the overall wage structure: first, by directly increasing the wages of low-paid workers and second, through so-called 'ripple effects' (Grimshaw and Rubery 2013), by indirectly influencing the development of the wage groups above the minimum wage. Since women are overrepresented in the group of minimum wage earners, an increase in the minimum wage furthermore helps to reduce the gender pay gap (European Commission 2020b).

Figure 3.7, which illustrates the development of statutory minimum wages between 1 January 2020 and 1 January 2021, demonstrates that in the majority of countries, the pandemic slowed down the increases in minimum wages. The only countries where minimum wages increased more in 2021 than in 2020 were Latvia, Slovenia, Ireland, Luxembourg and Belgium. It should, however, be noted that even though statutory minimum wages are, as a rule, adjusted each year on 1 January, in four countries there were extraordinary adjustments during 2021 which are not reflected in Figure 3.7. This applies to several countries. In Belgium, the minimum wage increased from EUR 9.85 to EUR 10.01 on 1 September 2021. In Germany, following a recommendation of the Minimum Wage Commission in June 2020, a staged process of minimum wage increases was adopted for the next two years to take into account the economic consequences of the pandemic. As a consequence, there was a moderate increase in the minimum wage to EUR 9.50 on 1 January 2021 and then to EUR 9.60 on 1 July 2021. In order to comply with the rule that minimum wage increases should develop in line with collectively agreed wages, the next increases will be more substantial: to EUR 9.82 on 1 January 2022 and to EUR 10.45 on 1 July 2022. In Hungary, after prolonged negotiations, the minimum wage was increased by 4% on 1 February 2021 and by another 1% on 1 July 2021. And finally, in the Netherlands, following the usual two-staged procedure applied since 2017, the minimum wage was increased to EUR 10.34 on 1 January and to EUR 10.44 on 1 July 2021.

Figure 3.7 **Nominal development of minimum wages per hour, from 1 January 2020 to 1 January 2021 (%)**



Source: WSI Minium Wage Database (WSI 2021).

With this caveat in mind, several groups of countries can be distinguished according to the size of the minimum wage increase between 1 January 2020 and 1 January 2021. The first group of countries includes countries with an increase of more than 5%, ranging from Lithuania (5.6%) to Slovenia (8.9%) and Latvia (16.3%). The exceptionally large increase in Latvia follows two years in which there was no increase at all. The fact that this group exclusively comprises CEE countries means a continuation of the year-long trend of minimum wage convergence between CEE countries and western European countries. A rough indicator for the convergence of minimum wages is the fact that over the last ten years the relation between the highest minimum wage in Luxembourg and the lowest in Bulgaria more than halved, from 1:13.9 in 2011 to 1:6.4 in 2021. The second group of countries with a minimum wage increase of between 2 and 5% comprises seven countries, ranging from Belgium (2%) to Croatia (4.6%) and Portugal (4.7%). The third group comprises those eight countries with an increase of less than 2%.

> The European Commission explicitly states that 'in the majority of Member States with national statutory minimum wages, minimum wages are too low vis-à-vis other wages or to provide a decent living' (European Commission 2020a: 2)

This group includes the four countries Estonia, Greece, Hungary and Spain, where there was no increase at all between 1 January 2020 and 1 January 2021. Hungary is a special case, however, because if the two increases in February and July 2021 were taken into account Hungary would be in the group of countries with increases of between 2 and 5%.

As regards the contribution of minimum wages to reducing wage inequality within countries by compressing the wage structure, Figure 3.7 also illustrates the fact that, despite the overall less dynamic development in 2021, in 11 countries the minimum wage increases still exceeded nominal wage increases. This applies in particular to CEE countries such as Bulgaria, Croatia, Czechia, Latvia, Poland, Slovakia and Slovenia, but also to western European countries such as Ireland, Luxembourg, the Netherlands and Portugal.

Concerning the driving forces of minimum wage adjustments, three broad factors can be distinguished. The first is the pandemic, which prompted decision-makers in many countries to take a more reserved approach.

The second factor explains, in particular, the more substantial increases in some of the CEE countries, which is the fact that the minimum wage was adjusted in accordance with procedures and political commitments that pre-dated the pandemic. In Latvia, for instance, the decision to increase the minimum wage to EUR 500 on 1 January 2021 was part of the package agreed upon in 2018, which also involved a minimum wage freeze for two years. Similarly, the recent increase in Slovenia was based on changes to the Minimum Wage Act adopted in 2018, according to which the minimum wage should exceed the minimum cost of living by 20-40%. The substantial increases in Poland and Slovakia also have a similar explanation, even though in these two cases the increases would have been even more substantial if the pre-pandemic rules and commitments had been truly fulfilled. In October 2019, the Polish government announced its intention to raise the minimum wage to PLN 4,000 over the next three years, which involved a target of PLN 3,000 for 2021 (Schulten and Müller 2020: 104). Even though the actual increase to PLN 2,800 does not meet this target completely it can still be seen in the context of the pre-pandemic commitment of the government to a substantial increase of the minimum wage. In Slovakia, an amendment to the Minimum Wage Act was adopted in October 2019 which stipulates that from 1 January 2021, in the event that trade unions and employers would not reach an agreement, the minimum wage would be set by the government to at least 60% of the average wage of two years earlier (Schulten and Müller 2020: 116). According to this new rule, the minimum wage should have increased to EUR 656 in January 2021, as demanded by the trade union KOZ SR. The actual increase to EUR 623 therefore fell short of the target defined by law.

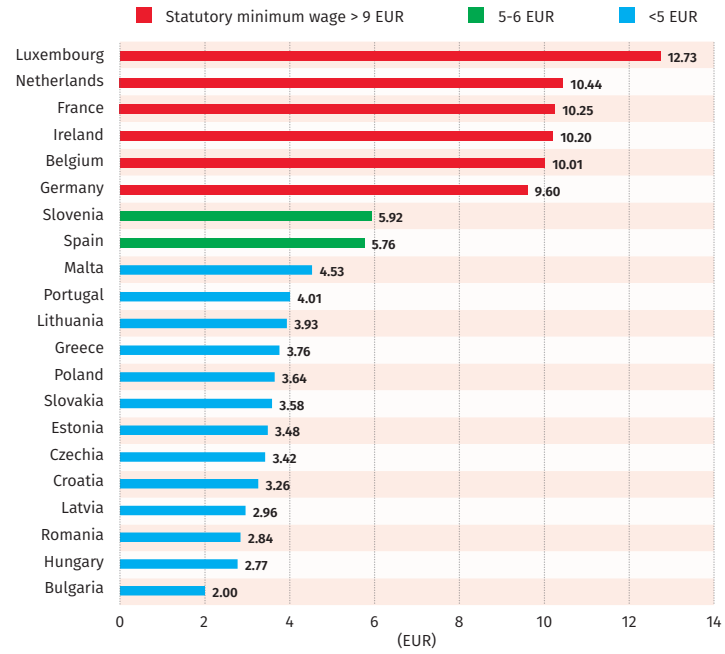
Finally, the third factor that influenced minimum wage increases was their integration into a broader, more demand-side-oriented handling of the crisis based on stabilising internal demand. This was the case in Bulgaria and Portugal (Eurofound 2021: 19).

Despite the continuing overall trend of minimum wage convergence between CEE and western European countries, a great deal of variety in the absolute minimum wage level still persists across the EU. As regards the absolute level of minimum wages on 1 September 2021, three broad groups of countries can be distinguished. The first group, with minimum wages above EUR 9 an hour, comprises six countries ranging from Germany (EUR 9.60) to the Netherlands (EUR 10.44) and Luxembourg (EUR 12.73). The second group, with minimum wages of EUR 5-6, comprises only Slovenia (EUR 5.92) and Spain (EUR 5.76). The by far largest group comprises the 13 countries with a minimum wage of less than EUR 5. With the exception of Malta, Portugal and Greece this group consists exclusively of CEE countries and ranges from Bulgaria (EUR 2) and Hungary (EUR 2.77) to Portugal (EUR 4.01) and Malta (EUR 4.53).

The absolute level of statutory minimum wages says little, however, about whether minimum wages are adequate in the sense of enabling a decent living, which is the explicit objective of the European Commission's proposal for a directive on adequate minimum wages. As a matter of fact, in its proposed directive, the European Commission explicitly states that 'in the majority of Member States with national statutory minimum wages, minimum wages are too low vis-à-vis other wages or to provide a decent living' (European Commission 2020a: 2).

This assessment is implicitly based on the two fundamental methods of establishing the adequacy of minimum wages (Schulten and Müller 2019). The first is the so-called 'living wage approach' which determines adequate minimum wages by calculating the costs for a certain basket of goods and services which is necessary for a decent living and participation in social life. The second is the so-called 'wage distribution approach', which considers the relative position of minimum wages in the national wage structure. Since there is no universally accepted calculation for a living wage, neither regarding the concrete

Figure 3.8 **Statutory national minimum wage (per hour, in euros, September 2021)**



Note: Conversion of national currencies into EUR based on average exchange rate in 2020.
Source: WSI Minimum Wage Database (WSI 2021).

composition of the basket of goods and services nor regarding the types of household which needs to be considered, the wage distribution approach is more pragmatic. It is based on the Kaitz Index which measures the minimum wage as a percentage of the national full-time median or average wage. The median wage is defined as the wage that divides the overall wage structure into two equal segments; i.e. it marks the boundary between the highest paid 50% and the lowest paid 50% of the employees.

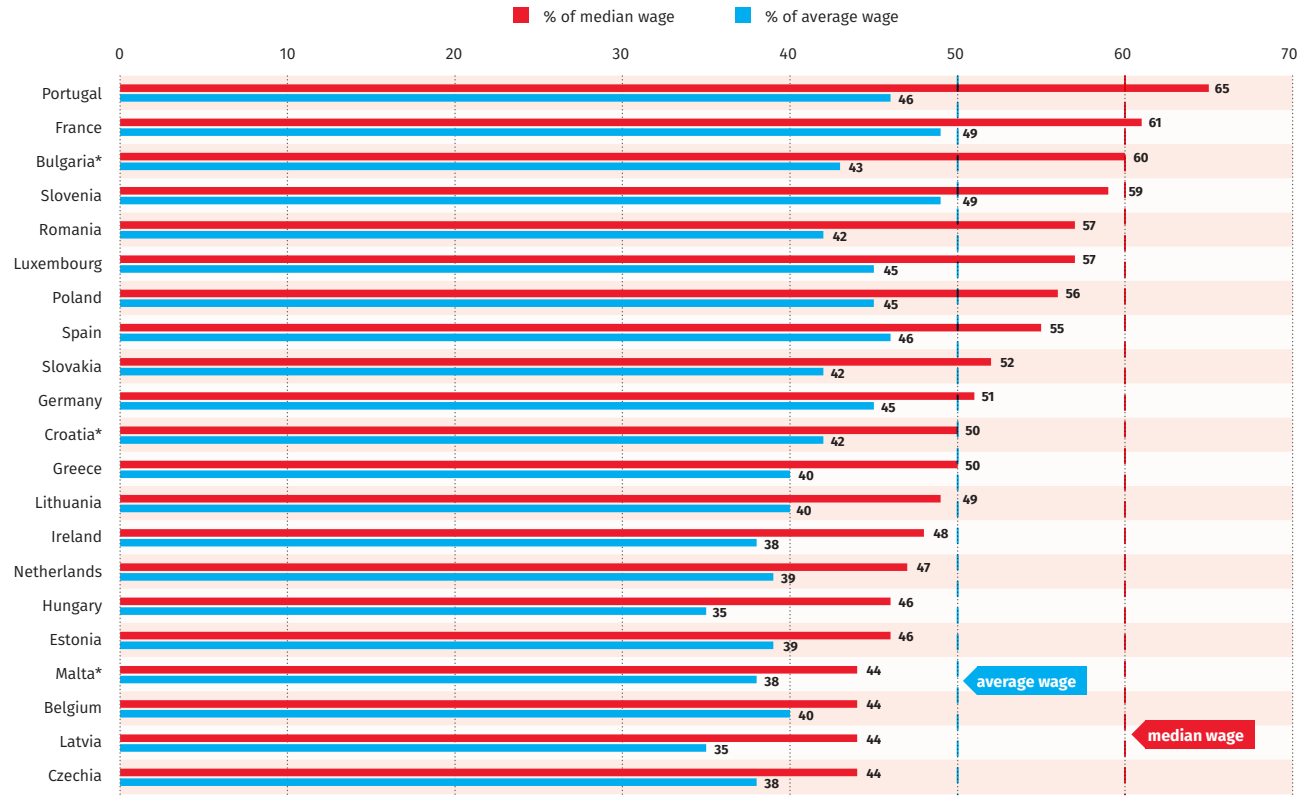
As the European Commission points out in recital No. 21 of the proposed directive, 60% of the gross median wage and 50% of the gross average wage are indicators commonly used at international level as a reference value to assess the adequacy of minimum wages in relation to the gross level of wages (European Commission 2020a: 20). These two indicators define a 'double decency threshold' below which no statutory minimum wage should be set in order to achieve the original aim of the proposed directive 'to ensure that the workers in the Union are protected by adequate minimum wages allowing for a decent living' (European Commission 2020a: 2). Figure 3.9 illustrates that in 2020, not one EU Member State fulfilled this double decency threshold. On the contrary, current minimum wage levels are well below the double decency threshold in the vast majority of EU countries.

Figure 3.10, which illustrates the number of employees who would benefit from an increase in the statutory minimum wages to 60% of the median and 50% of the average wage, demonstrates the far-reaching practical implications of implementing the double decency threshold. According to the calculations by the European Commission, more than 25 million workers – 18.6% of all employees in EU countries with a statutory minimum wage – would benefit from an increase of minimum wages to the double decency threshold. Over half of this number is accounted for by three large EU Member States whose minimum wages are currently well below the double decency threshold: Germany (6.8 million employees), Spain (4.1 million) and Poland (4.0 million). The number of directly affected workers is significantly lower in countries which are already close to the reference values, such as France (2.2 million). Measured as a share of the total number of persons employed, the number of workers who would benefit from a corresponding minimum wage increase ranges from less than 10% in countries such as Belgium, Slovenia and France to more than 30% in countries such as Greece and Romania (Figure 3.10).

Figure 3.11 further illustrates the positive impact that an increase of minimum wages to the double decency threshold would have on the gender pay gap. The gender pay gap is the difference between the average gross hourly wages of male and female employees as a percentage of male wages, unadjusted for individual characteristics. The data, which was prepared by the European Commission and based on the Euromod micro-simulation model, illustrates that an increase of minimum wages to 60% of the median and 50% of the average wage would lead to a reduction of the gender pay gap in all countries with a statutory minimum wage. The actual reductions range from 1% in Belgium, France and Malta to 10% and more in Spain (10%), Luxembourg (10%), Slovakia (11%), Poland (12%), Greece (19%) and Romania (25%).

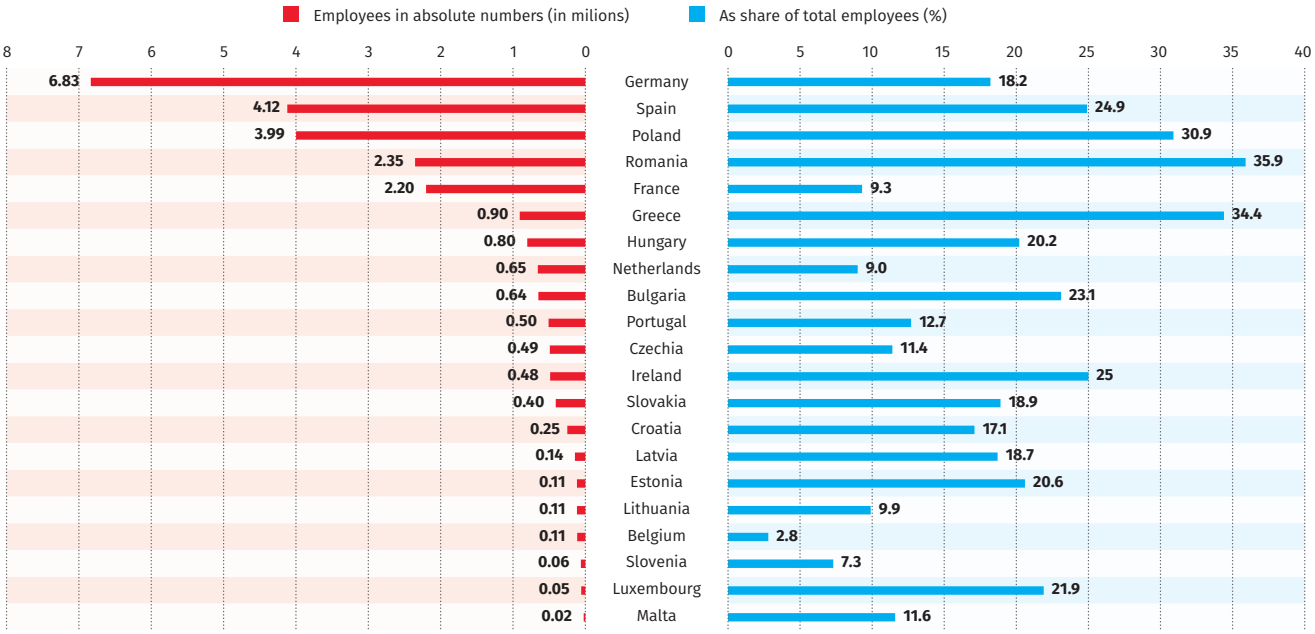
In order to achieve such an improvement for more than 25 million workers it is essential that in the minimum wage directive the double decency threshold remains the decisive reference for minimum wage adjustments. Currently, the double decency threshold is explicitly mentioned in the recitals of the directive, which, despite not obliging the Member States to comply with the 60/50% threshold, still creates a strong normative frame of reference for minimum wage-setting in the future (Schulten and Müller 2021). It is, furthermore, important that the directive's key objective of ensuring adequate minimum wages (as determined by the double decency threshold) is not undermined by other provisions in the directive. This applies in particular to Article 4 which deals with the

Figure 3.9 **Minimum wage as % of full-time median and average wages (2020)**



Note: * Data for 2019.
Source: OECD earnings database (OECD 2021). For Bulgaria, Croatia and Malta, data for 2018: European Commission (2020).

Figure 3.10 **Number of employees who would benefit from an increase in the statutory minimum wage to 60% of the median and 50% of the average wage (highest value in each case; in millions and %)**



Source: Schulten and Müller 2021 based on European Commission (2020) and on employment figures for 2019 from the Eurostat Labour Force Survey.

Countries with high collective bargaining coverage tend to have a much lower wage dispersion and fewer low-wage sectors

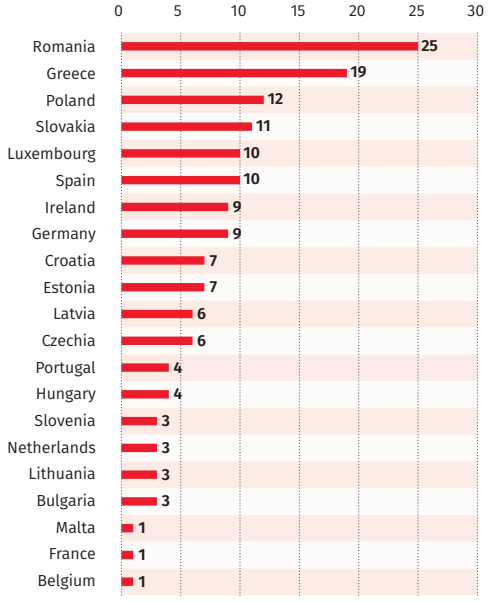
criteria to be used by Member States when adjusting minimum wages. While, in essence, the Member States are free to choose whatever criteria they find most appropriate, the proposed directive calls on them to take into account at least the following four criteria: the purchasing power of minimum wages, the general level of gross wages and their distribution, the growth rate of gross wages, and labour productivity developments (European Commission 2020a: 24).

The last criterion, labour productivity development, is particularly problematic for two reasons: first of all, the concept of productivity is inherently vague and difficult to measure in the private services sector, which would benefit most from an increase of the minimum wage to the double decency threshold. Secondly, the proposed directive leaves it entirely open as to what kind of productivity (national, sector, company or even individual) should be taken into account (Schulten and Müller 2021). Thirdly, even if one agrees to measure wages at national level, the assumption that wages should adapt to productivity developments rather than the other way around can be counterproductive: too low wages can actually discourage investment, which increases labour productivity and drives an economy and wages into stagnation (Sandbu 2020). Because of all these imponderables, productivity is not an appropriate criterion to achieve the objective of ensuring adequate minimum wages. On the contrary, it gives political actors the freedom to undermine the concept of adequacy which inherently aims at ensuring a decent standard of living for all workers. Another provision that potentially undermines the concept of adequacy is Article 6 of the proposed directive, which allows Member States to define sub-minimum rates and deductions that reduce the remuneration to below the level of the statutory minimum wage.

It should be emphasised, however, that even the fact that a country meets the double decency threshold does not guarantee that the minimum wage provides an adequate standard of living. In a range of countries, such as Portugal, Bulgaria and Romania, the comparatively high Kaitz Index reflects a generally low wage level. To put it bluntly: 60/50% of a very low median and average wage is still not enough to make a living. This highlights the importance of linking the objective of ensuring adequate minimum wages with measures to stabilise the overall wage structure, for instance through the support of multi-employer sectoral bargaining structures. It seems that the importance of this link has been recognised by the European Commission, because the second main objective of the proposed directive is the strengthening of collective bargaining. For this purpose, the proposed directive obliges all Member States whose collective bargaining coverage is below 70% to develop an action plan with measures to promote collective bargaining and to increase bargaining coverage. Adequate collective bargaining coverage of at least 70% not only serves to raise the overall wage structure, it also contributes to reducing wage inequality because of the close link between collective bargaining coverage, the degree of wage dispersion and the size of the low-wage sector (OECD 2019). Countries with high collective bargaining coverage tend to have a much lower wage dispersion and fewer low-wage sectors.

Figure 3.12 demonstrates that collective bargaining coverage in 16 out of 27 EU Member States is currently below the 70% threshold of the proposed directive. It moreover demonstrates the importance of industry-level collective bargaining for obtaining a high bargaining coverage. In all the countries in which bargaining coverage is higher than 50%, the (cross-)sectoral level is (still) the dominant level of collective bargaining. At the same time, Figure 3.12 also illustrates that some kind of state support is essential to achieving the 70% threshold. This can take different forms. In seven of the eleven countries with a bargaining coverage higher than 70% it is the frequent use of the extension mechanism which ensures that collective agreements also apply to companies which did not sign the agreement or which are not members of the employers' federation that signed the agreement.

Figure 3.11 **Reduction in gender pay gap* if statutory minimum wage were increased****



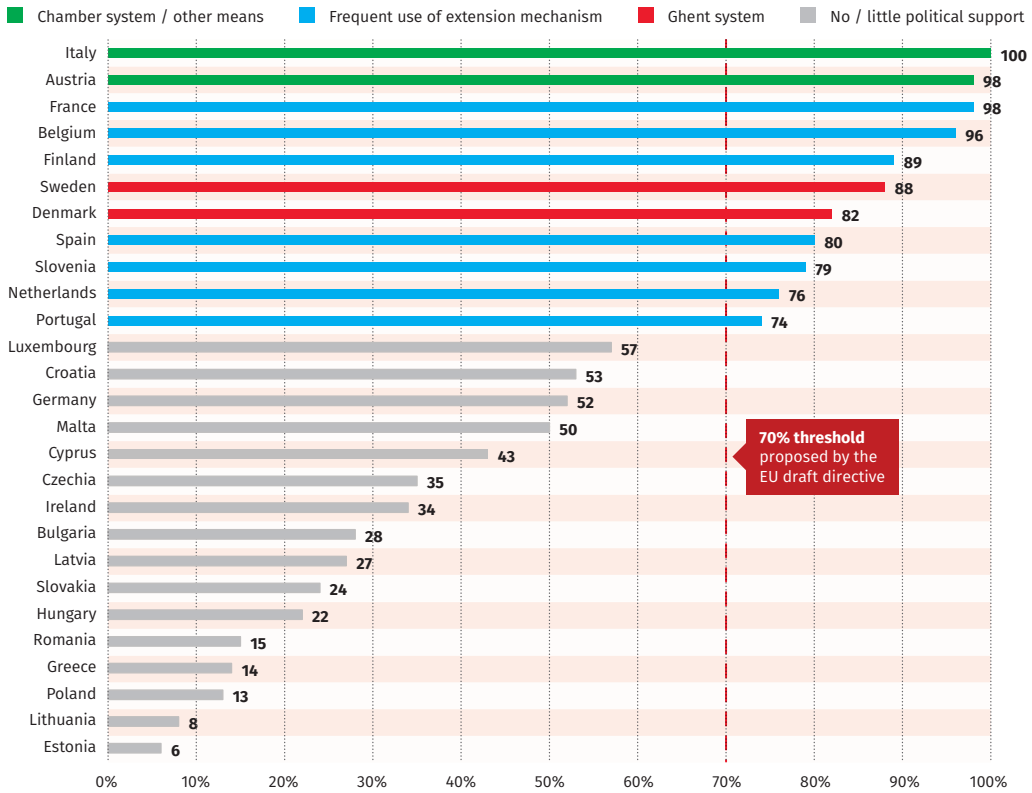
Note: * Percentage difference in median wages between women and men. ** To 60% of the median wage and 50% of the average wage (highest value in each case).
Source: European Commission (2020b) based on EUROMOD microsimulation model.

In Italy and Austria, the two countries that top the table, functional equivalents ensure (almost) complete collective bargaining coverage. In Italy, the functional equivalent to the frequent extension of collective agreements is the constitutional right to 'fair remuneration', which, in case of a dispute, Italian labour courts usually define as the remuneration laid down in the relevant collective agreement (Treu 2016). In Austria, it is the chamber system – compulsory company membership of the Chamber of the Economy – which ensures that all collective agreements signed by the Chamber of the Economy automatically apply to all companies in the respective industry (Glassner and Hofmann 2019). Exceptions are to some extent Sweden and Denmark, where no extension mechanism or functional equivalents exist and where high bargaining coverage rests solely on the organisational strength of the two sides of industry. Even in these two countries, however, high union density is institutionally underpinned by the so-called 'Ghent system', which can be defined as a state-subsidised but voluntary unemployment insurance system administered by trade unions, and which in turn provides a strong incentive to join a union (Vandaele 2006). In order to strengthen collective bargaining, state support for collective bargaining should also include measures that ensure trade unions' fundamental right to collective bargaining, such as prevention of the victimisation of workers who exercise their right to collective bargaining and to join a union, and the right of access to the workplace for trade unions, both physically and digitally.

With its recognition of the need to strengthen collective bargaining and the obligation for Member States to establish a national action plan if collective bargaining coverage is less than 70%, the proposed directive is an important step towards ensuring that minimum wages that meet the double decency threshold are in fact high enough to enable minimum wage earners to make ends meet. However, in order to achieve this objective it is imperative that European policymakers withstand political pressures to water down the proposed directive by undermining the concept of adequacy and by lowering or even deleting the quantitative targets such as the double decency threshold and the 70% threshold for collective bargaining coverage.

Since the trade unions' strength and capacity to act are important determinants in increasing bargaining coverage, as one important factor that contributes to the reduction of wage inequality, the remainder of this chapter will deal with the development of union membership and their capacities to mobilise for collective action.

Figure 3.12 **Collective bargaining coverage in the EU (2019 or most recent year available)**



Note: Collective bargaining coverage = percentage of workers eligible to be covered by a collective agreement who are so.
Source: OECD / AIAS 2021.

Trends in union membership and strike activity

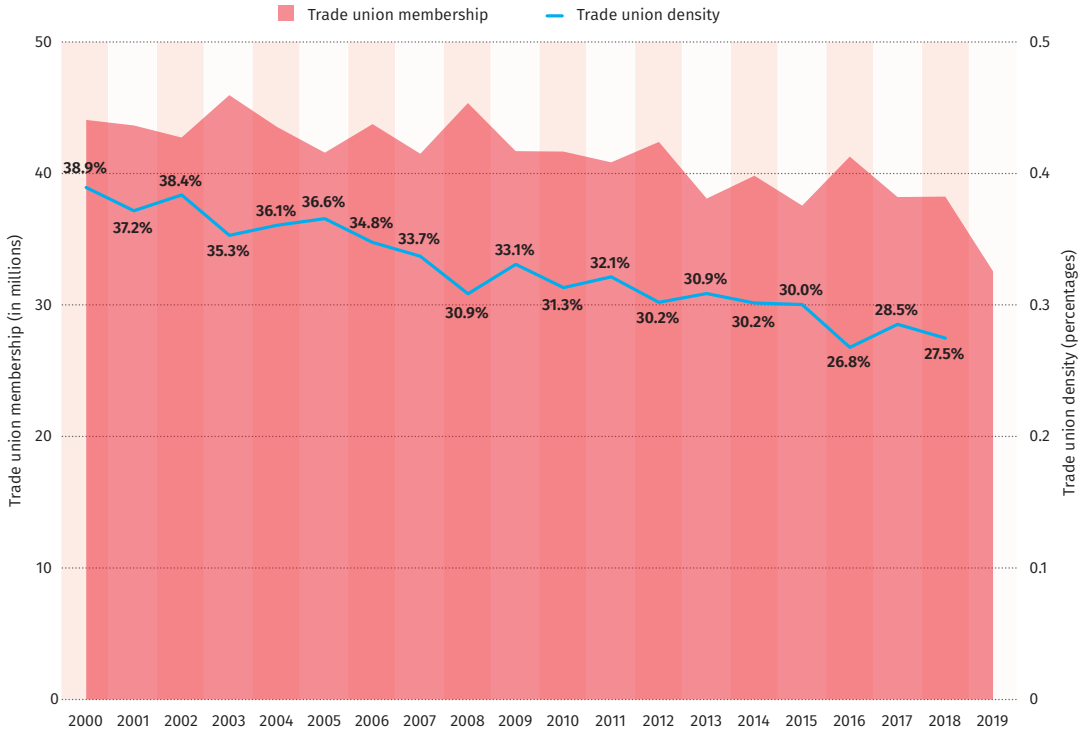
The long-term decline in union membership

Historically, trade union policies, inspired by a vision of the 'moral economy', have been associated with greater equality in earnings, lowering poverty among households, and support for redistributive policies in general (VanHeuvelen and Brady 2021; VanHeuvelen 2018). Therefore, examining absolute and relative union membership over time is useful as a simple indicator for gauging the policy influence of trade unions.

The area graph in Figure 3.13 shows total trade union membership in the EU27 countries plus Norway, Switzerland and the UK, from 2000 until 2019 (the latest year for which data are available for half of the countries). The years 2017, 2018 and 2019 are only illustrative here, as data are still lacking for a number of countries for these years. Continuous data are also not available for several countries, especially in central and eastern Europe, so the pattern of the area graph is artificially uneven – that is to say, it is determined by the availability of data. Nevertheless, we can say definitively that total membership in the EU27 dropped from about 44 million members in 2000 to about 38 million members in 2018.

Taking into account only the countries for which continuous data are available from 2000 to 2018 (AT, BE, CH, CZ, DE, DK, EE, ES, FI, FR, IE, IT, MT, NE, NO, SE, SK, UK), then the 2000s and the period 2010-2018 are both marked by an average decrease in membership of -0.6%. The average decline of all countries included stands at -0.8% and -1.1% for both periods. This means that the (average) decrease in union membership is more evident in central and eastern Europe (see also Vandaele 2019).

Figure 3.13 **Trade union membership and density (simple average) in Europe (2000-2019)**



Source: OECD/AIAS ICTWSS (2021).

Membership continuously rose in Ireland in the years preceding the pandemic, from about 481,000 in 2017 to about 505,000 in 2020 (OECD/AIAS ICTWSS 2021). Increases in these years also took place in Austria, Denmark, Malta and Norway, although it is only in Malta and Norway where membership stands higher now than in the 2000s. It remains to be seen whether the outbreak of the coronavirus has stimulated positive attitudes towards unions among workers. Clearly, economic uncertainty caused by the pandemic, as well as growing concern over workplace health and safety issues, have in certain industries driven more workers into the arms of unions in at least some European countries. In Belgium, for example, a considerable growth in union membership has occurred since the pandemic (L'Echo, 23 March 2020). This can be explained by the involvement of the unions in the administration of unemployment benefits, known as the 'Ghent system'. For the same reasons, Swedish unions have seen a similar influx of new members (Bender and Kjellberg 2020).

Employment levels might have also risen in the public sector, a stronghold of unionism, in some countries due to the pandemic. However, whether this all means that there will be a 'next upsurge' (Clawson 2003) in trade union membership – historically associated with socio-economic turmoil and labour unrest – remains to be seen.

Persistent country differences in union density

The line in Figure 3.13 shows a slow but almost inexorable decline in union density in Europe between 2000 and 2018, for which the financialisation of the economy is just one explanation (Kollmeyer and Peters 2019). If we only take into account the 17 countries (AT, BE, CH, CZ, DE, DK, EE, ES, FI, IE, IT, MT, NE, NO, SK, SE, UK) for which data is available for the whole period, the picture looks as follows: while on average, about 40% of workers were unionised in the period from 2000 to 2009, this average then declined to about one worker out of three from 2010 to 2018 – a drop of five percentage points. The average lies three percentage points lower for both periods if all countries are included.

Furthermore, these are aggregated figures which mask, for example, occupational and sectoral variation. Union density is in fact even lower, since the denominator, which is based on the number of wage and salary earners, does not consider all workers relevant for trade unions, such as solo self-employed workers and workers in the 'shadow economy'.

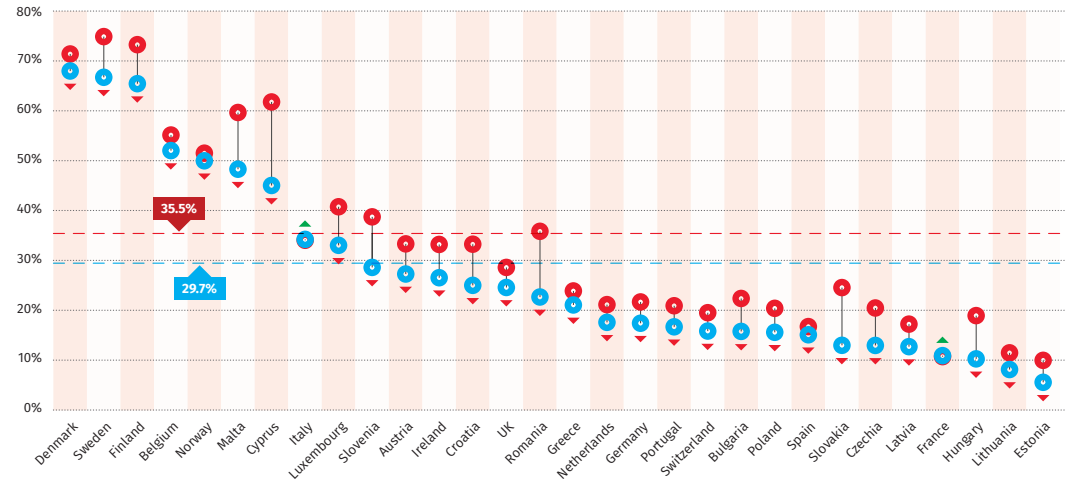
Figure 3.14 depicts a comparison between averages in trade union density in the 2000s and the period 2010-2019. These figures also demonstrate that union density in almost all countries has weakened in the two periods considered here, especially in the CEE countries. There are, however, a few exceptions. Italy has seen a slight increase in density, but this is largely due to a decrease in the number of wage and salary earners, while Spain and France have a rather stable union density. These two countries with low unionisation rates illustrate that union legitimacy can also be based on their mobilisation capacity (Sullivan 2010), as in France, or in union elections for workplace representatives and works council representatives in companies, as in Spain (Martínez Lucio 2017). All in all, considerable divergence in the level of unionisation remains, partly as a result of the variation in labour-friendly labour market institutions (Schnabel 2013), and partly due to how union membership is understood in society.

The Nordic countries and Belgium are still at the top of the 'unionisation league' due to a relatively benevolent institutional setting. While the 'Ghent system', which guarantees unions' involvement in unemployment insurance schemes, is an important explanation for this in these countries (except for Norway) (Høgedahl and Kongshøj 2017), union access to the workplace is also key (Ebbinghaus et al. 2011; Ibsen et al. 2017). Furthermore, centralised collective bargaining is associated with a higher unionisation level, as management has relatively lower incentives to thwart unions at the workplace in such industrial relations systems (Rasmussen 2017). At the bottom of the league, we find most CEE countries: Croatia, Slovenia and Romania have been exceptions in the past, but (rapid) decline has now set in in these countries too.

An overall long-term decline in the strike volume...

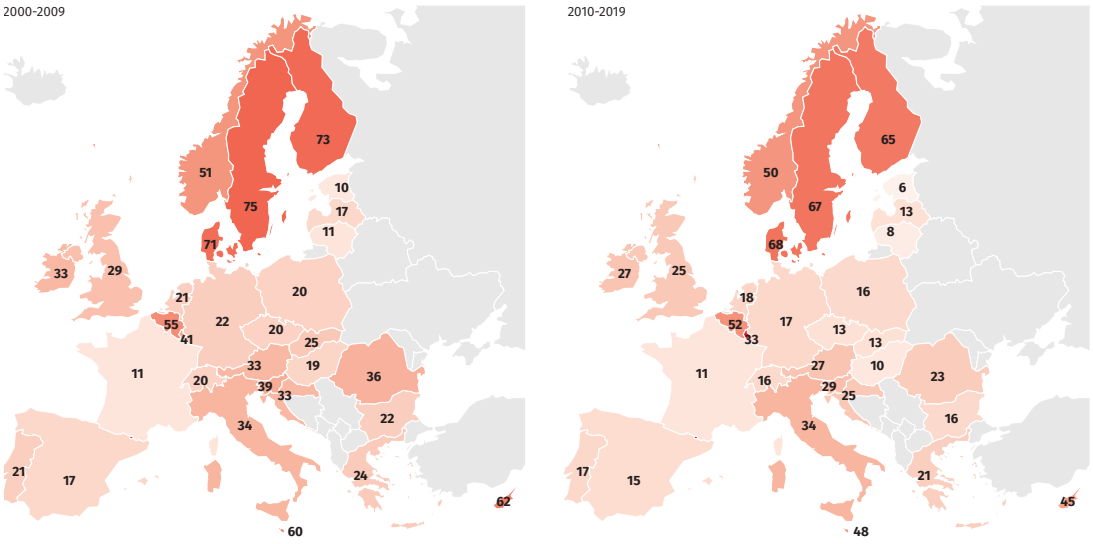
Strike actions informs us about the degree of collective discontent among workers, either with employers at the company or industrial level or with political authorities (if regulations on strike action allow for this). Figure 3.15 depicts the weighted average of the days not worked due to industrial action (which includes lockouts) per 1,000 employees in most European countries, especially those in western Europe, from 2000

Figure 3.14a **Trade union density per country, 2000-2009 and 2010-2019**



Note: Sorted by 2010-2019 averages.
Source: OECD/AIAS (2021).

Figure 3.14b **Trade union density per country, 2000-2009 and 2010-2019 (%)**



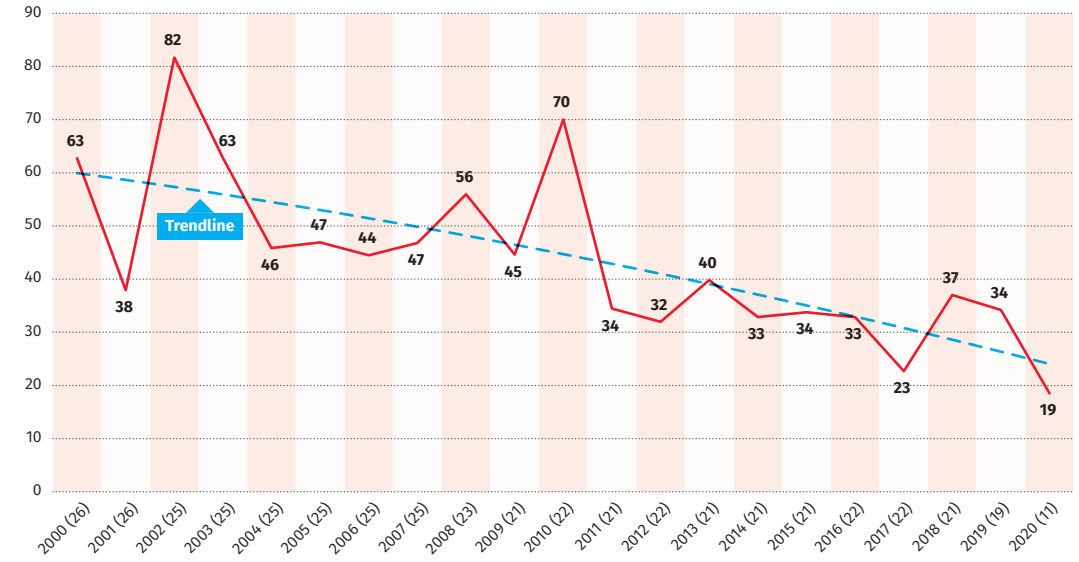
Note: Sorted by 2010-2019 averages.
Source: OECD/AIAS (2021).

until 2020. It displays a declining trend, with relative peaks in the strike volume in 2002 and 2010 in the last two decades. The first peak has been attributed to the 'dot-com bubble' and the 9/11 recession (European Commission 2011: 46), whereas the second peak mainly results from 'national days of action' against pension reforms in France (Ancelovici 2011). Thereafter, the volume falls to a level equal to or below 40 days.

Data on industrial action generally involve underestimations, and this is certainly the case for post-2008 developments, as data for some strike-prone countries are lacking and the data ignore several general strikes linked to anti-austerity protests (Dribbusch and Vandaele 2016). While there was a relative decline in strike activity in southern Europe before the financial crisis of 2007-2008, it regained intensity once the European debt crisis began to unfold, although demonstrations remained the prevailing form of political protest (Hunger and Lorenzini 2020). In general, though, the long-term but uneven fall in the strike volume mirrors the shrinking weight of industrial trade unionism, and a shift in strike activity towards the private services sectors, especially transport and logistics, where strikes tend to be shorter and sometimes smaller due to their more disruptive capacity (Bordogna and Cella 2002; Vandaele 2016).

One can only speculate whether these trends will continue or be reversed during and especially after the Covid-19 pandemic. Based on the 11 countries (BE, CH, DE, DK, ES, FI, IE, NE, NO, SK, SE) for which data are available, it looks

Figure 3.15 **Days not worked due to industrial action in Europe per 1,000 employees (weighted average) (2000-2020)**



Note: Figures in brackets indicate the number of countries on which the weighted average is based.
Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016). Employees in employment: Eurostat.

like the pandemic generally dampened strike activity in 2020, except in Norway. Moreover, in, for instance, Belgium and Finland, it is clear that most strike activity took place in the first quarter, resuming to some extent only in the last quarter. In general, however, the pandemic has not made strike activity and collective action impossible, although processes of mobilisation and the organisation of actions might have been more difficult, as physical contact has been hardly possible in some industries. Nevertheless, corona-proof strike actions and other collective actions like demonstrations and rallies have taken place, and some of them have been clearly related to the pandemic, such as those in the health and social care sector (Vandaele 2021).

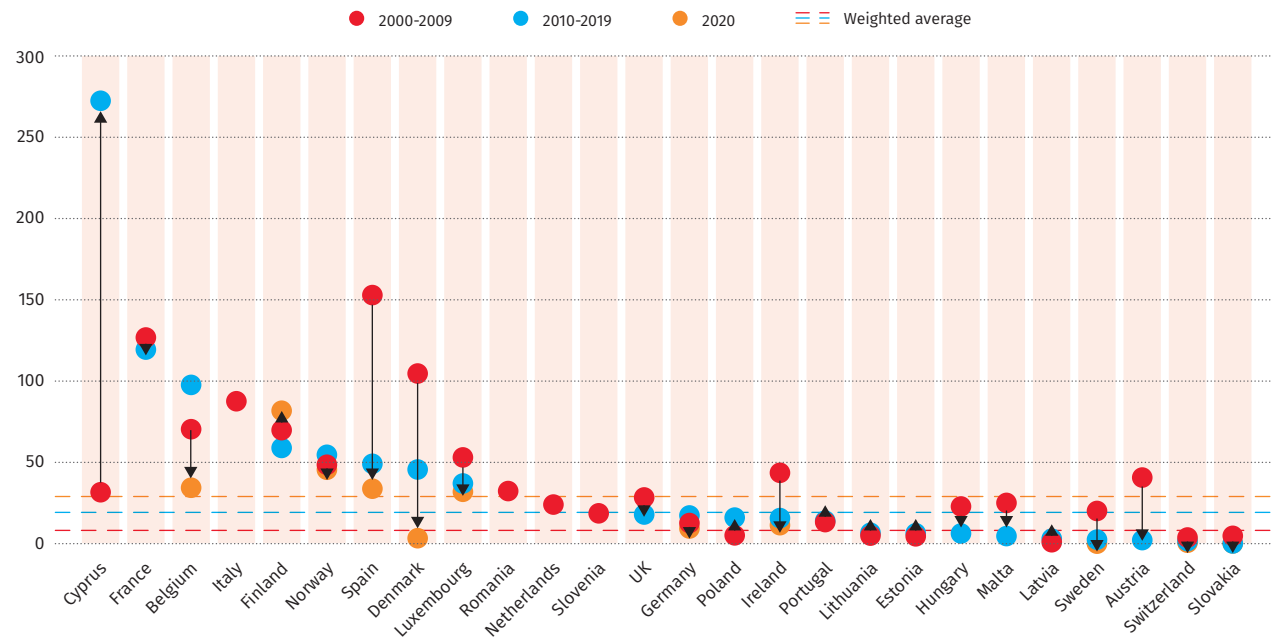
...but with persistent country differences

Figure 3.16 makes a comparison between the average strike volume in the 2000s and in the period 2010-2019 in each European country for which (sufficient) data are available; the figure also depicts the strike volume in the year 2020. It largely confirms the secular trend in the strike volume, but it also provides a more nuanced picture at the country level. In several countries, the volume declined on average in the most recent period. This is most evident in the cases of Spain and Denmark – two countries previously marked by a certain proneness to industrial action in the past. In contrast, the open-ended conflict that erupted in the construction industry in 2013 explains the remarkable increase in Cyprus, which led the European 'strike league' in the 2010-2019 period.

Furthermore, showing the enduring mobilisation capacity of trade unions, there is not much difference between the strike volume in the two periods considered in France (the data for the year 2019 are still not available at the time of writing). Remarkably, low-strike countries such as Germany and the Netherlands also saw a certain increase in the last period compared to the 2000s. In particular, political mass strikes, such as large-scale strikes in the public sector and general strikes, help to explain differences in the country's volume. Quintessential examples of this are an exceptional general strike against pension reforms in Austria in 2003 and a 24-hour national public sector strike in protest against the government's pay cuts in Ireland in 2009. Public sector, national and general strikes also took place in Belgium since 2012, which explains why industrial action increased in the most recent period. The very slight increase in Poland, meanwhile, can largely be explained by a nationwide strike action for higher wages in education in 2019. Poland is a relative exception, however, as strike activity in most other CEE countries stands at a very low level.

Above all, Figure 3.16 demonstrates the persistence of cross-country differences in the strike volume over time, with those differences tending to increase during upswings in industrial action (Brandl and Traxler 2010).

Figure 3.16 **Days not worked due to industrial action per 1,000 employees (country comparisons), 2000-2009, 2010-2019 and 2020**



Source: Data on industrial action: ETUI based upon data from national statistical offices. For details about the availability and reliability of data, see Dribbusch and Vandaele (2016).
Employees in employment: Eurostat.

Conclusions

> Adequate minimum wages and strong collective bargaining can make an important contribution to solving the problem of wage inequality

After a collapse of wage growth in the first year of the pandemic, nominal wage growth recovered slightly in 2021 as the many of the most serious measures to contain the spread of the pandemic were eased and economic activity resumed. Due to a substantial increase in inflation, however, this did not translate into a corresponding increase in real wage growth, which was very unevenly spread across European countries and which in the majority of countries considerably lagged behind productivity growth. This means that in 2021 the long-term trend of a decoupling of real wage increases from labour productivity growth continued. This is reflected in a decreasing wage share and a corresponding shift in the income distribution from labour to capital income.

Analyses of the impact of the pandemic on wage and income inequality moreover suggest a sizeable increase in inequality not only between the bottom and the top of the wage distribution but also between women and men, because women tend to be over-represented in the sectors that were hardest hit by the pandemic and the resulting wage losses. Even before the pandemic, the European Commission officially recognised the problem of wage inequality and also in-work poverty as at least part of the solution to this problem by presenting a draft directive to ensure adequate minimum wages and to strengthen collective bargaining. This chapter has demonstrated not only that adequate minimum wages and strong collective bargaining can make an important contribution to solving the problem of wage inequality, but also that most EU Member States are still far off the respective benchmarks that would help to solve the problem: the double decency threshold for minimum wages of 60% of the median wage and 50% of the average wage, and 70% collective bargaining coverage.

The proposed directive is currently under discussion in the European Council and the European Parliament and in both arenas opponents of the directive are attempting to water down its content so that it essentially only regulates processes rather than leading to substantial results. Without an obligation placed on national governments to take measures to ensure adequate minimum wages not below the double decency threshold and to ensure a collective bargaining coverage of at least 70%, the proposed directive is in danger of being de facto a recommendation and a directive only in name. Thus, the actual key test for the criterion of adequacy is whether the directive manages to reduce the number of minimum wage earners who live in poverty. The proposed directive on adequate minimum wages is one of the last chances to prove to the millions of workers who cannot make a decent living from what they earn that initiatives like the European Pillar of Social Rights and more recently the Porto Social Commitment are more than just window-dressing. A failure of the proposed directive in ensuring real improvements for minimum wage earners would further undermine the legitimacy of the European integration project and strengthen right-wing populist forces with a clear nationalist and anti-European agenda – which ironically contributed to the political momentum for a more social orientation of EU policy in the first place.

References

Ancelovici M. (2011) In search of lost radicalism: the hot autumn of 2010 and the transformation of labor contention in France, French Politics Culture & Society, 29 (3), 121-140.

Angelov N. and Waldenström D. (2021) COVID-19 and income inequality: evidence from monthly population registers, CEPR Discussion Paper 16333, London, Centre for Economic Policy Research.

Bender G. and Kjellberg A. (2020) Prognosen för facket är positiv oavsett corona, Arbetet, 29 April 2020. https://arbetet.se/2020/04/29/prognosen-for-facket-ar-positiv-oavsett-corona/

Bordogna L. and Cella G.P. (2002) Decline or transformation? Change in industrial conflict and its challenges, Transfer, 8 (4), 585-607.

Brandl B. and Traxler F. (2010) Labour conflicts: a cross- national analysis of economic and institutional determinants, 1971-2002, European Sociological Review, 26 (5), 519-540.

Brunori P., Maitino M. L., Ravagli L. and Sciclone N. (2020) Distant and unequal. Lockdown and inequalities in Italy, Working Paper 13/2020, Florence, Universita degli studi Firenze.

Clark A.E., D'Ambrosio C. and Lepinteur A. (2021) The fall in income inequality during COVID-19 in four European countries, The Journal of Economic Inequality, 19, 489-507. https://doi.org/10.1007/s10888-021-09499-2

Clawson D. (2003) The next upsurge: labor and the new social movements, Ithaca, NY, Cornell University Press.

da Silva A., Dossche M., Dreher F., Foroni C. and Koester G. (2020) Short-time work schemes and their effects on wages and disposable income, ECB Economic Bulletin, (4), 72-75. https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202004_06~6b0e718192.en.html

Drahokoupil J. and Müller T. (2021) Job retention schemes in Europe: a lifeline during the Covid-19 pandemic, Working Paper 2021.07, Brussels, ETUI.

Dribbusch H. and Vandaele K. (2016) Comparing official strike data in Europe – dealing with varieties of strike recording, Transfer, 22 (3), 413-418.

Ebbinghaus B., Göbel C. and Koos S. (2011) Social capital, 'Ghent' and workplace contexts matter: comparing union membership in Europe, European Journal of Industrial Relations, 17 (2), 107-124.

ETUI and ETUC (2020) Benchmarking Working Europe 2020, Brussels, ETUI.

Eurofound (2021) Minimum wages in 2021: annual review, Luxembourg, Publications Office of the European Union.

European Commission (2011) Industrial relations in Europe 2010, Luxembourg, Publications Office of the European Union.

European Commission (2020a) Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union, COM (2020) 682 final, 28 October 2020. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020PC0682&from=EN

European Commission (2020b) Commission Staff Working Document. Impact assessment accompanying the document. Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union, SWD (2020) 245 final, 28 October 2020. https://ec.europa.eu/transparency/regdoc/rep/10102/2020/EN/SWD-2020-245-F1-EN-MAIN-PART-1.PDF

European Commission (2021) European Economic Forecast, Summer 2021, Institutional Paper 156, Luxembourg, Publications Office of the European Union.

Glassner V. and Hofmann J. (2019) Austria: from gradual change to an unknown future, in Müller T., Vandaele K. and Waddington J. (eds.) Collective bargaining in Europe: towards an endgame, Brussels, ETUI, 33-51.

Grimshaw D. and Rubery J. (2013) The distributive function of a minimum wage: first- and second-order pay equity effects, in Grimshaw D. (ed.) Minimum wages, pay equity and comparative industrial relations, New York, Routledge, 81-111.

Hadjibeyli B., Roulleau G. and Bauer A. (2021) Live and (don't) let die: the impact of Covid-19 and public support on French firms, Working paper 2021/2, Paris, Direction générale du Trésor. https://www.tresor.economie.gouv.fr/Articles/9c6b957d-4b44-413e-a805-2c3cc5cead61/files/3173776a-1ced-4d2e-bba2-6a37bad652d5

Herzog-Stein A., Lübker M., Pusch T., Schulten T., Watt A. and Zwiener R. (2020) Fünf Jahre Mindestlohn - Erfahrungen und Perspektiven: Gemeinsame Stellungnahme von IMK und WSI anlässlich der schriftlichen Anhörung der Mindestlohnkommission 2020, Policy Brief 42, Düsseldorf, Hans-Böckler-Stiftung. https://www.wsi.de/de/faust-detail.htm?sync_id=HBS-007698

Høgedahl L. and Kongshøj K. (2017) New trajectories of unionization in the Nordic Ghent countries: changing labour market and welfare institutions, European Journal of Industrial Relations, 23 (4), 365-380.

Hunger S. and Lorenzini J. (2020) All quiet on the protest scene? Repertoires of contention and protest actors during the Great Recession, in Kriesi H., Lorenzini J., Wüest B. and Häusermann S. (eds.), Contention in times of crisis. Recession and political protest in thirty European countries, Cambridge, Cambridge University Press, 29-48.

Ibsen C.L., Toubøl J. and Jensen D.S. (2017) Social customs and trade union membership: a multi-level analysis of workplace union density using micro-data, European Sociological Review, 33 (4), 504-517. https://doi.org/10.1093/esr/jcx055

ILO (2020) Global wage report 2020-21: wages and minimum wages in the time of COVID-19, Geneva, ILO.

Kollmeyer C. and Peeters J. (2019) Financialization and the decline of organized labor: a study of 18 advanced capitalist countries, 1970 - 2012, Social Forces, 98 (1), 1-30.

Lübker M. (2020) Europäischer Tarifbericht des 2019/2020: Tarifpolitik in Zeiten der Corona-Pandemie, WSI-Mitteilungen, 73 (4), 266-277.

Maqui E. and Morris R. (2020) The long-term effects of the pandemic: insights from a survey of leading companies, ECB Economic Bulletin, (8), 72-75. https://www.ecb.europa.eu/pub/economic-bulletin/focus/2021/html/ecb.ebbox202008_06~bad87fcf9b.en.html

Martínez Lucio M. (2017) Organising without knowing it? The curious case of para-organising-style campaigns in southern Europe and the case of trade union elections in Spain, Transfer, 23 (1), 89-94.

OECD/AIAS (2021) ICTWSS Database, Paris, OECD Publishing.

OECD (2019) Negotiating our way up. Collective bargaining in a changing world of work, Paris, OECD Publishing.

OECD (2021) OECD Earnings Database - Minimum relative to average wages of full-time workers. https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE#

Palomino J. C., Rodriguez J. G. and Sebastian R. (2020) Wage inequality and poverty effects of lockdown and social distancing in Europe, European Economic Review, 129, 103564, 1-25.

Rasmussen M.B. (2017) Institutions (still) rule: labor market centralization and trade union organization, Oslo, Institute for Social Research. http://doi.org/10.13140/RG.2.2.22435.14889

Sandbu M. (2020) The economics of belonging: a radical plan to win back the left behind and achieve prosperity for all, Princeton, NJ., Princeton University Press.

Schnabel C. (2013) Union membership and density: some (not so) stylized facts and challenges, European Journal of Industrial Relations, 19 (3), 255-272.

Schulten T. and Müller T. (2019) What's in a name? From minimum wages to living wages in Europe, Transfer, 25 (3), 267-284.

Schulten T. and Müller T. (2020) Between poverty wages and living wages: minimum wage regimes in the European Union, European Studies for Social and Labour Market Policy 1/2020, Brussels, European Parliament. https://oezlem-alev-demirel.de/wp-content/uploads/2020/06/mindestlohn-englisch-web.pdf

Schulten T. and Müller T. (2021) A paradigm shift towards Social Europe? The proposed Directive on adequate minimum wages in the European Union, Italian Labour Law e-journal, 14 (1), 1-19. https://illej.unibo.it/article/view/13368

Stantcheva S. (2021) Inequalities in the times of the pandemic, 73 rd. Economic Policy Panel meeting, 15 April 2021. https://www.economic-policy.org/73rd-economic-policy-panel/inequalities-in-the-times-of-a-pandemic/

Sullivan R. (2010) Labour market or labour movement? The union density bias as barrier to labour renewal, Work, Employment and Society, 24 (1), 145-156.

Treu T. (2016) Labour law in Italy, 5th ed., Alphen aan den Rijn, Kluwer Law International.

Vandaele K. (2006) A report from the homeland of the Ghent system: the relationship between unemployment and trade union membership in Belgium, Transfer, 12 (4), 647-657.

Vandaele K. (2016) Interpreting strike activity in western Europe in the past 20 years: the labour repertoire under pressure, Transfer, 22 (3), 277-294.

Vandaele K. (2019) Bleak prospects: mapping trade union membership in Europe since 2000, Brussels, ETUI.

Vandaele K. (2021) Applauded 'nightingales' voicing discontent. Exploring labour unrest in health and social care in Europe before and since the COVID-19 pandemic, Transfer, 27 (3), 399-411.

VanHeuvelen T. (2018) Moral economies or hidden talents? A longitudinal analysis of union decline and wage inequality, 1973-2015, Social Forces, 97 (2), 495-430.

VanHeuvelen T. and Brady D. (2021) Labor unions and American poverty, ILR Review, https://doi.org/10.1177/00197939211014855

WSI (2021) WSI Minimum Wage Database International, Version 1 January 2021, Düsseldorf, WSI. https://www.wsi.de/de/wsi-minimum-wage-database-international-15303.htm

All links were checked on 3 November 2021.

4. The inequality pyramid of climate change and mitigation

Authors

Béla Galgóczi

Mehtap Akgüç

Topics

> Scientifically well-founded forecasts have demonstrated not only the devastating future effects of this climate emergency the world is facing, but also that these will not be evenly distributed.
>
> **Béla Galgóczi**

Introduction

'We are on the verge of the abyss,' said UN Secretary-General António Guterres after the Global Climate report of the World Meteorological Organization (WMO) officially stated that the global average temperature in 2020 was about 1.2°C above pre-industrial levels. Based on the newest findings of climate science, the latest report of the Intergovernmental Panel on Climate Change (IPCC, 2021) warned that immediate and radical action would be necessary to avert a 'hell on earth' scenario by the end of the century. The disastrous consequences of a partially inhabitable planet, where only a selected few may be able to secure their livelihoods, pose the ultimate inequality challenge. But the climate and environmental policies that need to be implemented to prevent this dystopian future will also have unequal distributional and employment effects, and these thus need to be addressed by meaningful social and employment measures.

In spite of early expectations, the Covid-19 crisis did not result in even a temporary dip in rising temperatures: the world continues to approach the critical 1.5°C warming (see also Galgóczi 2020). What the pandemic did demonstrate was that, while very challenging, it is possible to mobilise collective action and implement policies to deal with a risk when it is very concrete and imminent, due to the impending sense of doom that such an event generates amongst people. With the climate crisis, however, where cause and effect are distant from each other in both time and space and where the link between collective and individual risk is not so visible, this becomes more difficult. This 'time and space lag' also partly explains why raising awareness about the costs of 'non-action' is also more challenging. While no (or less ambitious) climate action will have dramatic effects on future generations, on at-risk regions and on vulnerable people, this is not perceived as an imminent danger. This is in stark contrast with the rather immediate effects of a 'lockdown' on the rate of contagion and, eventually, related deaths. On the other hand, the effects and social 'costs' of climate change mitigation policies (including the employment and distributional effects) are manifesting themselves in the here and now. If a coalmine closes down for the sake of reversing the current process of global warming, redundancies and job losses materialise immediately, while the environmental benefits will only be experienced in the distant future. This all means that discussing 'inequalities' in the context of climate and environmental action is an extremely complex task, fraught with challenges and often contradictions in terms of the timeframes associated with certain decisions.

This chapter will discuss five dimensions of inequality in the climate-environment nexus. The first section is devoted to unequal responsibilities in causing climate change by addressing carbon footprint inequality. The second section deals with inequalities related to the effects of climate change. The third section considers the inequalities in adaptation capacity to the effects of climate change. Section four gives some insight into the inequalities of exposure to the effects of pollution and environmental degradation. The fifth section analyses the more imminent unequal impact of necessary climate policy measures, both as regards their distributional effects and their employment effects. There are of course some limitations to this chapter. There is a voluminous literature on 'climate justice' that deals with inequalities in terms of responsibilities and effects. Together, these two aspects of climate change constitute a 'double injustice' (Walker 2012), since the groups most likely to be affected by it are the ones least responsible for causing it. When the costs and burdens attached to necessary climate policies then also affect lower-income groups more, this may even turn into a 'triple injustice'. However, while acknowledging this multi-layered dimension, this chapter will focus on inequalities mostly in terms of effects and will only marginally touch upon the aspect of responsibilities. Furthermore, as this publication is focused on Europe (specifically, the EU27), inequalities between the global North and the global South in terms of both the effects of climate change and the capacity to adapt will be only referred to and not dealt with in detail.

The complexity of climate related inequalities

In the just transition literature, Newell and Mulvaney (2013) describe the complexity of an ambitious climate policy: 'to achieve zero-carbon while maintaining equity and justice, in pursuit of "climate justice" to current and future generations and manage also the potential contradictions that might flow from doing these simultaneously'.

Scientifically well-founded forecasts have demonstrated not only the devastating future effects of this climate emergency the world is facing, but also that these will not be evenly distributed. There will of course be some geographical divides: some parts of the world may become inhabitable, while other parts could be only marginally affected, or even see some relative benefits from global warming (to be viewed as such in the context of a broader and bleaker picture). But no less importantly, there will also be some stark social and economic divides. There is a broad consensus that the effects of climate change will hit the vulnerable and the poor much harder than the rich, both as regards inequality between the global South and the global North, between regions in Europe, and within countries, as well as between the sexes and specific social groups. This is a point that the remainder of the chapter explores in greater detail. The huge policy challenge is to prevent catastrophe and spiralling inequality in the future by taking radical action now, that will also affect different groups in society in different ways.

Greater climate ambition does not necessarily create new inequalities, but concrete policies do have distributional effects and these are often regressive, affecting the poor more than the rich. These effects need to be considered and addressed carefully. The challenge is that the much greater threat to peoples' livelihoods and to levels of inequality – that of climate change itself – seems distant, and therefore less important than the more immediate impact of climate policies, particularly for certain economic and social groups.

It is clear that the colossal transformation from a fossil fuel-based, resource-intensive and linear economic model to a climate-neutral circular economy entails huge costs and burdens for society. This is where the concept of just transition comes in: it is about how fair burden-sharing can be applied in the context of controlling climate change, taking all the dimensions of climate, environmental and energy justice into account. Given the interconnected nature of social and environmental challenges, the green transition actually has the potential to alleviate existing inequalities in wellbeing outcomes. This is something that has been recognised in the UN Sustainable Development Goals (SDGs) (Table 1).

Local action in reducing CO_2 emissions has a negligible immediate effect on global climate change. The climate system has a slow reaction time: even if humanity had zero emissions tomorrow, global warming would continue for decades. This can therefore only be effectively dealt with through multilateral coordinated action at the global level. And it is clear that, globally speaking, Europe needs to be at the forefront of climate action and fulfil the commitment made in the European Climate Law to a net-zero carbon economy.

"It is clear that, globally speaking, Europe needs to be at the forefront of climate action and fulfil the commitment made in the European Climate Law to a net-zero carbon economy

Table 1 **SDGs addressing environmental issues and inequality**

Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems (forests, desertification, land degradation and biodiversity loss)
Goal 17	Revitalize the global partnership for sustainable development

Source: OECD (2021).

The climate policy package 'Fit for 55', launched by the European Commission on 14 July 2021, is ambitious and puts the European Union on track to meet its 2030 climate policy targets, paving the way for the 2050 net-zero emissions goal. This translation of the overall objectives into concrete policies was necessary and is most welcome. At the same time, this 'moment of truth' poses some very important questions. Is Europe *socially* 'fit' for this package? And is it in line with the principle of 'just transition', widely shared across the EU and its institutions? While just transition policies have so far been more focused on the employment, regional and industrial aspects of climate policy – the main areas covered by the Just Transition Fund, established under the European Green Deal – this time the distributional effects are the centre of attention.

Unequal responsibilities in causing climate change

> The average carbon footprint per person for the top 1% of CO_2 emitters was 43.1 tonnes, while it was only 4 tonnes for the bottom 50%

'Climate justice' is the umbrella term for the social movements and concepts that have addressed the issue of climate change-related inequalities. They initially focused on the global South-North perspective (Labour Network for Sustainability 2017), namely the fact that while climate change is driven by the expansionist capitalist production and consumption model of the rich societies of the global North, most of the devastating effects hit the poorer global South the hardest (Rosemberg 2017).

Inspired by the claims of environmental justice groups (Dorling 2017), the origins of 'climate justice' are rooted in the asymmetrical responsibility between causing climate change on the one hand and in the vulnerability from its effects on the other (Gore 2015). As Walker (2012) put it, responsibilities and impacts often work in opposing ways, constituting a 'double injustice'.

Even within societies, however, different income groups have varying degrees of responsibility for causing climate change and are exposed to its effects in an asymmetrical manner. Lower-income households tend to be in occupations that are more exposed to climate change, in sectors such as agriculture, construction, tourism and healthcare (OECD 2021). The housing conditions of the poor also make them more vulnerable (e.g. inner city 'heat islands' versus 'green belts').

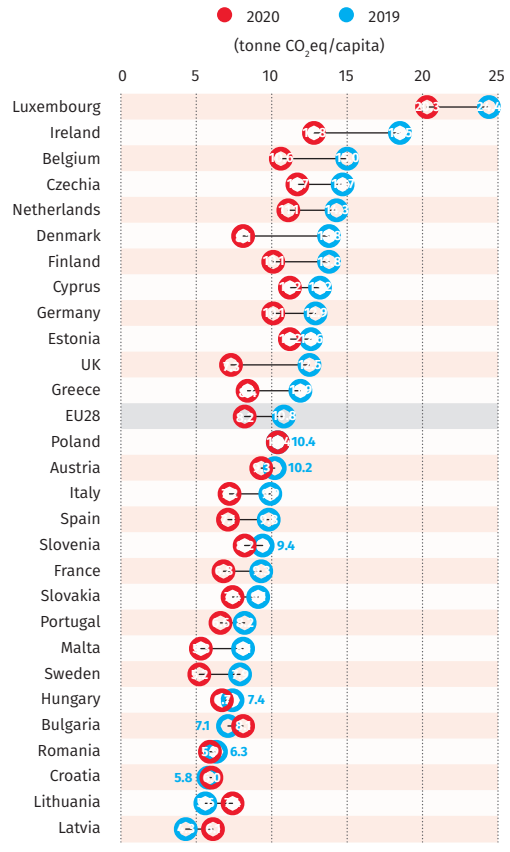
The distribution of carbon footprints (CF) (measured as CO_2-equivalent (eq) emissions per capita) is largely unequal within and across countries. Global cumulative CO_2 emissions between 1850 and 1989 were approximately 753 gigatonnes (Gt) (World Resource Institute). This figure then almost doubled in the 25 years between 1990 and 2015 (by an additional 722 Gt). Oxfam (2020) research shows that the richest 10% of the world's population (around 630 million people) were responsible for 52% of the cumulative carbon emissions in this period, and that the richest 1% alone (around 63 million people) were responsible for 15% of cumulative emissions. Meanwhile, the poorest 50% (around 3.1 billion people) were responsible for just 7% of cumulative emissions. This clearly means that richer countries and richer individuals account for the dominant share of global carbon emissions and thus bear most of the responsibility for causing climate change.

Carbon emissions per capita also vary largely across the EU's Member States, as Figure 4.1 shows. Richer Member States with a higher per capita income have higher consumption levels, which tend to result in higher per capita carbon emissions (carbon footprints). In 2019, Luxembourg had the highest per capita CO_2 emissions, at 20.3 tonnes; the EU28 average was 8.2 tonnes.

Beside income level, the carbon intensity of production and consumption also matters, and successful decarbonisation policies can reduce the CF without any loss in living standards, as the case of Sweden shows (which in 2019 had the lowest per capita CF in the EU). Nevertheless, richer Member States still tend to have significantly higher CFs than poorer ones.

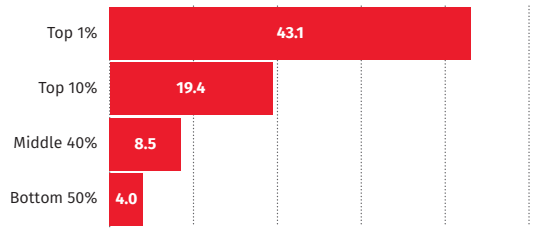
Looking at the EU population as a whole, Figure 4.2a shows that the average carbon footprint per person for the top 1% of CO_2 emitters was 43.1 tonnes, while it was only

Figure 4.1 **GHG emissions per capita by EU Member State in 2000 and 2019 (tonne CO_2eq/capita)**



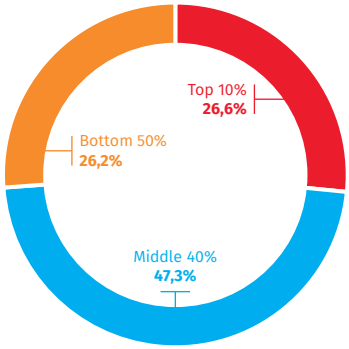
Source: Eurostat.

Figure 4.2a **Distribution of annual individual carbon footprints in the EU (tCO_2eq/capita)**



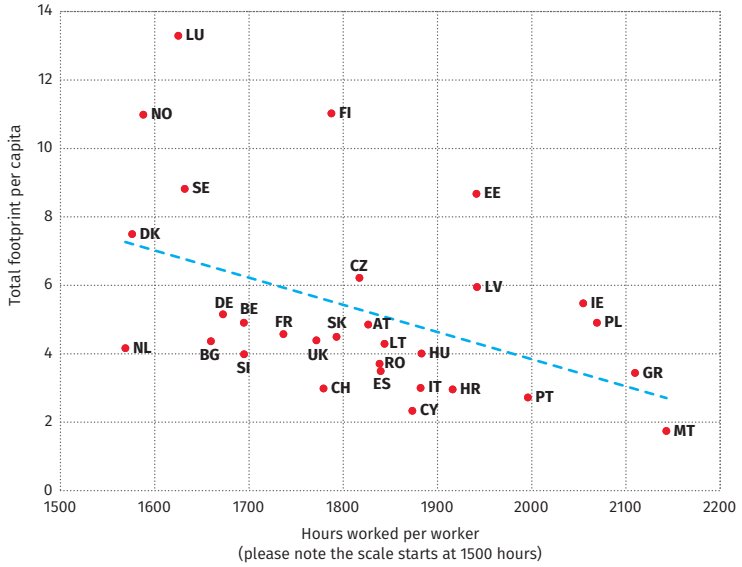
Source: Ivanova and Wood (2020) based on Eurostat household budget survey 2010.

Figure 4.2b **Individual carbon footprints as share of total EU carbon footprint**



Source: Ivanova and Wood (2020).

Figure 4.3 **Total ecological footprint per capita vs. average annual hours worked per worker (1961–2016)**



Source: Global Footprint Network.
* Global hectare (gha) is an accounting unit for measuring the ecological footprint, taking into account the biocapacity of the earth or its regions, which have different land productivity levels.

4 tonnes for the bottom 50% (Ivanova and Wood 2020), based on Eurostat household budget surveys from 2010 (as the latest available year for harmonised data).

Finally, Figure 4.2b shows that the top 10% of the EU population in terms of carbon footprint per capita accounted for 26.6% of the EU total carbon footprint, a higher contribution than that of the bottom 50% (26.2%). Meanwhile, the top 1% of households have carbon footprints between 15.0 (Croatia) and 48.3 (Greece) tCO_2eq/capita.

While previous research hints at an association between working time and emissions or various environmental pressures across countries, the picture becomes a little more complex when the carbon footprint is considered. Looking at the total footprint per capita in relation to working time in different countries, we get a striking picture of inequality, this time over a longer period. Figure 4.3 plots the average total ecological footprint in global hectares (gha) per capita against the average annual hours worked per worker, by country, between 1961 and 2016. It shows that the countries where workers work the longest hours on average (e.g. Greece, Ireland, Malta, Poland and Portugal) are not necessarily the ones that have the biggest total environmental footprint (which are instead Denmark, Luxembourg and Norway). There appears to be several distinct clusters: countries in the upper-left quadrant are relatively richer, with fewer working hours but a bigger footprint, while those in the bottom right are relatively poorer, with longer working hours but a smaller footprint. This might suggest that differences in wealth across countries, reflecting diverse patterns of consumption, production and energy use, are the key factors at play.

Another way of measuring carbon inequality is through using Gini coefficients for the distribution of carbon footprints in the population ('zero CF Gini coefficient' means that carbon footprints are equally distributed). Romania, Bulgaria and Poland stand out with the highest CF Gini coefficient (between 0.42 and 0.45), signalling the highest levels of unequal distribution of CFs in the EU. At the other end, Czechia, Slovakia and Germany have the most equal distributions, with CF Ginis below 0.3.

Meanwhile, only about 5% of EU households conform to EU climate targets, with CFs of below 2.5 $tCO2_eq$/capita. The EU's top 1% emitters emit 55 $tCO2_eq$/capita on average, more than 22 times the EU per capita target. Aviation stands out in particular: 41% of the average CF of the top 1% of EU household emitters is associated with air travel, making air travel the highest carbon contributor among the top emitters.

Inequality regarding the effects of climate change

> The effects of climate change and extreme weather events will be far from uniform across the globe and these differences will be a major source of inequality

The effects of climate change and extreme weather events will be far from uniform across the globe and these differences will be a major source of inequality. Climate models and forecasts for Europe in particular also show that the effects will be very unequal. Greece, Portugal, Spain and southern Italy are facing desertification, central and eastern Europe floods, and coastal areas sea level rises. Northern Europe, on the other hand, may experience milder effects or even benefits (European Commission 2021).

Differential impacts by geography

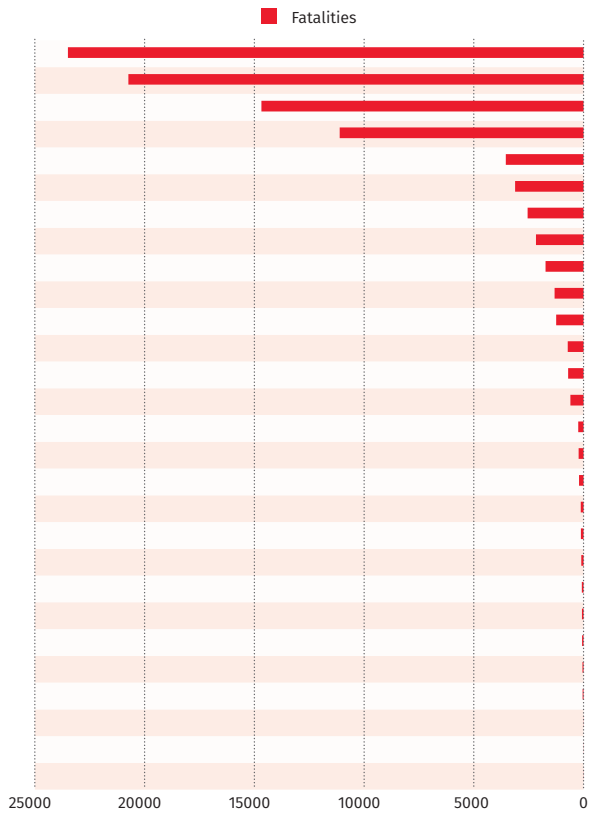
The 2020 PESETA IV report by the Joint Research Centre of the European Commission (Feyen et al. 2020) estimates that, in a scenario where the global temperature rises 3°C or more above pre-industrial levels, and without adaptation action, the EU could face the following impacts. Ecological domains would generally shift northwards, resulting in severe changes in southern Europe and the Boreal region. The alpine tundra would contract by 84% and practically disappear in the Pyrenees. Each year, nearly 300 million people in the EU and the UK would be exposed to deadly heatwaves, resulting in a 30-fold rise in deaths from extreme heat (90,000 annual excess deaths compared to the current 3,000 each year). An additional 15 million Europeans would be exposed to high-to-extreme fire danger for at least 10 days a year. The availability of water resources would fall by up to 40% in the southern regions of Europe. With 3°C warming by 2100, total drought losses for the EU and the UK would increase to nearly EUR 45 billion a year, compared to EUR 9 billion a year at present. Almost half a million people in the EU and the UK would be exposed to river flooding each year, nearly three times the current number, while flood losses would rise six-fold to reach nearly EUR 50 billion a year. Material losses due to coastal floods in the EU and the UK would rise a hundred-fold to EUR 250 billion a year in 2100, while 2.2 million people would be exposed annually to coastal flooding (compared to 100,000 at present). Southern Europe is estimated to be the most severely affected, in particular due to drought and the general climate impacts on coastal areas and the agriculture sector. Including heat-related mortality in the loss estimates makes the regional differences even more striking, with southern and central Europe hit the hardest. All these changes could actually have some positive benefits in northern Europe, but will certainly reduce population wellbeing in the southern EU regions.

Climate change will, moreover, have a profound effect on food systems and agriculture, particularly affecting regions where poverty is high, where food is scarce and where the economy is more dependent on agriculture. Natural disasters have cost farmers in poorer countries billions of dollars a year in lost crops and livestock, and it is getting worse due to climate change. Many countries in sub-Saharan Africa are dependent on single crops – Ethiopia relies on coffee for a third of its export earnings and Malawi gets about half from tobacco. Food supply shocks and surging prices have the power to displace people and destabilise governments, as shown by the riots that took place in more than 70 countries during a crop crisis in 2007–2008.

An infographic by de Sousa and Warren (2018), for example, shows how the wheat belt, the world's most widely grown crop, is moving towards the north. In Europe this means a shift away from the central regions towards Scandinavia, with Greenland and Alaska also possibly becoming suitable for wheat-growing. Russia is enjoying bumper harvests of wheat partly due to record temperatures boosting yields. In the US, North Dakota now has a longer growing season, while some California farmers are even planting coffee. Meanwhile, the US corn belt stretching from Ohio to the Dakotas is edging toward the border with Canada, which is already growing more crops than it used to.

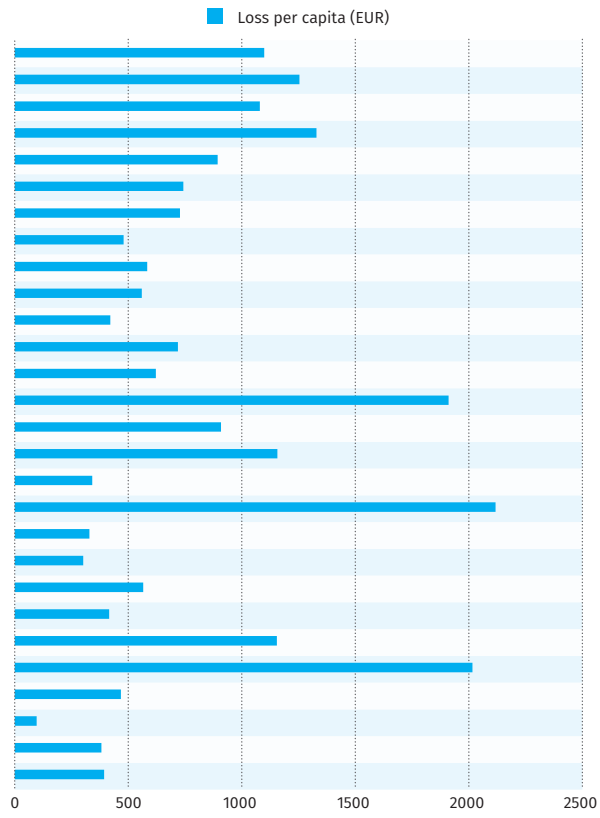
Figures 4.4a and 4.4b sum up the human and material loss due to extreme weather and climate-related events in the EU for the period 1980–2019. Relative to the population, fatalities were particularly high in France, Spain, Italy, Greece, Portugal and Belgium, while Finland and Sweden were the least affected.

Figure 4.4a **Fatalities due to extreme weather and climate-related events in EEA member countries and the UK (1980–2019)**



Source: EEA (2021).

Figure 4.4b **Material losses due to extreme weather and climate-related events in the EU (1980–2019)**



Source: EEA (2021).
Note: Figures are in euros/capita at 2019 prices and are based on records from the NatCatService provided by Munich Re and Eurostat structural indicators.

> Women are disproportionately vulnerable to climate change

Regarding material loss, per capita losses varied greatly across Member States: Luxembourg, Denmark and Austria had the highest per capita values (at around EUR 2,000), while Estonia had by far the lowest (just below EUR 100), as Figure 4.4b shows.

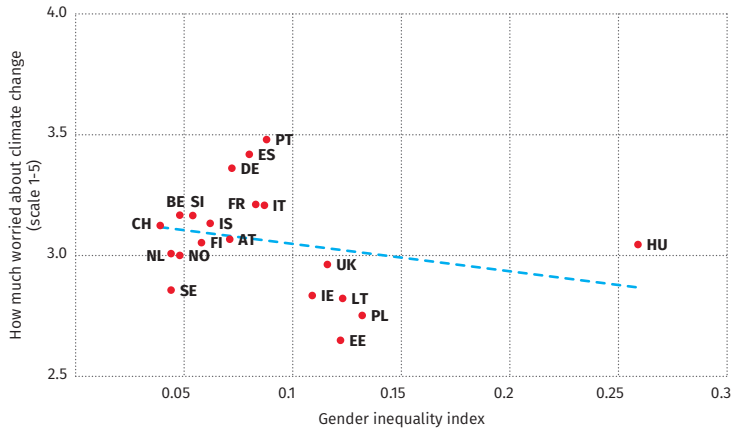
In terms of funding, both the European Regional Development Fund and the Cohesion Fund provide significant resources for flood risk prevention and management in Member States and for cross-border and transnational cooperation in this area. As a result of investments allocated for 2014–2020, more than 16.5 million Europeans are expected to be better protected from floods. Moreover, the EU Solidarity Fund provides financial aid for emergency and post-disaster reconstruction operations. In 2017–2019, the EU Solidarity Fund supported six Member States – Bulgaria, Latvia, Lithuania, Austria, Italy and Romania – by allocating over EUR 330 million to deal with damages caused by floods in 2017 and 2018 (European Commission 2021).

Climate inequality by gender

There is a solid base of evidence showing that women are disproportionately vulnerable to climate change due to socio-cultural structures that deprive them of access to resources, decision-making, information and agency. Afridi et al. (2021) analysed the labour impacts of droughts due to low rainfalls among rural households and found that they are gender-differentiated. Specifically, in the case of adverse agricultural shocks, women are less likely to find work outside the farm or migrate and are therefore less likely to cope with climate-related productivity shocks, which potentially exacerbates gender gaps in the labour market.

Andrijevic et al. (2020), meanwhile, found that the least gender-equal societies are often the most vulnerable to climate change. They also showed that countries with high levels of gender inequality usually see lower levels of climate action. Figure 4.5 looks at this relationship between environmental attitudes and gender inequality across countries. The attitude variable is measured using a survey question asking people how worried they are about

Figure 4.5 **Gender inequality and attitudes towards climate change**



Note: Axis does not start at 0.
Source: European Social Survey (2016).

climate change on a scale ranging from 'not at all worried' to 'extremely worried' (European Social Survey, Round 8, 2016). The average survey responses by country are then plotted against the mean Gender Inequality Index (European Institute for Gender Equality) by country. The resulting picture displays a negative correlation, suggesting that the countries where people are relatively less worried about climate change are also the ones with higher gender inequality.

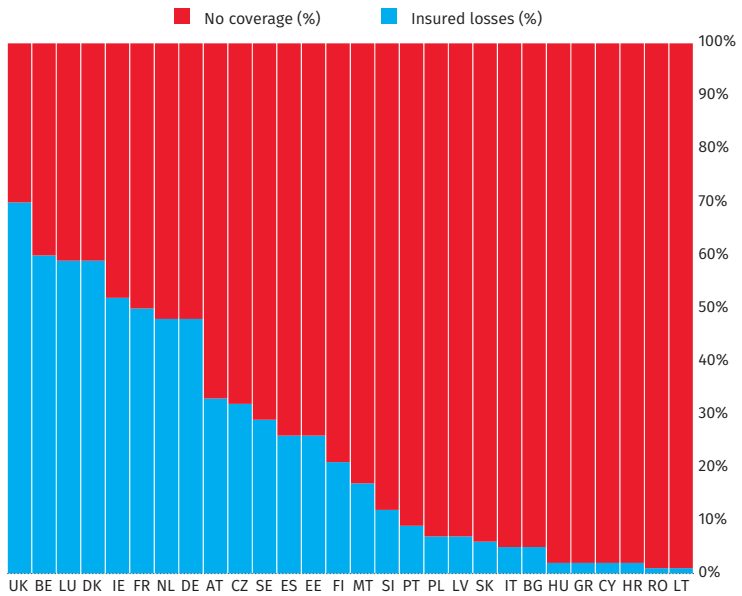
Adaptation to climate change

A country's vulnerability to the impacts of climate change depends largely on how quickly and easily it can adapt to changes. For example, a country that can rapidly build defences to protect against rising sea levels may be less vulnerable to the negative impacts of flooding than a country that cannot. Countries in which people, institutions and systems can respond quickly to the impacts of climate change are said to have a high 'adaptive capacity'. Developed countries often have higher adaptive capacities than developing nations, in part because they have more wealth to invest in adaptive measures.

Protection against floods and other extreme weather events

Figure 4.6 presents the inequality in insurance coverage for losses from extreme weather and climate events. The gaps between countries are huge: while in Romania only 1% of the losses due to extreme weather events was insured during the period 1980–2019, in the UK it was 70%, in Belgium 60%, and in Denmark and Luxembourg 59%. Croatia, Greece, Hungary, Cyprus, Romania and Lithuania seem to face the biggest challenges, with relatively high levels of loss but extremely low insurance coverage.

Figure 4.6 **Insurance coverage for extreme weather and climate-related losses by Member State (1980–2019)**

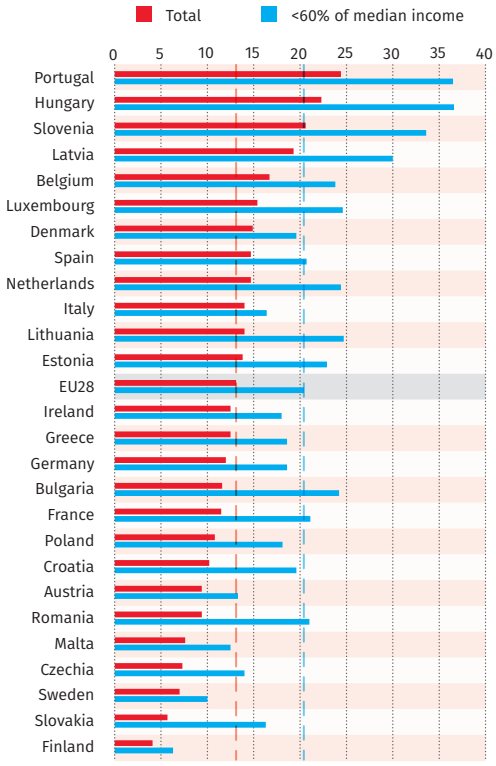


Source: EEA (2021).

Housing inequality

Figure 4.7 presents a picture of housing inequality, in the sense of how parts of the population are exposed to unhealthy housing conditions, both for the total country population and for households at risk of poverty. Cyprus, Portugal, Hungary and Slovenia have the highest shares, while Finland and Sweden have the lowest. The poor performance of certain high-income countries such as Belgium and the Netherlands is surprising. The gap between the total population and households at risk of poverty is highest in Bulgaria, Slovakia, Hungary, Portugal, the Netherlands and Luxembourg.

Figure 4.7 **Share of population living in a dwelling with a leaking roof, damp walls, floors or foundation, or rot in the window frames or floor (2019)**



Source: Eurostat, EU SILC (2021).

Unequal exposure to environmental hazards

Environmental inequality arises from discrimination

Unlike with climate change (where the link between cause and effect can be distant in both time and space), for local environmental hazards (air, water and soil pollution), there is a direct link between the source of pollution and exposure to its harmful effects, and there are also rather clear and identifiable causes. The case is similar with embodied pollution in products traded: once stopped, the effects will diminish.

One of the issues addressed by environmental justice movements and scholars has been the exposure of local populations to environmental hazards and toxic substances due to air, water or soil pollution. Since the early days of its conception, the theory of environmental justice has recognised that environmental inequality arises from discrimination (Dorceta 2000). Research addressing 'environmental equity' and 'environmental racism', for example, claims that hazardous waste facilities are located disproportionately in minority areas. Such inequality has various dimensions: in the US, for example, these movements have given particular attention to race in relation to the environment (Mohai and Saha 2015), while in Europe the focus has been on poverty, health inequalities and social exclusion (Wilkinson and Pickett 2018). Another actor taking responsibility in dealing with environmental hazards is the trade union movement, as this aligns with its core interest of health and safety issues in and around the workplace (Rector 2017).

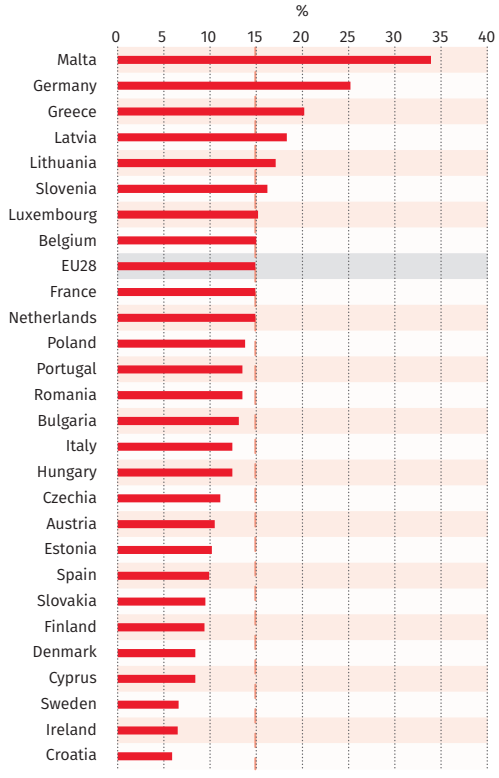
A recent analysis by the OECD (2021) shows that the impacts of environmental degradation are concentrated among vulnerable groups and households. Poorer health, limited access to good quality healthcare, and a lower ability to invest in defensive measures (e.g. air filtration and better housing quality) increase the vulnerability of lower socio-economic households to air pollution and climate change. Furthermore, the youngest and the oldest are often the most affected. Evidence referred to by the OECD study points to long-run effects of exposure to air pollution on children's educational outcomes, especially for children from low-income households. Heatwaves, which are likely to become more frequent with climate change, represent a real risk for older people's wellbeing.

Pollution and income inequality

Figure 4.8 shows the percentage of total households claiming to be exposed to pollution and other environmental problems in EU Member States. Malta (33.9 %) and Germany (25.2 %) have the highest values, while Sweden (6.6%) and Croatia (5.9 %) have the lowest.

Going a step further, we can also consider the link between exposure to air pollution and income levels across regions in Europe. Figure 4.9 displays urban air quality levels (the lighter shades imply relatively lower pollution and the darker shades relatively higher pollution) together with regional purchasing power-adjusted incomes at NUTS 2 level (again, lighter shades indicate lower income levels and darker shades higher income levels). First of all, the map suggests a striking air quality inequality in Europe: the eastern and southern European regions have relatively lower air

Figure 4.8 **Share of households claiming to be exposed to pollution and other environmental problems (2019, %)**

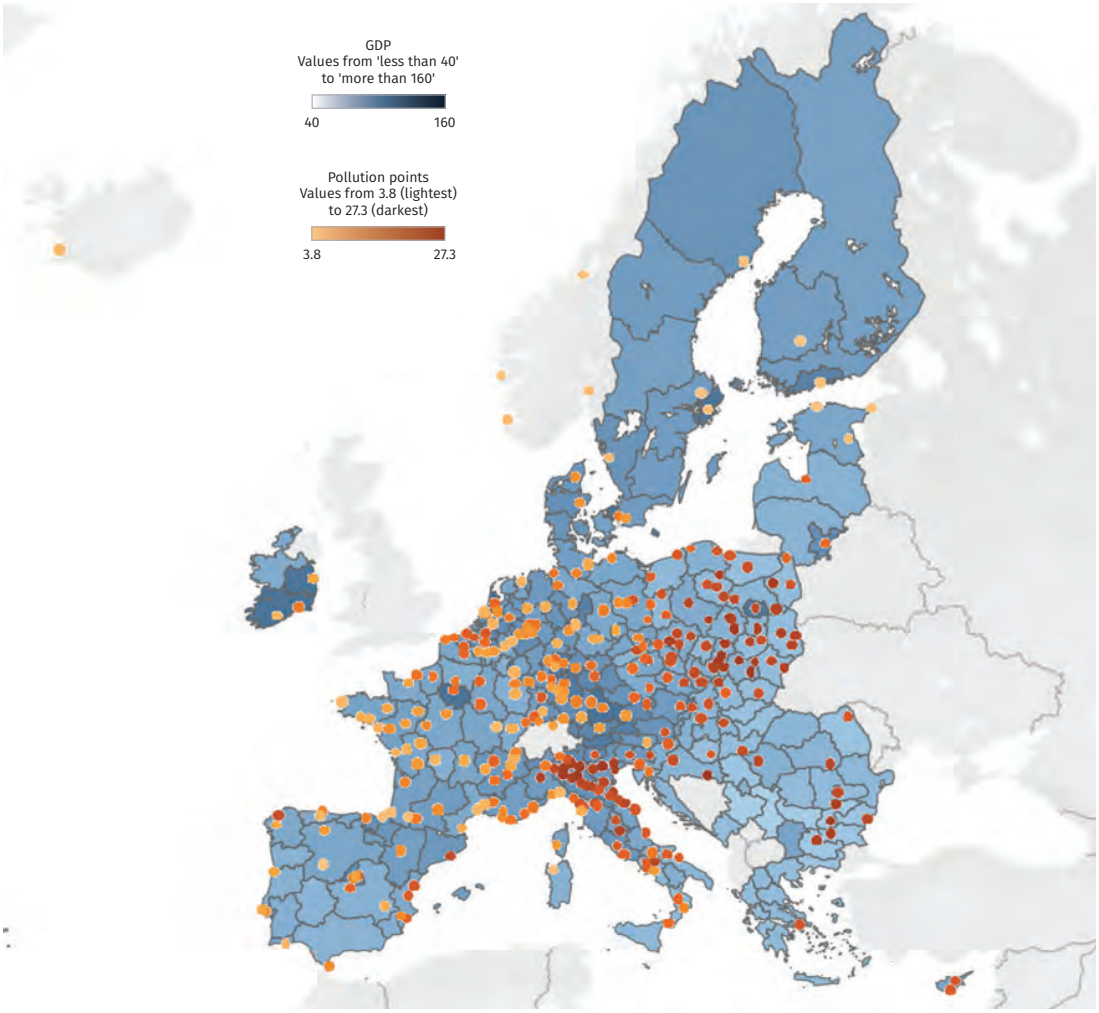


Source: EEA (2021).

There seems to be a positive correlation between air quality and income levels across regions in Europe

quality compared to those in the western and northern regions. Moreover, there seems to be a positive correlation between air quality and income levels across regions in Europe: while regions with higher income levels are often home to cities with relatively better air quality, cities with worse air quality are located in regions with lower income levels. This could reflect various factors, ranging from the geographical position of cities to the concentration of polluting economic activities in certain regions (related to differential economic development patterns).

Figure 4.9 **City-level air pollution and regional income levels in the EU (NUTS 2)**



Note: City level air pollution in fine particulate matter (PM 2.5) in µg/m3, based on levels measured in 2019 and 2020.
NUTS regions: percentage of the EU average GDP per capita in PPS (purchasing power standard).
Source: European City Air Quality Viewer (2019-2020) (European Environmental Agency) and Eurostat (Regional GDP, PPS adjusted, 2019); elaboration by Jakob Wall.

Differential effects of climate policies and related inequalities

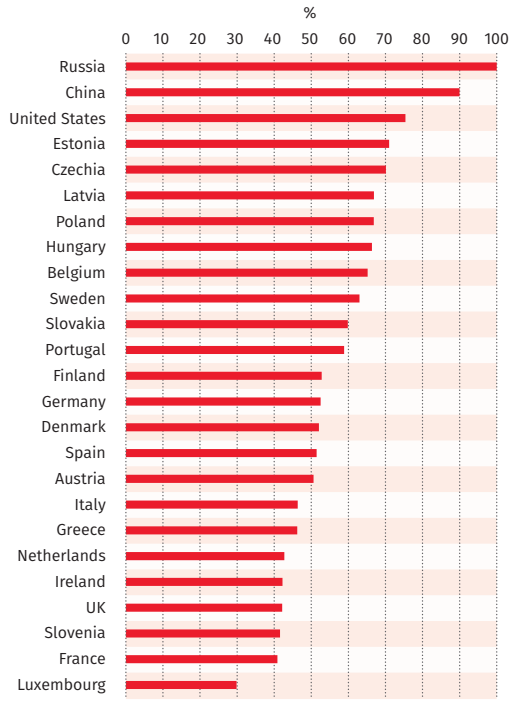
More climate ambition does not necessarily create new inequalities, but concrete policies may have regressive distributional effects that need to be addressed

Distributional effects of climate policies

More climate ambition does not necessarily create new inequalities, but concrete policies may have regressive distributional effects that need to be addressed. Below we briefly discuss how different dimensions of inequality emerge when it comes to the impact of decarbonisation policies.

The OECD (2021) has defined a carbon price gap as the difference between the sum of current taxes on fossil fuel consumption (e.g. specific taxes on fossil fuels, carbon taxes, and prices of tradable emission permits) and its estimated climate costs, and found that this gap across OECD and G20 countries is 76.4% on average, as Figure 4.10 shows. This means that current fossil fuel prices reflect less than a quarter of climate costs in this country group, which represents more than half of global GDP. Among EU countries, fossil fuel prices reflect estimated climate costs the most closely in Luxembourg and France (with price gaps of between 30 and 40%) and the least in Estonia (with a price gap of 70%).

Figure 4.10 **Carbon pricing gap in the EU and in selected G20 countries**



Source: OECD 2021.

This also means that there is still much to be done in terms of climate policy if a net-zero carbon target is to be turned into a reality by mid-century. Such policies will also have extensive distributional effects that need to be addressed. One example is the generally regressive effect of carbon taxes. One study on Sweden and other high-income countries (Andersson 2021) shows that carbon taxation will be regressive in high-income countries with relatively high levels of inequality, but more proportional in middle- and low-income countries and in countries with low levels of income inequality (even if high-income). This finding suggests that carbon taxation does not per se generate more inequality, but it has the potential to reinforce already existing inequalities.

The 'Fit for 55' package launched by the European Commission on 14 July 2021 is the latest and most prominent example of the possible distributional effects of climate policy. While it is rightly an ambitious climate policy effort, paving the way for the EU's 2050 net-zero emissions goal, it shows clearly what distributional challenges such measures may pose. Although market mechanisms that set price signals to market actors – such as those under the newly created emissions trading system for transport and buildings – are essential to changing investment and behavioural patterns, they can only have the desired effects in well-functioning markets. Moreover, the signals themselves have significant regressive distributional effects, disproportionally affecting low-income households for whom fuel and transport consumption make up a higher share of their income. Poorer households also have less capacity to change, as while low-carbon products (electric vehicles, rooftop solar panels, and so on) may have low operating costs, they tend to have high, upfront capital costs – presenting a hurdle for households with little access to cheap capital. Consumers on lower incomes also often

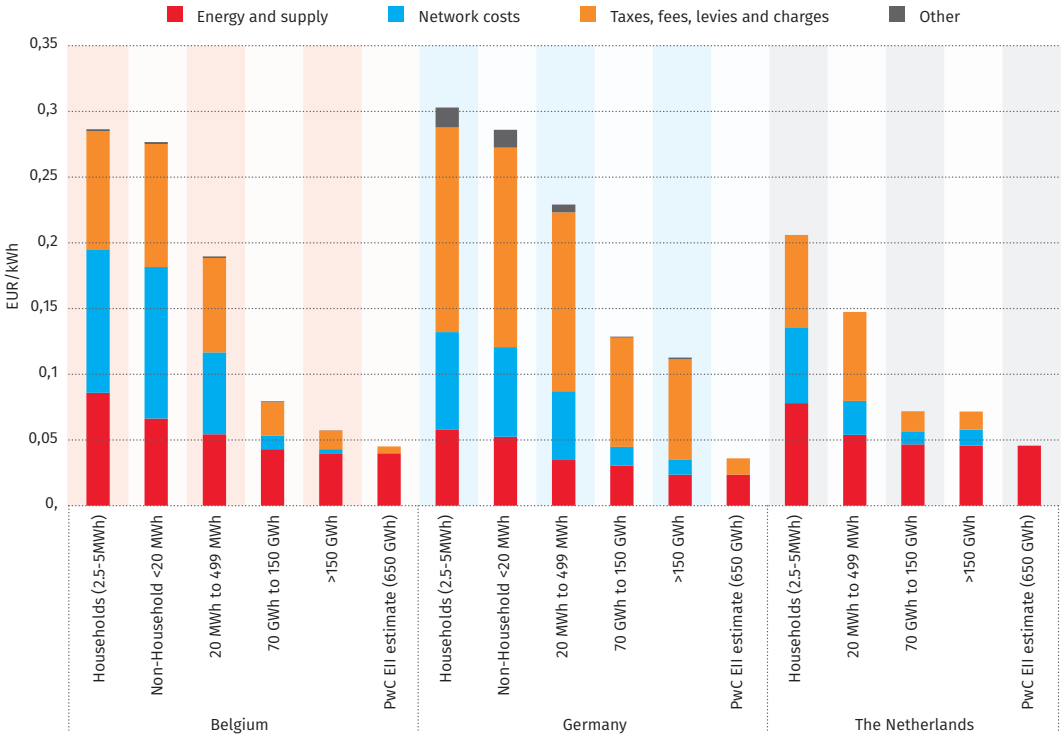
have insufficient information about available low-carbon alternatives. Furthermore, those in a precarious situation have a short-term planning horizon and so discount potential, long-term cost savings. Finally, a malfunctioning carbon market can be compounded by ill-conceived regulation, such as weight-based emission standards that favour SUVs while penalising small petrol vehicles.

Looked at through a distributional lens, the apparent 'level playing field' of an EU-wide carbon price in critical sectors with a direct impact on consumers will have huge effects on inequality – both between and within Member States. The energy transformation will have specific effects on different groups in society. Feed-in tariffs with higher electricity prices to finance investments into renewables, for example, have a regressive effect, as low-income households are hit hardest (Zachmann et al. 2018).

Households also tend to pay electricity prices that are relatively far higher than what industry (and especially big industry) pays. Figure 4.11 shows electricity prices for different consumer groups in three Member States: Belgium, Germany and the Netherlands. The huge price gaps between households and large industrial consumers mean that households (including those under the poverty line) are financing the energy transition and subsidising heavy industry.

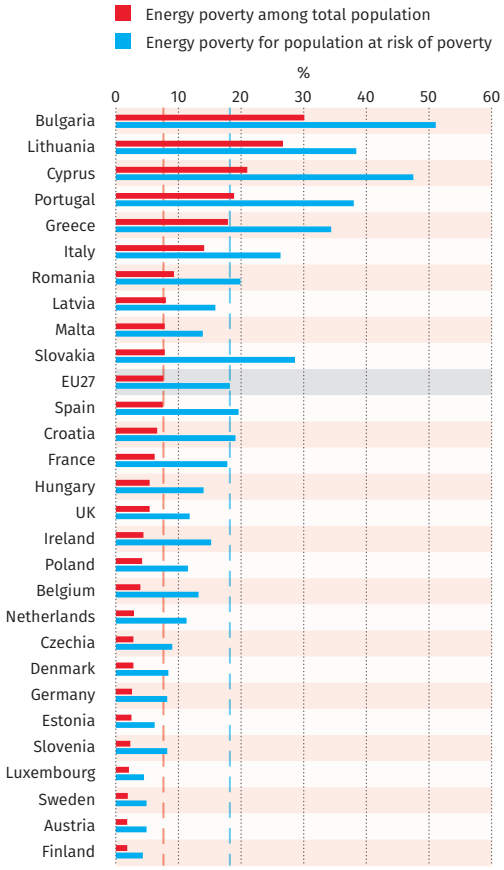
Energy poverty is an important indicator of the social aspects of the energy transformation. As most European countries have no official definition for the term 'energy poverty', this state is often described as the inability to keep one's home adequately warm. Based on this definition, the EU-SILC (Statistics on Income and Living Conditions) survey uses energy poverty as an indicator of material deprivation. Figure 4.12 shows energy poverty for the total population and for those at risk of poverty in EU Member States for 2019. There are huge differences between Member States, with Bulgaria and Lithuania having high values of energy poverty (30.1% and 26.7%, respectively, of the total population), while at the other end of the scale, energy poverty in Slovenia, Finland, Sweden, Luxembourg and Austria affected less than 3% of the total population. Southern European countries form the other risk group, with Italy, Greece, Portugal and Cyprus particularly affected by energy poverty: their 2019 values were between 14.1% and 21%. As regards households at risk of poverty (earning under 60% of the median income), the picture is truly alarming, with 51% of households in this group affected by energy poverty in Bulgaria, 47.5% in Cyprus and 38% in Lithuania and Portugal. For the EU27, households at risk of

Figure 4.11 **Electricity prices (in EUR/kwh) for different consumer groups in Belgium, Germany and the Netherlands**



Source: Bollen et al. (2021).

Figure 4.12 **Energy poverty in EU Member States (share of population, 2019)**



Source: Eurostat, EU-SILC.

> Although there is no link between energy poverty and the speed and depth of energy transformation, vulnerable groups need particular attention

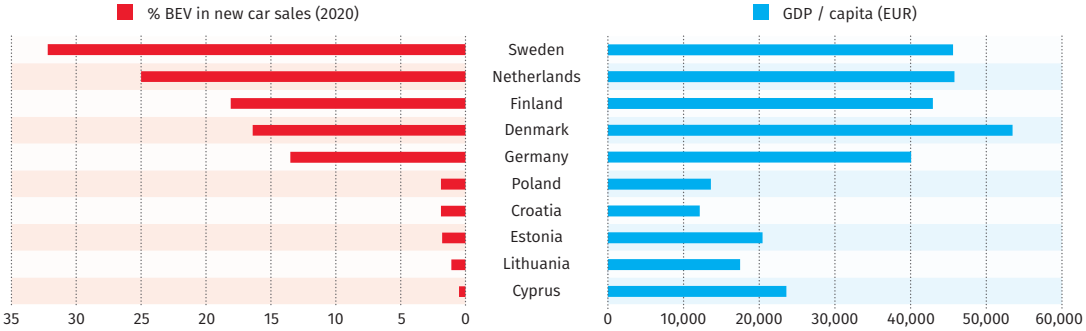
poverty are affected by energy poverty nearly 2.5 times more that the total population, with this inequality particularly high in Slovakia and the Netherlands (almost 4 times higher than for the total population) followed by Belgium (more than 3 times). Although there is no link between energy poverty and the speed and depth of energy transformation, vulnerable groups need particular attention when national climate and energy plans are being set up. Energy justice should be a priority.

Another dimension of inequality is related to the very different levels in the ability of households to invest in low-carbon products and technology (for example, for the retrofitting of buildings, installing solar panels, buying electric cars, and accessing charging stations). Low-income groups also have a lower ability to finance investments into renewables and for retrofitting buildings, and they benefit less from credit lines and low-interest-rate support programmes. Regional differences in the environmental performance of vehicles and in the stocks and trade flows of used vehicles remain, with high-income countries having on average relatively new vehicles with comparably lower air pollutants and CO_2 emissions, and low-income countries having rather old vehicles with comparably higher air pollutants and CO_2 emissions (Velten et al. 2020). In 2019, cars were on average 11.5 years old in the EU. Lithuania, Estonia and Romania had the oldest fleets, with vehicles older than 16 years. The newest cars could be found in Luxembourg (6.5 years) and Austria (8.3 years) (ACEA 2021).

Subsidies for battery electric vehicles (BEV) in 2020 ranged widely, from zero in several central and eastern European countries to EUR 9,000 in Germany. The Netherlands offered EUR 4,000, Spain EUR 4,500, Italy EUR 5,000 and France EUR 6,000 for the purchase of a battery electric vehicle. It is no wonder that the share of BEVs in new car sales shows huge differences by Member State, reflecting both differences in purchasing power and in public subsidies, as Figure 4.13 illustrates. Countries with a BEV share in new car sales (2020) of less than 3% have an average GDP of below EUR 17,000 (central eastern Europe and Greece). The five countries with the lowest market uptake of electric cars also have the fewest charging points, each with under 1% of the EU total.

Correspondingly, BEV shares of 15% or more in new car sales are only found in richer northern European countries with an average GDP of over EUR 43,000. Almost three quarters of all EU electric car sales are concentrated in four western European countries with some of the highest GDPs (Sweden, the Netherlands, Finland and Denmark). The remaining quarter of sales is spread across 23 Member States. And even within the richer Member States, it is the privilege of the rich to afford a new electric vehicle and benefit from the subsidies and low operating costs.

Figure 4.13 **Share of battery electric vehicles (BEV) in new car sales and GDP/capita in selected Member States**



Source: ACEA.

> Inequality in mobility, due to the lack of affordability of low-emission vehicles and lack of accessibility to public charging stations is going to be a huge challenge

The availability of charging stations for electric vehicles is also a new source of inequality. Some households with a garage can afford individual overnight charging facilities or perhaps have access to a garage in their office buildings, while the majority of the population relies on publicly available ones. According to the consultancy firm Element Energy, the density of public charging points along main EU transport corridors varies significantly by Member State. Per 100 km of such transit routes the Netherlands has 17 charging points, Germany 14, France 4, Italy and Spain 2.5, and Poland 1.5.

Inequality in mobility, both within and between countries, due to the lack of affordability of low-emission vehicles and lack of accessibility to public charging stations is going to be a huge challenge in the transition to a more sustainable mobility pattern. Changing the composition of the existing car fleet requires the replacement of tens of millions of older internal combustion engine-driven vehicles. Lower-income groups tend to have much more obsolete, high-emission cars that they cannot afford to change for low-emission ones.

> Millions of new jobs are being created in the transition to a net-zero carbon economy, but millions of jobs will also disappear

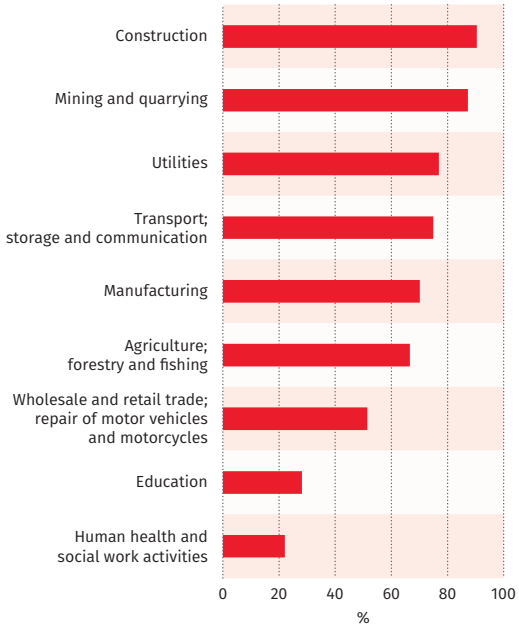
Differential employment effects of climate policies

Climate policies are having and will continue to have a major effect on the world of work. Millions of new jobs are being created in the transition to a net-zero carbon economy, but millions of jobs will also disappear. The majority of jobs will go through a fundamental transformation. This unprecedented wave of restructuring will have unequal effects on many fronts, including skills, gender, age, economic activity and region.

Climate-driven job reallocations in different sectors have implications for gender inequality. For example, the most polluting sectors and industries, which are directly affected by policies for achieving net zero, have predominantly male-dominated workforces, as illustrated in Figure 4.14 below. Transition policies may thus need to be more gender-sensitive (OECD 2021). However, there might in fact be a window of opportunity to increase the labour force participation of women in the green transition, who are generally less present in STEM-related or renewable energy sectors, by making more green jobs available to them (ibid).

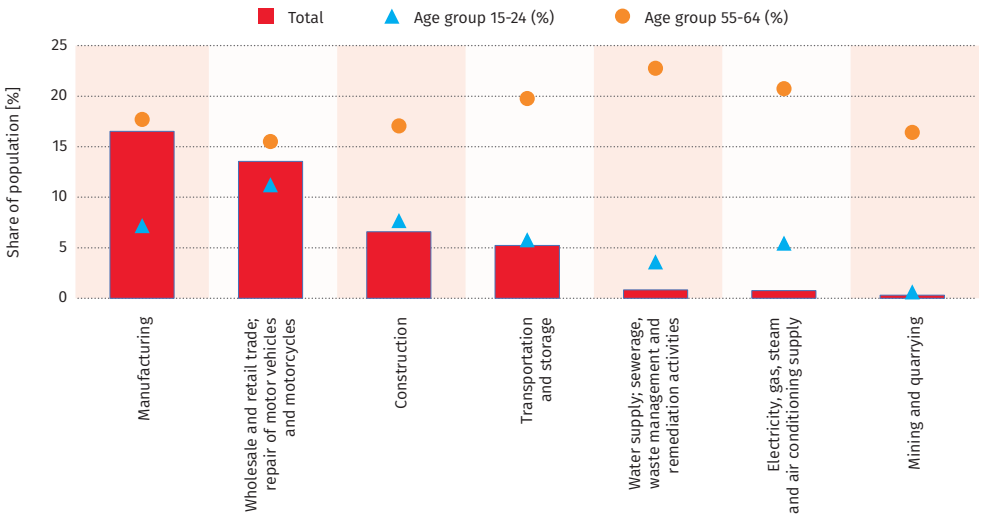
Figure 4.15 shows the employment structure by age in selected industries that can be considered carbon-intensive for the EU27 (based on Eurostat data). The data show the share of the selected industry in total EU employment (blue bars), while the red dots indicate the share of the 15-24 age group within the employment of the given industry and the yellow triangles do the same for the 55-64 age group. It is apparent that certain carbon-intensive sectors, such as mining, energy and transport, employ a significantly

Figure 4.14 **Male share of employment in selected sectors in the EU27 (% of total workforce)**



Source: Authors' elaboration based on ILO data (2020).

Figure 4.15 **Share of different age groups in particular sectors, EU27 (2020)**



Source: Eurostat (2021).

> Unlike coal, future employment changes in the automobile sector are much less straightforward and far harder to forecast

> The only certainty is that the changes will be on a massive scale and that almost all jobs in the industry will be affected to some extent

higher share of older workers, suggesting that decarbonisation might have a stronger effect on this age group. An OECD (2021) study also points to significant differences among Member States as regards the gap between the share of younger and older workers in carbon-intensive sectors. The biggest gaps were found in Belgium and France, while the smallest is in Spain.

The energy and automotive sectors will be the ones most affected by the decarbonisation drive from climate and environmental regulations at European and national levels. However, there is a major difference between the two sectors concerning both the nature and the magnitude of the challenge: coal has no future, but the automobile does, albeit in quite a different form from the one we know. In the coal-based power sector the majority of currently existing jobs will disappear in a decade and the regional effects will be harsh (Alves Dias et al. 2018), as over 90% of coal jobs are concentrated in ten NUTS 2 regions, four of them in Poland. Even though coal itself does not have a future, workers and their families must have one. Furthermore, while employment in the coal sector makes up just 0.15% of European employment, its high concentration makes it of vital importance for individual regions, which also must be ensured a future.

Based on the most recent Eurostat data (2018), Figures 4.16a and 4.16b show the development of employment in coal mining (hard coal and lignite) over the last decade for the EU and for selected Member States. In 2018, the number of coal mining jobs in the EU27 was 126,263 – less than one half of the 2007 level. In 2018, 70% of European coal mining jobs were in Poland, followed (some way behind) by Czechia, Bulgaria and Germany.

On the other hand, with a more than 5% share of total European employment, the automotive sector is a key employer. For the car industry, the demise of the combustion engine and the electrification of the powertrain will require the development of new competences, skills and forms of work organisation. These will have a substantial impact on the comparative advantages held by certain nations and manufacturers (Bauer et al. 2018). Unlike coal, future employment changes in the automobile sector are much less straightforward and far harder to forecast. The only certainty is that the changes will be on a massive scale and that almost all jobs in the industry will be affected to some extent. There are many simultaneous factors at work: climate and environmental regulation (which not only shapes production but also market demand), digitalisation of the production process, and the advance of autonomous and connected vehicles – all of which are likely to have a fundamental impact on employment in both quantitative and qualitative ways. Technological change will reshape international value chains while globalisation patterns may also change, posing great uncertainty for the future viability of any particular geographical location, including long-established manufacturing regions in Europe.

It is worth noting that both sectors have higher than average wage levels and outstanding trade union organisation.

Figure 4.17 takes the example of the French automobile industry to illustrate how the labour demand differs for the assembly of engines with different types of propulsion. While the assembly of 1,000 Diesel engines requires 21.63 units of labour input, an electric engine requires only 13.19, just over half.

Figure 4.16a **Development of employment in the mining of coal and lignite in the EU27 and selected Member States**

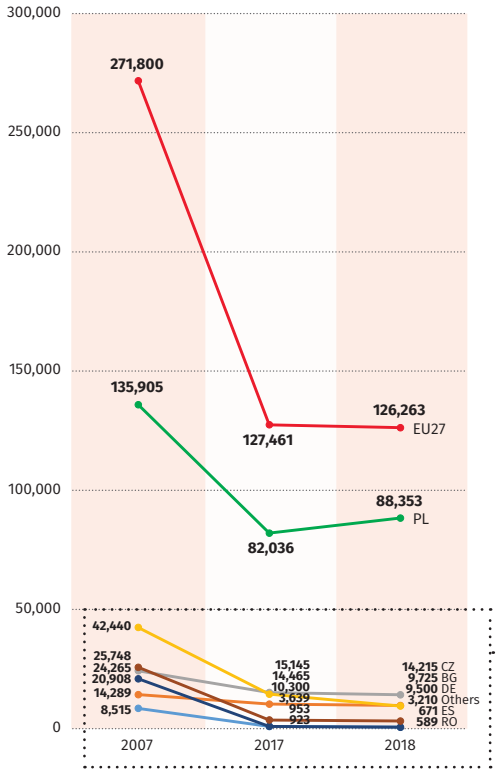
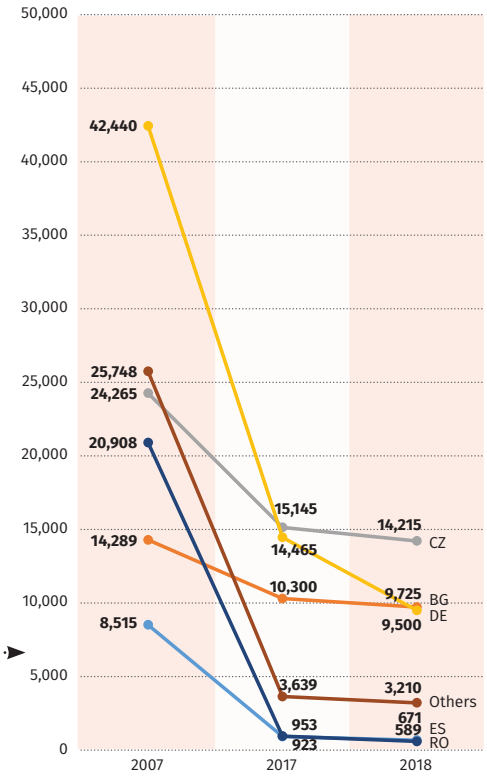
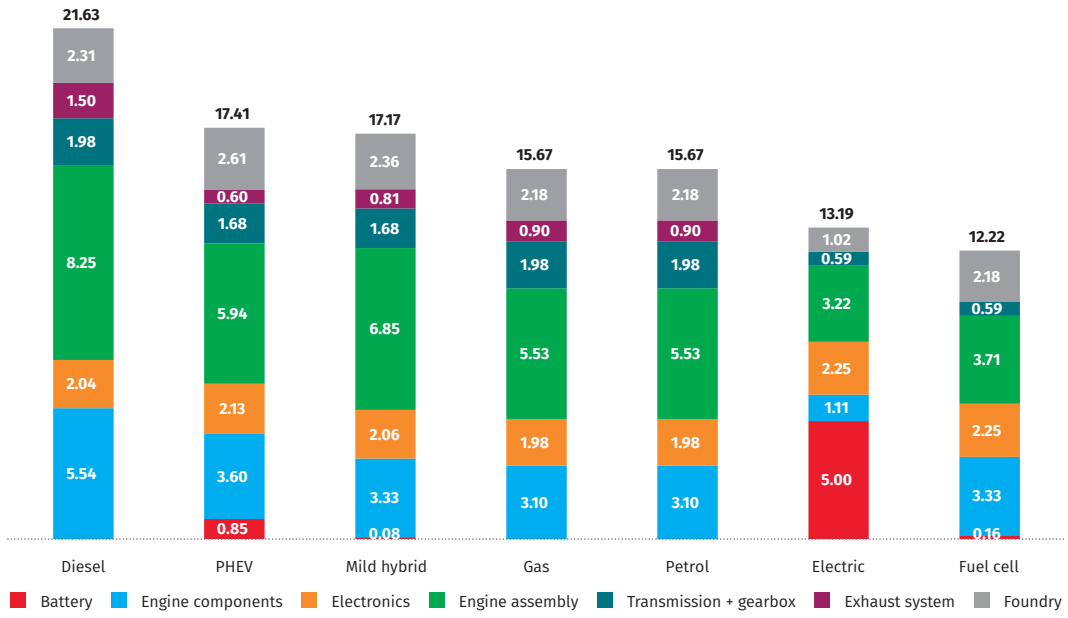


Figure 4.16b **Development of employment in the mining of coal and lignite in the EU27, individual Member States without Poland**



Note: EU27 does not include the UK.
Source: Eurostat 2021.

Figure 4.17 **Labour demand per thousand engines, by type of propulsion**

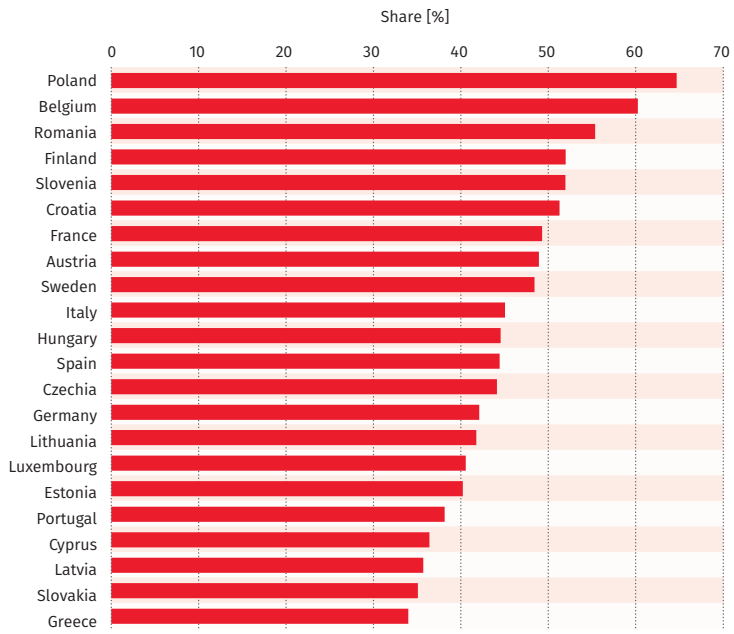


Source: Syndex (2021).

> The investments and reforms of the recovery plans will significantly impact the climate adaptation and mitigation attempts

In recent years, studies have published various figures on the question of how many jobs will be lost in the event of a market ramp-up of electric cars (PA Consulting 2018, ACEA, 2018), predicting a lower labour demand for BEVs, with resulting job losses in the industry. A study commissioned by Volkswagen (2020) also foresaw employment loss in vehicle manufacturing, although to a smaller extent than the earlier studies. A Boston Consulting Group (2020) forecast concluded that BEVs are not less labour-intensive when accounting for their higher value content, but the ownership and control of battery manufacturing is decisive, as this makes up a significant share of the value added of the final product. Apart from the uncertainty about the magnitude of future employment loss in automobile manufacturing, all studies emphasise that a massive transformation of the millions of jobs in the industry will take place. This transformation will affect workers of different skill levels, ages and genders differently and will also have significant regional effects.

Figure 4.18 **Share of green spending in national recovery and resilience plans**



Source: Bruegel dataset (2021).

Differential implications of national recovery and resilience plans

Along with climate and environmental regulations and policies towards net-zero emissions, the recent Next Generation EU (NGEU) package and its largest instrument the Recovery and Resilience Facility (EUR 672.5 billion) also have various implications for the green transition of Member States. The Facility provides funds in the form of loans and grants to support Member States in their investments and reforms to cope with the Covid-19 public health crisis, but also to speed up the digital and green transition towards the climate targets of the next few decades and to be better prepared for future challenges. The Facility requires each Member State to allocate at least 37% of the expenditure from its national recovery and resilience plans to climate-related investments and reforms. Figure 4.18 displays the share of green investments and reforms in the plans submitted by Member States to the Commission. All countries met the minimum required percentage, but there is a visible degree of variation, depending on their current position regarding the climate emergency as well as the general national circumstances. Poland tops the chart, with nearly two thirds of its recovery budget dedicated to climate-related objectives. This is not surprising, as Poland is one of the countries facing the most significant challenges in the green transition because of its heavily fossil fuel-dependent economy.

All in all, given the sizable funds to be disbursed from the Facility, it is expected that once underway, the investments and reforms of the recovery plans will significantly impact the climate adaptation and mitigation attempts of Member States in the coming years and will also shift the dynamics of inequality in society and the economy.

Conclusions and policy recommendations

> It is indispensable that European climate policy (the 'Fit for the 55' package being a prime example) has a strong social dimension

We have discussed four main dimensions of inequality within the climate-environment nexus in this chapter. We first looked at the inequalities inherent in climate change as regards both responsibility for its causes and exposure to its effects. We then discussed inequality in terms of climate adaptation capacity and in the exposure to pollution and environmental degradation. Finally, two sections were devoted to the differential effects of climate policies on the population, both in their distributional effects and their employment effects. The main conclusion to be drawn is that in order to prevent an uncontrollable escalation of inequality caused by runaway climate change, mitigation policies need to be implemented now. Tackling the unintentional side effects of these necessary measures, in terms of their distributional and employment effects, making the green transition fair and socially just may also help to gain more public support for the decarbonisation process. This is why it is indispensable that European climate policy (the 'Fit for the 55' package being a prime example) has a strong social dimension.

The proposed Social Climate Fund is necessary but falls short. The huge challenge of designing an effective and fair compensation mechanism, covering various inequalities, degrees of market accessibility and levels of market information, has been greatly underestimated. Setting up a carbon market is easy. Creating a proper compensation mechanism in a heterogenous, 27-member economic area is much more difficult.

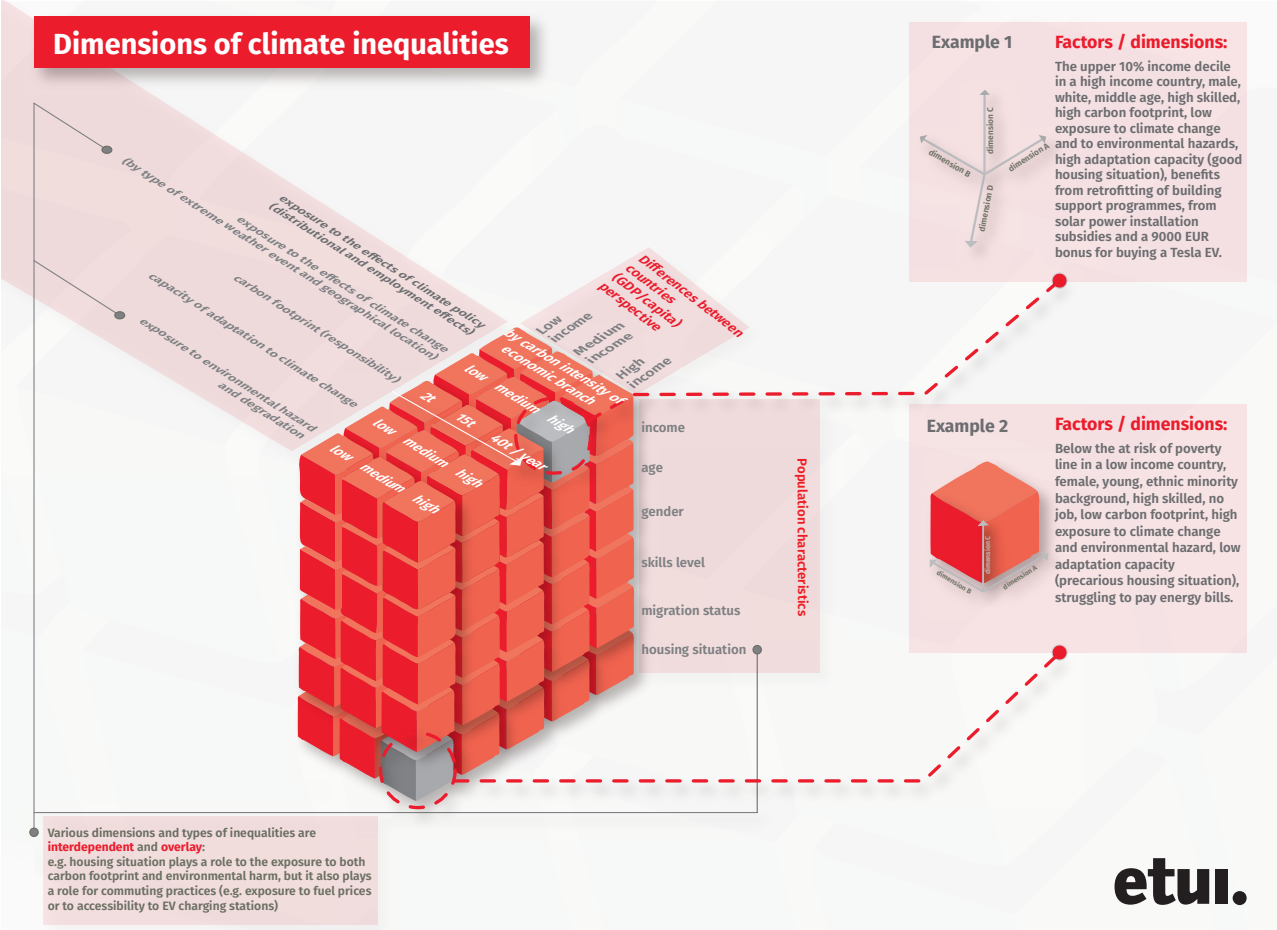
The size of the fund is to be EUR 72.2 billion, distributed between 2025 and 2032, using 25% of the Emissions Trading System (ETS) revenues from transport and buildings, with potential match funding from the Member States. In light of the challenges posed by extending the ETS in this way, this is a very low amount. The purpose of higher carbon pricing is, in any event, not to raise revenue but to direct market behaviour towards low-carbon technologies – there is thus a strong argument for fully redistributing the additional revenues.

The structure of the fund also raises several questions. Only a part of it is to be dedicated to social compensation; the rest includes incentives for electric vehicles and investments in charging infrastructure and the decarbonisation of buildings. Low-income households would not benefit from these measures – in fact, using the fund to support electric vehicles would disproportionally favour rich households. For low-income households, the priority would be changing their old polluting cars into more fuel-efficient ones and calling for a thorough re-regulation of Europe's second-hand car markets.

In considering the distribution of the fund among Member States, the Commission has made the effort to create a formula to account for various factors: population size (including the rural share), per capita gross national income, the share of vulnerable households, and household emissions from fuel combustion. But this still does not fully take within- and between-country inequalities into account. For example, a relatively poor Member State with lower within-country inequality could end up benefitting less than a rich Member State with high inequality.

Member States will have to submit social climate plans together with their national energy and climate plans by 2024, identifying vulnerable groups and measures. How will this work, given their large differences regarding commitment and institutional capacity? The huge disparities between Member States in how their national energy and climate plans have addressed just transition in the past might just provide a foretaste of what to expect.

Figure 4.19 **The Rubik's cube of climate related inequalities**



Source: Jagodzinski R, Akgüç M., Galgóczi B. own elaboration.

References

ACEA (2021) Vehicles in use in Europe. https://www.acea.auto/files/report-vehicles-in-use-europe-january-2021-1.pdf

Afridi F., Mahakan K. and Sangwan N. (2021) The gendered effects of climate change: production shocks and labor response in agriculture, Discussion Paper Series 14568, Bonn, Institute of Labor Economics.

Alves Dias P. et al. (2018) EU coal regions: opportunities and challenges ahead, Luxembourg: Publications Office of the European Union. https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/eu-coal-regions-opportunities-and-challenges-ahead

Andersson J. (2021) Carbon tax regressivity and income inequality, Policy Brief Series, Stockholm, Free Network. https://www.hhs.se/en/about-us/news/site-publications/publications/2021/carbon-tax-regressivity-and-income-inequality/

Andrijevic M., Crespo Cuaresma J., Lissner T., Thomas A. and Schleussner C.F. (2020) Overcoming gender inequality for climate resilient development, Nature Communications, 11, 6261. https://doi.org/10.1038/s41467-020-19856-w

Bauer W., Riedel O., Herrmann F., Borrmann D. and Sachs C. (2018) ELAB 2.0 Wirkung der Fahrzeugelektrifizierung auf die Beschäftigung am Standort Deutschland, Stuttgart, Fraunhofer Institut. https://www.iao.fraunhofer.de/lang-de/images/iao-news/elab20.pdf

Bauer W., Riedel O. and Herrmann F.(eds.) (2020) Employment 2030 effects of electric mobility and digitalisation on the quality and quantity of employment at Volkswagen. https://www.volkswagenag.com/presence/stories/2020/12/frauenhofer-studie/6095_EMDI_VW_Summary_um.pdf

Bollen Y., Van Hauwaert T. and Beys O. (2021) For a fair and effective industrial climate transition, Working paper 2021.08, Brusssels, ETUI.

Bruegel (2021) Bruegel datasets: European Union countries' recovery and resilience plans. https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/

de Sousa A. and Warren H. (2018) Climate change is messing with your dinner, Bloomberg, 13 April 2018. https://www.bloomberg.com/graphics/2018-climate-crops/

Dorceta T. (2000) The rise of the environmental justice paradigm: injustice framing and the social construction of the environmental discourses, American Behavioral Scientist, 43 (4), 508-580.

Dorling D. (2017) The rich, poor and the Earth, New Internationalist, 13 July 2017. https://newint.org/features/2017/07/01-equality-environment

EEA (2021) Economic losses from climate-related extremes in Europe. https://www.eea.europa.eu/data-and-maps/indicators/direct-losses-from-weather-disasters-4/assessment

European Commission (2016) Funding opportunities for disaster risk management within EU cohesion policy 2014-2020 period. https://ec.europa.eu/regional_policy/en/policy/themes/climate-change/funding-risk-prevention/

European Commission (2021) Commission staff working document. Overview of natural and man-made disaster risks the European Union may face, Brussels, SWD (2020) 330 final/2. https://ec.europa.eu/echo/sites/default/files/overview_of_natural_and_man-made_disaster_risks_the_european_union_may_face.pdf

FAO (2021) Temperature change statistics 1961–2020 Global, regional and country trends FAOSTAT analytical brief 19, Rome, FAO. http://www.fao.org/3/cb4410en/cb4410en.pdf

Feyen L., Ciscar J.C., Gosling S., Ibarreta D. and Soria A. (eds.) (2020) Climate change impacts and adaptation in Europe. JRC PESETA IV final report. EUR 30180EN, Luxembourg, Publications Office of the European Union. https://ec.europa.eu/jrc/sites/default/files/pesetaiv_summary_final_report.pdf

Galgóczi B. (2020) The path to zero carbon in a post-Covid-19 world, in ETUI and ETUC (eds.) Benchmarking Working Europe 2020, Brussels, ETUI, 75-94.

Gore T. (2015) Confronting carbon inequality. Putting climate justice at the heart of the COVID-19 recovery, Oxfam Media Briefing, 21 September 2020. http://oxfam.org/en/research/extreme-carbon-inequality

IPCC (2021) Climate Change 2021: the physical science basis. Summary for Policymakers. Working group I to the sixth assessment report of the Intergovernmental Panel on Climate Change, Cambridge, Cambridge University Press. https://www.ipcc.ch/report/ar6/wg1/

Ivanova D. and Wood R. (2020) The unequal distribution of household carbon footprints in Europe and its link to sustainability, Global Sustainability, 3, e18, 1-12. https://doi.org/10.1017/sus.2020.12

Labour Network for Sustainability (2017) Just transitions - Just what is it? https://www.labor4sustainability.org/files/Just_Transition_Just_What_Is_It.pdf

Mohai P. and Saha R. (2015) Which came first, people or pollution? A review of theory and evidence from longitudinal environmental justice studies, Environmental Research Letters; 10 (12), 125011.

Newell P. and Mulvaney D. (2013) The political economy of the 'just transition', The Geographical Journal, 179 (2), 132-140. https://rgs-ibg.onlinelibrary.wiley.com/doi/abs/10.1111/geoj.12008

OECD (2021) The inequalities-environment nexus - towards a people-centred green transition, Paris, OECD Publishing. https://doi.org/10.1787/ca9d8479-en

Rector J. (2017) Accumulating risk: environmental justice and the history of capitalism in Detroit, 1880-2015. Wayne State University Dissertations 1738. https://digitalcommons.wayne.edu/oa_dissertations/1738

Rosemberg A. (2017) Strengthening just transition policies in international climate governance, Policy Analysis Brief. https://www.stanleyfoundation.org/publications/pab/RosembergPABStrengtheningJustTransition417.pdf

Syndex (2021) Électrification de l'automobile et emploi en France. https://www.syndex.fr/sites/default/files/files/pdf/2021-06/Etude%20Syndex%20Electrification%20Auto%2006-2021_vok.pdf

Velarde O. (2019) The best data viz and infographics on climate change facts. https://visme.co/blog/climate-change-facts/

Velten E.K., Brauer C. and Thie J.E. (2020) Used vehicle trade and fleet composition in Europe, Ecologic Institute. https://www.ecologic.eu/sites/default/files/publication/2021/2632-01-Ecologic-ISI-UsedVehiclesStockTrade-March2020-final.pdf

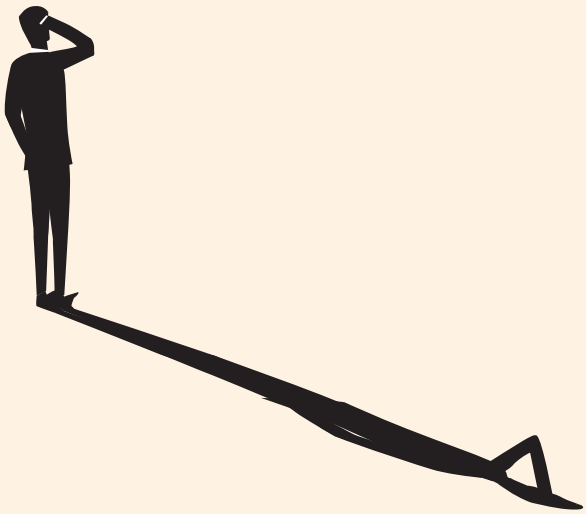
Walker G. (2012) Environmental justice: concepts, evidence and politics, London, Routledge. https://doi.org/10.4324/9780203610671

Wilkinson R. and Pickett K. (2018) The inner level: how more equal societies reduce stress, restore sanity and improve everyone's well-being, London, Allen Lane.

Zachmann G., Fredriksson G. and Claeys G. (2018) The distributional effects of climate policies, Blueprint series 28, Brussels, Bruegel. https://bruegel.org/wp-content/uploads/2018/11/Bruegel_Blueprint_28_final1.pdf

World Resource Institute (n.d.) Climate Data Explorer. http://cait.wri.org/

All links were checked on 25 October 2021.



5. Occupational health and safety inequalities in the EU

Authors

Paula Franklin

Pierre Bérastégui

Aude Cefaliello

Tony Musu

Marian Schaapman

Topics

> The pandemic has had a major impact on occupational safety and health (OSH) across different constituencies of workers, exposing inequalities in working conditions and gaps in social and legal protection
>
> **Paula Franklin**

Introduction

The pandemic has had a major impact on occupational safety and health (OSH) across different constituencies of workers, exposing inequalities in working conditions and gaps in social and legal protection. If one thing is clear it is that preventing Covid-19 infections is a crucial occupational health issue, as physical working conditions, work organisation, and employment conditions interact with one another, creating inequalities at both the individual and collective levels (Côté et al. 2021).

The EU 1989 Framework Directive is widely recognised as 'the benchmark law' (Vogel 2015) that lays down the principles underpinning the EU's occupational health and safety legislation. It places preventive measures at the heart of occupational health and safety regulation and emphasises collective measures over individual ones. It mandates that all workers should be equally protected by health and safety law, regardless of their status. It lays down the legal responsibility of employers to provide healthy and safe workplaces, and the right of workers to be consulted on their working conditions. This pandemic has confirmed the timeless relevance of the Framework Directive for the world of work, underpinning the reform of some workplace OSH arrangements which had become manifestly obsolete and inadequate as a consequence of the spread of Covid-19 (Cefaliello 2021).

This chapter assesses Member State policies and legislation against the principles of the 'benchmark Directive'. Rather than striving for a complete overview of the state of play in the EU, we explore a limited number of essential patterns that can be discerned in the development and persistence of deeply entrenched inequalities in the domain of OSH. For example, the division between essential frontline work and 'teleworkable' jobs highlights how different patterns and modes of work correlate to different levels of risk exposure, but without necessarily attracting the implementation of any particular or additional safety measures. And Covid-19 is no exception to the conclusions of many studies about major occupational health risks: precarious jobs involve high risks, and intersecting inequalities in risk exposure cut across the axes of gender, migration status, ethnicity, and age.

Last year, our chapter on the impact of the Covid-19 pandemic in the world of work (ETUI and ETUC 2020) concluded that the crisis had been a magnifying glass, exposing existing inequalities in our societies and in the world of work in particular, as well as exacerbating these inequalities (Vogel 2020; Schaapman 2021). Much of this chapter expands on this analytical thread and builds on the evidence that has accumulated during the pandemic.

We start with an analysis of the inequalities in protection against the SARS-Cov-2 virus as a biological agent. Evidence shows that although there is an EU Directive specifically dedicated to this issue, which applies to all workers who run the risk of being exposed, protection has been very unequal between different sectors and professions (Purkayastha et al. 2021; ETUI and ETUC 2020). The second section explores how precarious employment conditions have created OSH hazards in the female-dominated long-term care sector. The third section shifts the scope of our analysis from the frontline sectors to the realm of telework. Even though 'teleworkable' jobs are often portrayed as the new frontier of an emerging social divide, our analysis also reveals substantial gender inequalities that are clearly pertinent to teleworking, specifically in the exposure to a number of psychosocial risks (PSR). The section also highlights national differences in an important risk prevention measure in telework, the 'right to disconnect'. Finally, we explore what happens to occupational health and safety risks when they are not specifically regulated at EU level – that is, when legislation is left entirely to the individual Member States. While the Framework Directive, in principle, covers all OSH risks, most of these risks are also covered by specific, so-called 'daughter directives', with PSR being a notable exception. When it comes to PSR regulation, as well as the topic of the recognition and compensation of occupational diseases, there are big differences between the Member States, creating unequal protection for workers in the different regions of the EU.

Disparities in worker protection against biological hazards: the case of Covid-19

> Covid-19 has exacerbated already existing socioeconomic and health inequalities (Côté et al. 2021)

Exposure to occupational risks differs greatly according to occupation. When it comes to biological risks, the type of hazardous biological agents to which workers might be exposed (viruses, bacteria, fungi, parasites, etc.) also varies from one sector to another.

Healthcare workers and laboratory workers are, for example, at risk of blood-borne and other infections; workers in agriculture are at risk from zoonoses; forestry workers are at risk from tick-borne diseases; workers in the waste and recycling sectors are at risk of infection from different microorganisms; sex workers are prone to sexually transmissible infections; and so on. Multiple exposure to different biological agents is also quite frequent in workplaces. According to the French Sumer survey on occupational risks, 19.3% of all workers are exposed to at least one biological risk at work (Memmi et al. 2019).

In the particular case of the SARS-CoV-2 virus, the causal agent of Covid-19, practically all workers and occupations are at risk of exposure due to the pandemic situation. Accounting for 28.8% of all infections in France, work has emerged as the second biggest source of transmission of Covid-19, just behind the family sphere (Galmiche 2020).

However, workers from some sectors are at greater risk of occupational exposure to SARS-CoV-2. In a UK study of more than 120,000 employed persons, the risk of healthcare workers testing positive for Covid-19 was over seven times higher than for non-essential workers, while those in social care had a risk that was three times higher (Mutambudzi et al. 2021). Other occupations that involve possible close or direct contact with Covid-19 carriers were also found to be at increased risk of infection: transport workers (taxi, tram and bus drivers), sales assistants, delivery personnel and all those workers who have to work in close proximity to one another in factories, warehouses and abattoirs (ECDC 2020) appeared to be particularly exposed.

Different studies that have looked at low wage workers, workers from ethnic minorities and migrant workers with precarious contracts have shown that these groups face a higher risk of contracting Covid-19 (EU-OSHA 2021). Possible explanations are the cumulative effects of bad living conditions in cramped quarters, a long commuting time to and from the workplace in shared cars or public transport, insufficient or no access to personal protective equipment, presenteeism due to a fear of losing their job even when exhibiting symptoms compatible with Covid-19, and minimal access to healthcare. Another study exploring the heavier impact of Covid-19 among migrant workers also identified a gender dimension to the OSH implications of the pandemic, with migrant women facing a higher exposure to the disease as well as a higher care burden (Purkayastha et al. 2021).

Workers in precarious situations and other vulnerable groups have long been exposed to a cumulative set of difficulties (e.g. type of job contract, long working hours, low income, limited access to training and career opportunities, migratory status) and are therefore faced with disproportionate work-related risks compared to other workers. As demonstrated in the literature about the Covid-19 pandemic, it was thus to be expected that vulnerable workers in essential sectors would be at increased risk of infection. Moreover, a recent scoping review of the literature on the Covid-19 transmission risk to workers in precarious employment and social situations showed that Covid-19 has exacerbated already existing socioeconomic and health inequalities (Côté et al. 2021).

These findings are important if institutions want to improve their preparedness for possible future pandemics and their capacity to provide a safe and decent working environment and adequate social protection for all workers, regardless of their employment status.

Covid-19 as an occupational disease: an equity perspective

As noted above, the exposure of people to the SARS-Cov-2 virus at work during the pandemic has been evident, but the recognition of Covid-19 as an occupational disease remains fragmented globally, including in the EU (Uni Global Union and ITUC 2021; ILO 2021). This lack of recognition has negative impacts on workers.

This section draws on an ongoing ETUI project on Covid-19 as occupational disease; the analysis is based on 19 national reports and two reports of seminars organised in March and June 2021 (Dierickx et al. 2021). There are many technical issues involved in the recognition of occupational diseases, such as the form of national occupational disease lists (open/closed), the definition of clinical symptoms, the time that recognition procedures take, and the diversity of compensation regimes. As the situation evolves in the EU Member States, regarding the possible recognition of Covid-19 as an occupational disease, there are elements that should be addressed from an equity perspective. These include: worker coverage; reporting of Covid-19 clusters, awareness of rights and inspections; and sick pay, benefits and compensation (Figure 5.1).

Figure 5.1 **Equity considerations in the recognition of Covid-19 as an occupational disease**

Source: Dierickx et al. (2021).

Worker coverage

Typically, the recognition of Covid-19 as an occupational disease is only possible for workers in certain sectors. Healthcare is one, but even then, there are many limitations regarding, for example, the type of workplace (hospital or community-based care) or employer (public or private), or the severity of the illness. Some other professions for which recognition can be granted include police officers, the military, and border guards. However, depending on the country, many workers who have been working during the pandemic and are at direct risk of contagion at work are excluded: for example, dentists, schoolteachers, providers of home healthcare and domestic services, and administrative, sales, manufacturing, transport and construction workers. Furthermore, the type of employment contract often dictates the possibility of recognition and compensation; for example, it is usually possible for employed workers, but precarious and (bogus) self-employed workers are left outside the remit (examples noted by the participants of an ETUI project on Covid-19 as an occupational disease include contracted workers in healthcare services in Ireland, and long-term care (LTC), hotel, restaurant and construction workers in Sweden).

Reporting and awareness of rights

There is an under-reporting of Covid-19 clusters at workplaces both on the part of employers and of workers. For the former, the lack of reporting can relate to issues such as liability and sanctions, and the latter may lack awareness of their rights in terms of occupational diseases and workplace safety (e.g. migrant workers in Finland), or be afraid that the reporting will

The vast majority of frontline workers in the pandemic have been women

result in them losing income due to no or low sick pay (e.g. in the UK) or even their job (e.g. in Bulgaria and Hungary). This situation reveals the importance of health and safety inspections. Furthermore, the burden of proof is on the worker to establish a clear connection between the disease and workplace exposure. This is then the subject of sometimes very complex recognition procedures to meet medical and administrative requirements. The procedures can take several months, burdening the systems and leaving the worker waiting. A lack of resources in occupational health is also a contributing factor: for example, in Greece, only 13% of the workforce has access to occupational health services. In Slovakia, the government stopped most activities of the clinics of occupational medicine and toxicology during the early stages of the Covid-19 pandemic, except initial and periodic examination of healthcare workers. Consequently, occupational health clinics have been very limited in terms of reporting, registering and proposing compensation for all occupational diseases. These examples should encourage some reflection on the strengthening of the systems for future preparedness, especially regarding infectious diseases, and raise the question of whether there should be an automatic recognition of the disease for certain workers.

Sick pay and compensation

Covid-19 infections are high among essential and frontline workers, who are often in low-wage or precarious employment, and for whom loss of income due to quarantine or even illness is not a real option (in Italy, for example, millions of workers are not insured by the National Institute for Insurance against Accidents at Work and do not, therefore, have access to income or benefits). Once an occupational disease has been established, workers can benefit from compensation (although who and what is covered varies across countries). In the case of Covid-19, in addition to acute illness following infection, the long-term health consequences are also of concern, as the current estimates are that 10% of people who get Covid-19 will develop 'long Covid', the symptoms of which fluctuate over months (Ayoubkhani et al. 2021; Greenhalgh et al. 2020). A study by the Dutch Lung Foundation with the Universities of Maastricht and Hasselt found that six months after contracting so-called 'mild Covid' (that required no hospitalisation), less than 5% of people were symptom-free. Importantly, these were relatively young patients (the average age in the study was 48 years), and their health had been good prior to infection (Longfonds 2021). This issue thus concerns the working-age population and also has implications for people's safe return to work. Working-age women are twice as likely to report long Covid symptoms than men (Torjesen 2021), and the vast majority of frontline workers in the pandemic have been women, making gender equality an important aspect of the illness' recognition as occupational. Another concern is that women in particular are known to face difficulties in obtaining recognition for damage to their health in the course of their work in all European countries (Casse and De Troyer 2021)

The European Commission Recommendation of 19 September 2003 concerning the European schedule of occupational diseases advocates the recognition of its listed occupational diseases by Member States, with a view to encouraging convergence. The Commission has committed to updating the Recommendation to include Covid-19 by 2022. Monitoring the developments in the recognition of Covid-19 as an occupational disease by the Member States, and particularly vis-à-vis the question of equity, will reveal if and how current inequalities in protection within and between sectors, countries, and workers will be addressed.

Precarious work in long-term care: an OSH risk

> Many workers have had to face the dual challenge of coping with financial stress and the risks associated with exposure to the virus

As noted in the sections above, workers in a precarious situation face unhealthy and hazardous working conditions, as well as many psychosocial risks stemming from employment insecurity, income inadequacy and a lack of rights and protection (Hassard and Winski 2017; Quinlan 2015, 2021; Kreshpaj et al. 2020). Due to the impact of Covid-19 on the economy, the prevalence of precarious employment is predicted to rise (Eurostat 2020).

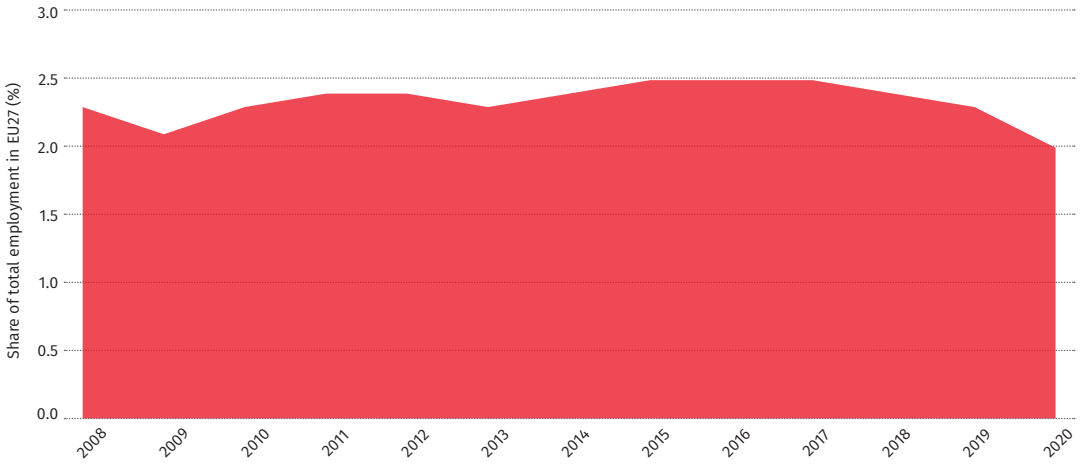
Eurostat monitors the precarious employment rate, which is defined as the 'percentage of employees with a short-term contract of up to 3 months' (Figure 5.2).

The data show that the share of precarious employment as a percentage of total employment in the EU in 2019 was 2.3%. Countries above this average included Croatia (6.1%), France (5.3%), Belgium (4.4%), Finland (4.0%), Spain (3.9%), Sweden 3.7 (%), Italy (3.5%), Poland (3.2%), Slovenia (3.0%), and Portugal (2.3%) (Figure 5.3). As 2020 was the lockdown year, the data might be considered as an outlier; in the case of precarious work, the reason for a lower percentage does not necessarily indicate fewer short-term contracts but the closing down of sectors where precarious work is common (e.g. tourism), thus leading to an increase in unemployment.

Precarious employment, represented here by short-term contracts, has many characteristics, including low salaries and income security, lack of workplace rights, and poor or lack of access to social security (European Parliament 2016). The right to sickness benefits, including both long-term sick leave and shorter spells of sickness absence, is an important dimension of worker protection, and an issue that has clearly come to a head during the pandemic (Padrosa et al. 2020; Jonsson et al. 2019; see also the section in this chapter on Covid-19 as an occupational disease). Many workers have had to face the dual challenge of coping with financial stress and the risks associated with exposure to the virus, and workers in precarious employment in particular have had to risk their personal health to maintain their jobs and income (Purkayastha et al. 2021).

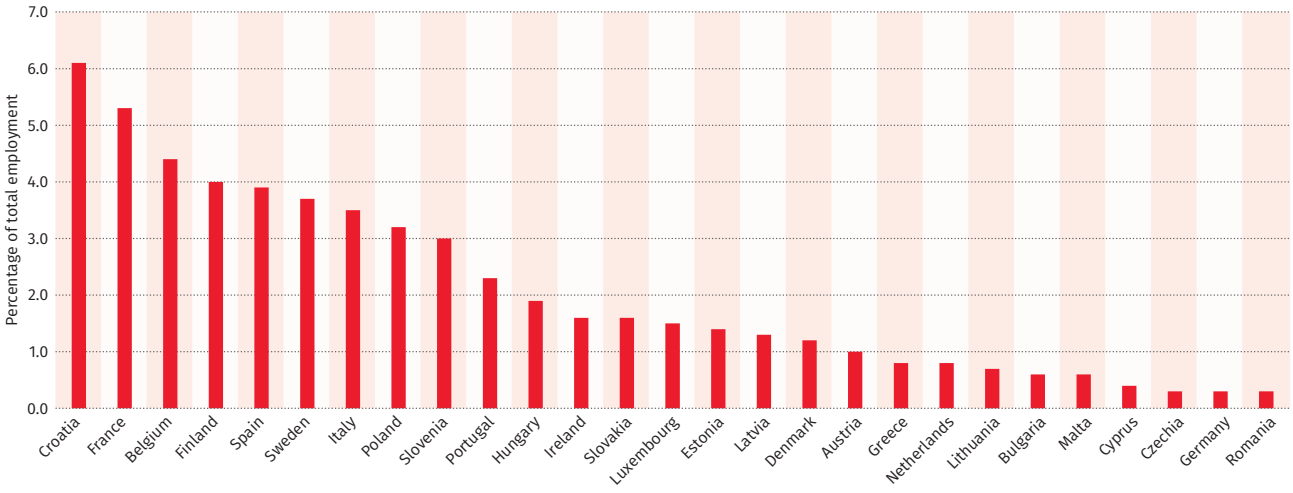
Research suggests that workers facing financial stressors are at higher risk of adverse safety-related outcomes at work, including lower safety compliance, as well as more injuries and accidents (Sinclair et al. 2020). It is also known that safety hazards in precarious work can be related to having multiple jobs in multiple work sites (Quinlan 2015). A case in point is long-term care work. Due to the financial stressors of job and income insecurity, 'presenteeism'

Figure 5.2 **Precarious employment as a percentage of total employment, EU27 (2008-2020)**



Note: Total employment = across all NACE activities (Statistical Classification of Economic Activities in the European Community).
Source: Eurostat. Precarious employment by sex, age and NACE Rev. 2 activity [lfsa_qoe_4ax1r2],
https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_qoe_4ax1r2&lang=en.
Total employment = across all NACE activities (Statistical Classification of Economic Activities in the European Community).

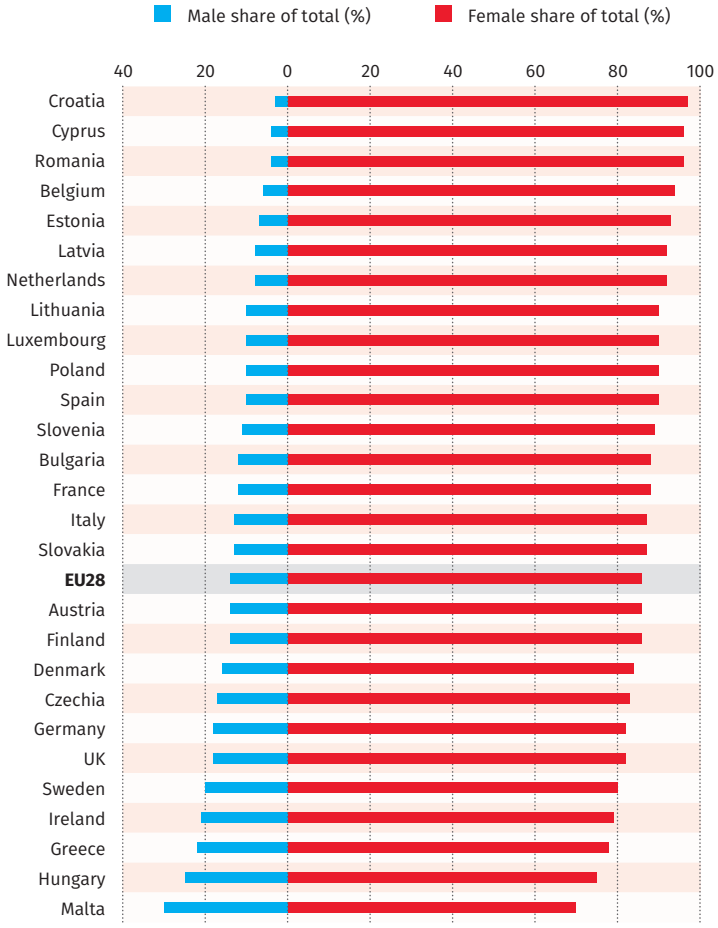
Figure 5.3 **Precarious employment as a percentage of total employment, EU27 (2019)**



Source: Eurostat. Precarious employment by sex, age and NACE Rev. 2 activity [lfsa_qoe_4ax1r2]. https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_qoe_4ax1r2&lang=en

(i.e. working while sick) has been evident during the Covid-19 pandemic in the LTC sector, where precarious care workers have had to forego confinement to sustain their income. For instance, one study on LTC workers in elderly care in nine European countries during the Covid-19 pandemic highlighted the limited access to sick pay for these workers (Pelling 2021). Data from the UK and Sweden show that care homes with higher levels of infection amongst residents, and a higher prevalence of staff infection, resorted to more frequent use of agency nurses or carers (ibid.). Conversely, evidence shows that in care homes where staff received sick pay, infection levels of residents were lower (Shallcross et al. 2021).

Figure 5.4 **Gender shares of care workers* (2019)**



Note: * ISCO-3D: 532 code: personal care workers in health services.
Source: Franklin, Bambra, Albani (2021) Gender equality and health in the EU, p. 86.
https://op.europa.eu/en/publication-detail/-/publication/5b59409f-56e4-11eb-b59f-01aa75ed71a1

Gender-segregated employment patterns combined with persistent undervaluation of women's jobs, despite the legislation on equal pay for work of equal value, result in women being paid less than men (Fagan and Norman 2020). Data also show that women are more likely to work on temporary contracts. Temporary contracts are more common in the LTC sector (16%) than in healthcare (12%) and in the economy overall (13%) in the EU. In some countries, zero-hour contracts are common in this sector (Eurofound 2020b). Hourly wages are low in the LTC sector, so annual income can also be particularly low, especially for personal care workers (OECD 2020), the vast majority of whom are women in all EU countries (Figure 5.4). The numerous female migrant carers in the EU face further challenges related to hostile labour market conditions and discrimination (Kuhlmann et al. 2020). In addition to the biological hazard that is the SARS-CoV-2 virus, care work is very demanding, and the LTC sector suffers from high levels of absenteeism owing to sickness (OECD 2020). Furthermore, evidence of the severe mental health impacts of PSR on health and care workers during the Covid-19 pandemic is overwhelming (Franklin and Gkiouleka 2021).

Almost all EU Member States have introduced measures that address social protection for

non-standard workers and the self-employed in the EU during the Covid-19 crisis. The scope of the measures introduced has, however, been uneven; specifically, employees in non-standard employment may not have had access to effective paid sick leave schemes. In addition, all the measures introduced have a temporary character: they apply for the duration of the health crisis due to the pandemic and are not meant to address more structural shortcomings related to access to support and the effectiveness of national systems (Spasova et al. 2021).

The prevalence of precarious employment contributes to the poor working conditions in the LTC sector, highlighting systemic inadequacies in worker protection. The situation showcases the perils of precarious employment in terms of social protection and hazardous working conditions.

A legislative patchwork on psychosocial risks in the European Union

> The expansion of teleworking can lead to situations exacerbating known psycho-social risks

> Only in a minority of countries can workers rely on legal provisions to establish specific procedures preventing PSR factors at their workplaces

Stress, exhaustion, burn-out, and physical or psychological violence are all different facets of the same phenomenon: psychosocial risks at work (PSR). Over the past few decades, changes in the nature of work have led to a shift from the physical demands associated with work in the primary and secondary sectors to psychosocial risks more closely associated with the service sector or white-collar jobs (Eurofound and EU-OSHA 2014). Due to the Covid-19 pandemic, teleworking and remote working arrangements have emerged as the 'new reality', and are likely to become more structural in the near future. 80% of European employers already say they are requiring, or considering requiring, more employees to work remotely (Littler 2020). The expansion of teleworking, including in the context of hybrid working arrangements, where some days of the working week are office days and others are teleworking days, can lead to situations exacerbating known PSR (e.g. stress arising from unpredictable or changing working patterns), especially if there is no worker participation in the planning of these arrangements.

Two substantial factors can be identified behind the very uneven, and ultimately unequal, capacity of EU Member States to address the growing strains that these new working patterns are having on the psychosocial wellbeing of workers. First of all are the significant regulatory gaps and divergences between Member States, in terms of the legal provisions and legal institutions that workers may be able to rely on in the face of work-related PSR. Second of all is the uneven spread of (old and new) PSR across different sectors of the economy, and the significant implications that these inequalities have on particular groups of the working population that are visibly overrepresented in certain industries or professions.

In theory at least, workers should be already, and equally, protected against PSR by the EU OSH framework. The Framework Directive 89/391/EEC has a broad scope and covers workers' health and safety in all aspects of work. Therefore, it should cover the psychosocial dimension, and the general principles of prevention should apply to PSR. Unfortunately, any references to PSR within this framework are indirect. There are just a few brief mentions of mental strain in the Working Time Directive (Art.8 of Dir.2003/88/EC). When asked, more than half of trade unions and employers said that the Directive 89/391/EEC on Safety and Health of Workers at Work had not been effective for the assessment and management of PSR (Leka et al. 2011). The sole direct references to psychosocial risks are in the two framework agreements adopted by the European social partners on work-related stress (2004) and bullying and violence at work (2007). However, these agreements are not legally binding, and their implementation has been inconsistent amongst the Member States (European Commission 2011, 2015), resulting in workers in some countries being less protected than in others. A comparison of the various ways Member States address PSR at work reveals substantial heterogeneity.[1] A distinction should be made between countries whose legal approach is to extend the employer's obligation to prevent risks at work to the psychological or mental dimension of health, and countries which have specific legal provisions to address PSR factors (e.g. workload, no support from management, or tension at work). Figure 5.5 shows that the legal systems of 68% of the 25 examined EU countries make reference to workers' psychological or mental health as part of the scope of the employer's obligation to assess all risks at work. However, only 44% of countries have legal provisions on preventing PSR factors.

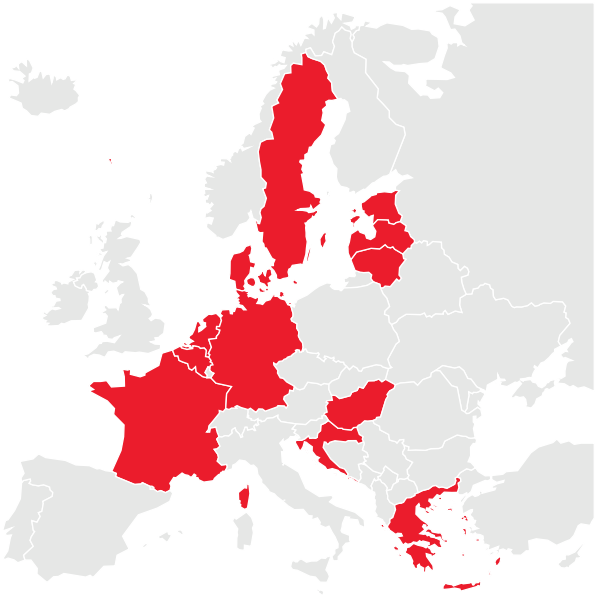
Only in a minority of countries can workers rely on legal provisions to establish specific procedures preventing PSR factors at their workplaces. Figure 5.6 shows that, on average in the EU27, the percentage of workplaces that have procedures to address PSR factors (e.g.

1. The national data to compare the national situations is based on an ongoing ETUI research project: Mapping of national law, collective agreements and jurisprudence on work-related psychosocial risks in the EU-26. All the EU Member States have been examined except Finland and Slovakia.

Figure 5.5 **Legislation on psychosocial risks organised by topic, per country (2021)**

Figure 5.5a **Legal provisions with mentions of psychological or mental health**

Figure 5.5b **Legal provisions addressing psychosocial risk factors**



Source: Cefaliello (2021).

Figure 5.5c **Legal provisions addressing work-related stress**

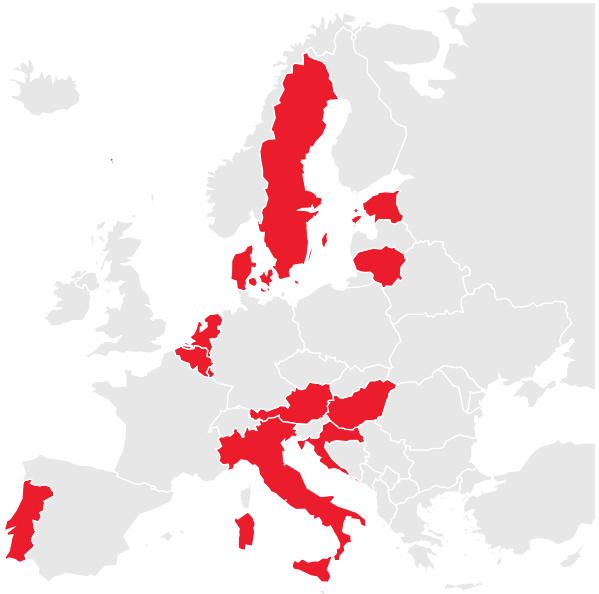
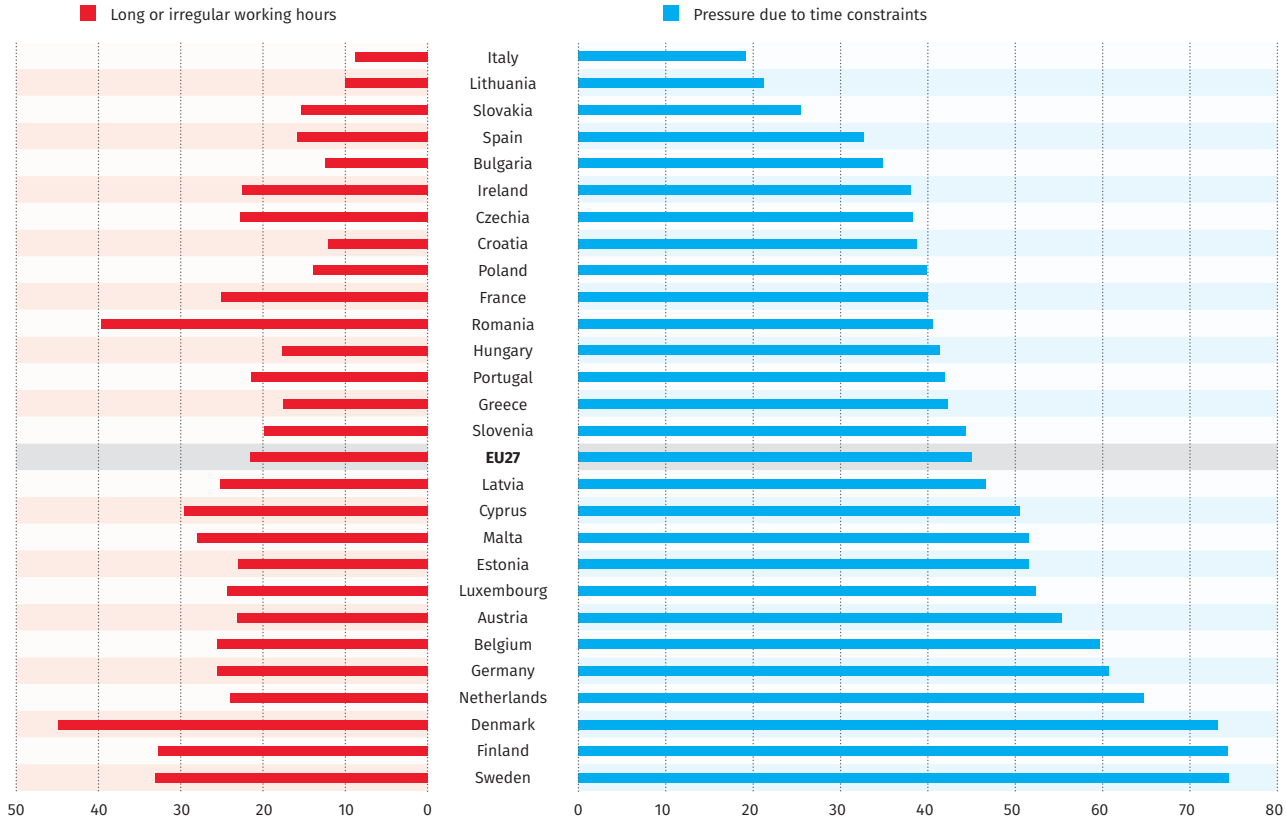


Figure 5.5d **Legal provisions addressing workplace bullying**

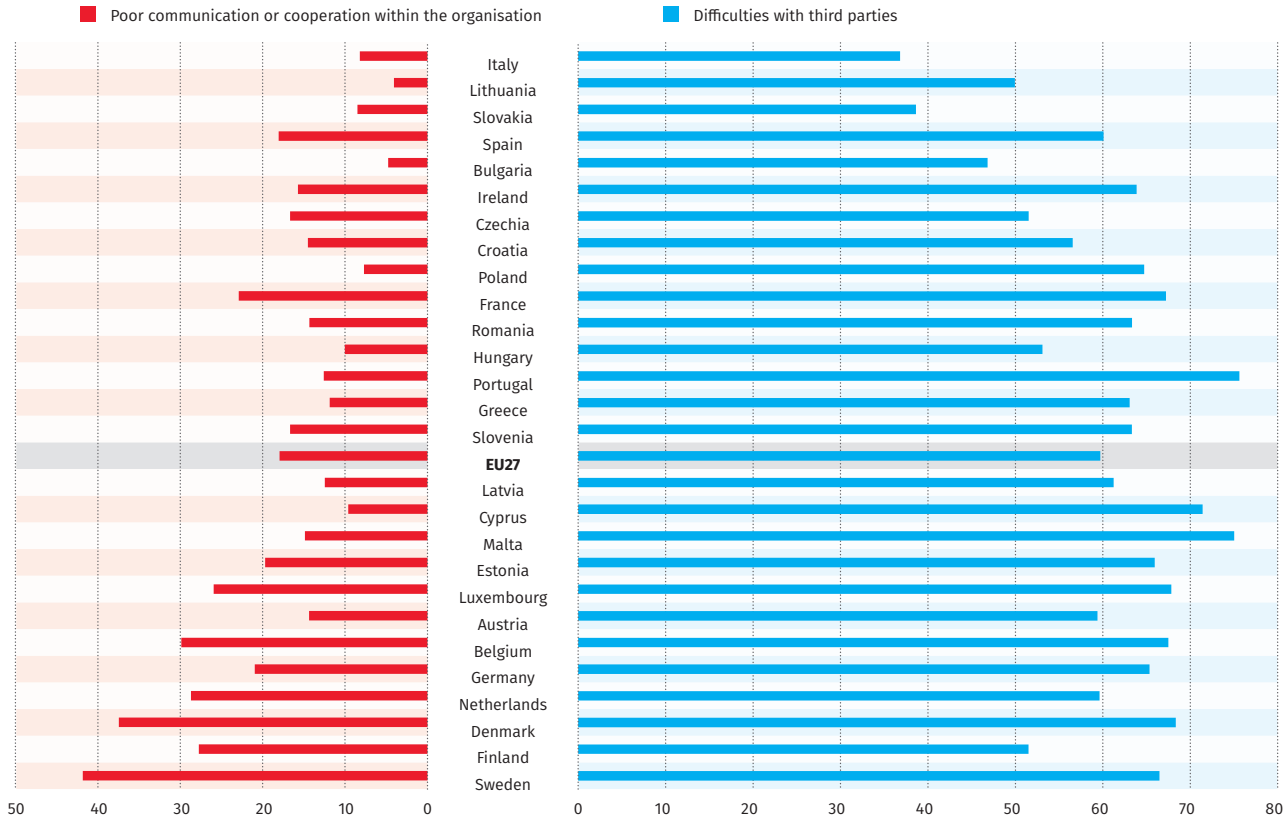
Figure 5.6 **Percentage of workplaces reporting psychosocial risks, per country (2019)**

Figure 5.6a **Time constraints and working hours**



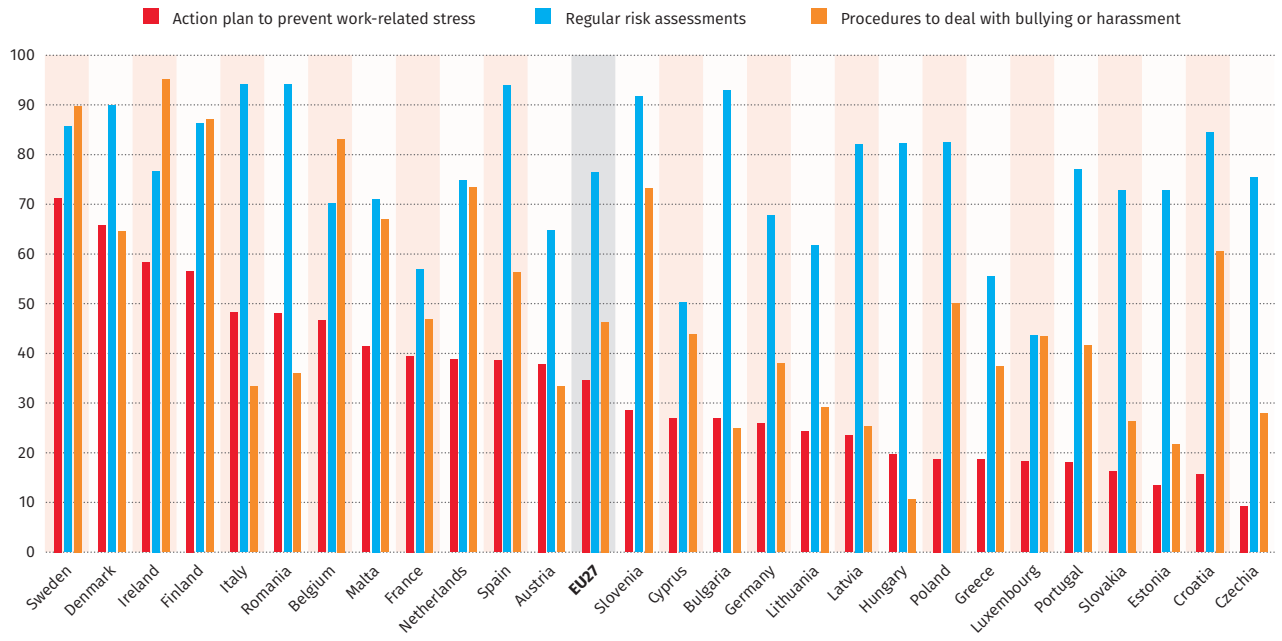
Source: Author's own compilation based on EU-OSHA website. https://visualisation.osha.europa.eu/esener/en

Figure 5.6b **Workplace internal communication and difficulties with third parties**



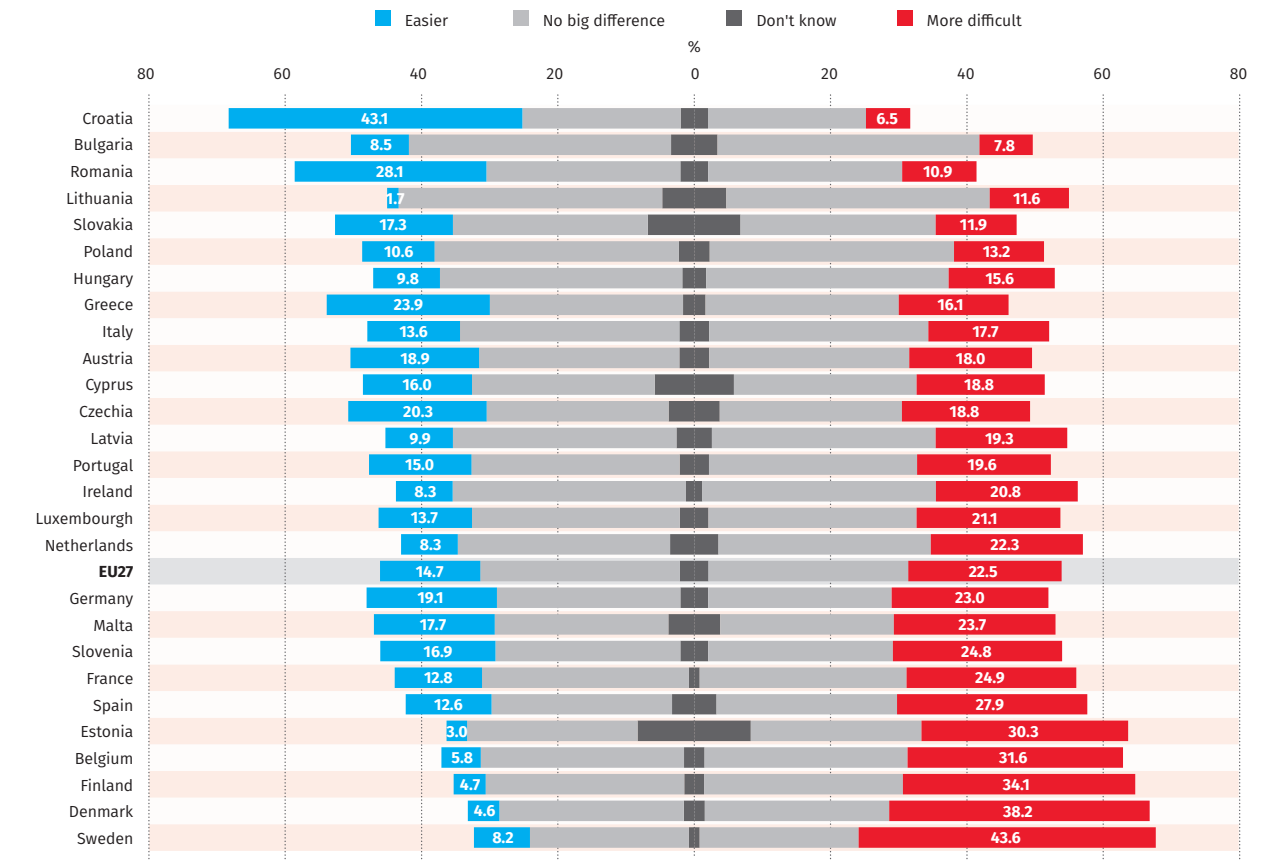
Source: Author's own compilation based on EU-OSHA website. https://visualisation.osha.europa.eu/esener/en

Figure 5.7 **Percentages of workplaces reporting PSR action plans, procedures and risk assessments (2019)**



Source: Author's own compilation based on EU-OSHA website. https://visualisation.osha.europa.eu/esener/en

Figure 5.8 **Percentages of workplaces reporting on the difficulty of managing PSR compared to other OSH risks (2019)**



Source: Author's own compilation based on EU-OSHA website. https://visualisation.osha.europa.eu/esener/en

> If PSR factors are not addressed adequately at the workplace, workers might suffer from stress

reorganisation of work to reduce job demands and work pressure, or intervention in case of excessively long or irregular hours) is lower than the percentage that carry out regular OSH risk assessments. The difference between some countries is stark. For example, 58.91% of Danish workplaces have a procedure to reorganise work to avoid work pressure, while in Czechia only 24.07% of workplaces report similar setups. This example illustrates to what extent workers are protected differently depending on the country they live in and the company they work in.

Work-related stress

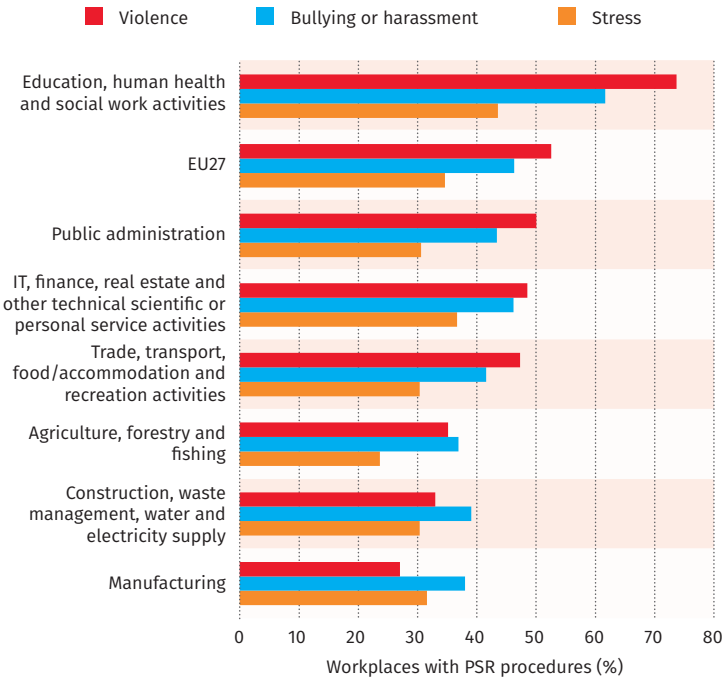
If PSR factors are not addressed adequately at the workplace, workers might suffer from stress, and tensions in the workplace can turn into bullying. 76% of the Member States examined make explicit reference to work-related stress or workplace bullying in their laws. However, only 52% of these Member States have actual legal provisions to prevent work-related stress and 60% to prevent workplace bullying.[2]

Nevertheless, a lack of legal provisions does not necessarily mean that the issue is not dealt with through other means, such as collective agreements. For example, in Greece, France and Malta, agreements have been negotiated by social partners to prevent work-related stress even if stress is not explicitly mentioned in the law. However, it is important to remember that, depending on the country and the scope of the collective agreement (e.g. sectoral), not all workers can benefit from adequate protection against work-related stress (see Figure 5.6). This lack of legal coverage, or a legal safety net, is even more worrying considering that only one in three workplaces (34.6%) reports having an action plan against stress in place (Figure 5.7).

The lower rate of workplaces with action plans to prevent work-related stress in comparison to those that carry out regular risk assessments (as illustrated in Figure 5.7) demonstrates that workers are not equally protected against this risk, despite the fact that 88% of workers in the EU have reported experiencing stress at work (ADP 2019). Work-related stress can be a consequence of several factors, such as time constraint pressures, long or irregular working hours, and/or poor communication and cooperation within the organisation (Figure 5.9).

2. In this study we make a distinction between discriminatory harassment (Dir. 2000/78/EEC) and workplace bullying.

Figure 5.9 **Percentage of workplaces reporting having procedures in place to prevent PSR (2019)**



Source: Author's own compilation based on EU-OSHA website (data for 2019). https://visualisation.osha.europa.eu/esener/en

Workplace bullying and violence at work

Despite the adoption of a framework agreement in 2007, only 60% of Member States have specific legislation to address workplace bullying and violence at work. According to Figure 5.10, in 48% of Member States, this issue is covered through collective bargaining. Nevertheless, in more than one third (40%), workers are not protected against workplace bullying and violence at work.

This unequal coverage may in part explain the fact that only 46.28% of workplaces in Europe have procedures to deal with bullying or harassment (Figure 5.7). However, this number needs to be placed in perspective and understood alongside another phenomenon: harassment on discriminatory grounds, as prohibited by Directive 2000/78/EC (Art.2(3)). It is indicative that the 2019 International Labour Organisation Convention on Violence and Harassment (C-190) urging Members to 'take into account violence and harassment and associated psychosocial risks in the management of occupational safety and health' has only been ratified by three EU Member States: Italy, Greece and France.

Moreover, Figure 5.6 shows that when workers are protected, the protection varies considerably depending on the sectors: from 61.65% in human health and social work activities to 46.18% in personal service activities (even if this sector

Figure 5.10 **Collective agreements on psychosocial risks organised by topic, per country (2021)**

Figure 5.10a **Collective agreements addressing psychosocial risk factors**

Figure 5.10b **Collective agreements addressing work-related stress**

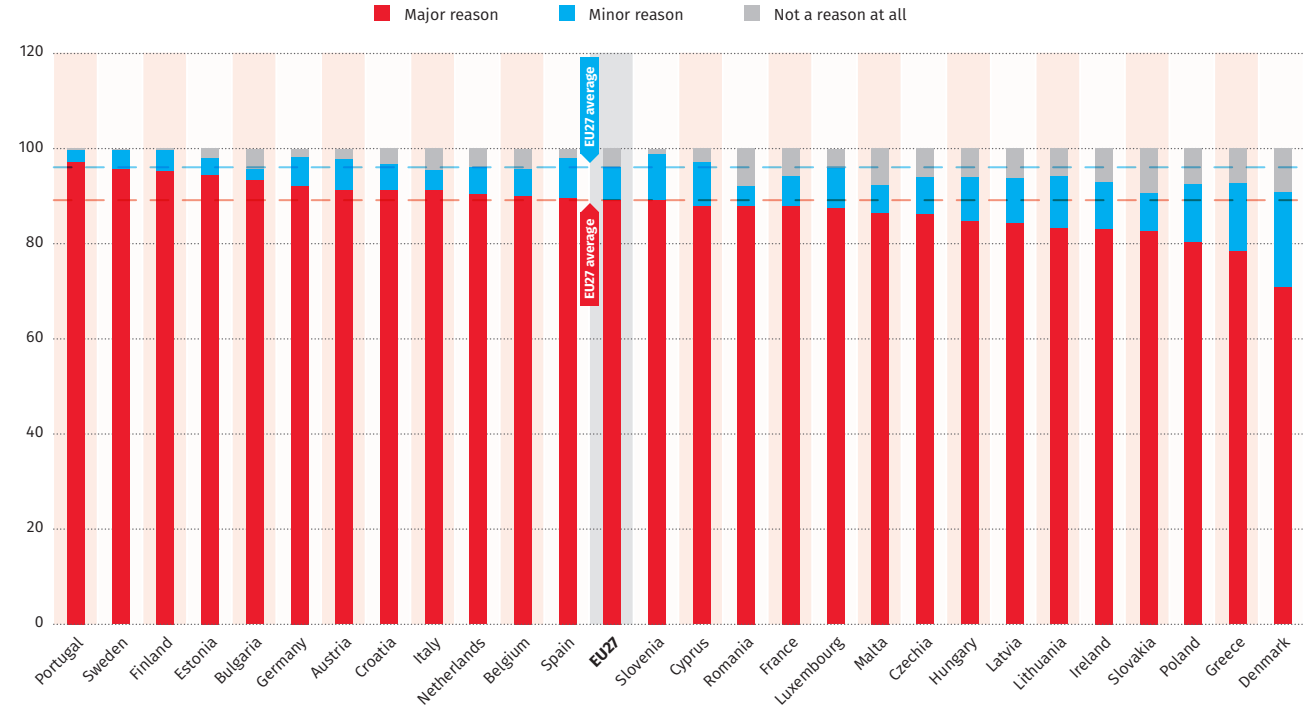
Source: Cefaliello (2021).

Figure 5.10c **Collective agreements addressing workplace bullying**

involves contact with the public, something well known to be a risk factor). These findings concur with a report published by Eurofound (2015) showing that workers in the health and social work sector are more likely to be subject to antisocial behaviour compared to other sectors. Considering that these sectors are well-known to be female-dominated, the lack of legislation has a particularly negative impact on working women.

This analysis has shown that 92% of EU Member States include in their legal framework either: a reference to the psychological or mental dimension of workers' health; or provisions to prevent PSR factors, work-related stress, or workplace bullying and violence. This trend is encouraging and demonstrates that it might be possible to find common ground in order to adopt an EU Directive on PSR in the future. However, this number might be deceiving, as not all Member States address PSR with the same depth or to the same extent. In most of the countries there is only one reference saying that the mental dimension of work should be assessed by the employer, and without any further details. Therefore, in most of the Member States, it is a simple confirmation that PSR are covered by the implementing legislation of Directive 89/391/EEC without any concrete actions to adequately prevent these risks; the situation leaves workers unequally protected.

Figure 5.11 **Percentages of workplaces reporting whether fullfilling a legal obligation is a reason to address OSH (2019)**



Source: Author's own compilation based on EU-OSHA website. https://visualisation.osha.europa.eu/esener/en

Structural inequalities and gender roles in telework

> The tele-workability divide lies at the crossing of multiple structural inequali-ties within the labour market, and favours the already privileged members of our society

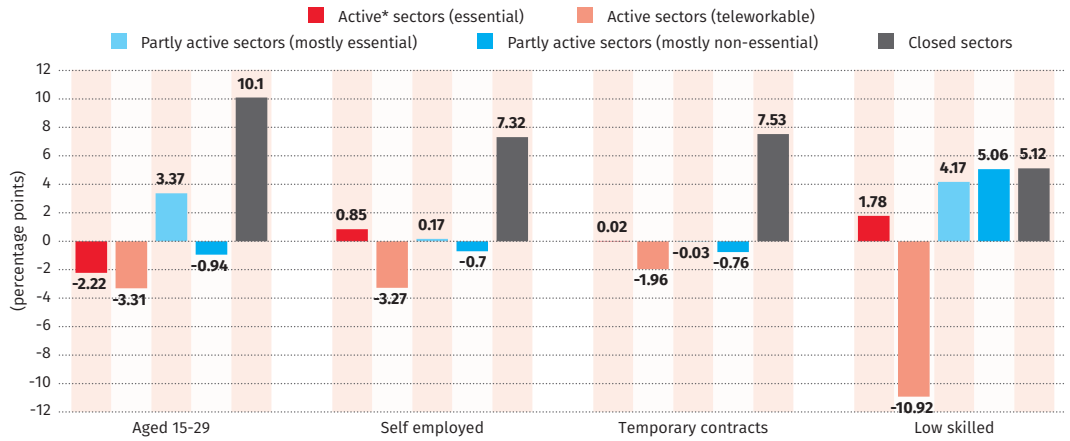
Although hardly new to the world of work, the 'teleworkability divide' (between those who can and those who cannot) was less evident before the crisis, both because the incidence of telework remained marginal and because its impact was drastically less severe. During the Covid-19 lockdown, however, not being able to telework meant an increased risk of temporary layoff or furlough, or even permanent contractual termination on economic grounds. Conversely, individuals in 'teleworkable' jobs were more likely to still be in employment, to have worked the same or similar working hours as pre-outbreak, and to have not suffered any decline in income (Sostero et al. 2020).

A recent study attempted to identify the groups of workers that were the most affected by the Covid confinement measures (European Commission 2020). Economic sectors were classified into five categories according to the likely impact of the Covid-19 crisis, which were then applied to the most recent data on EU28 employment. Figure 5.12 shows the difference between the average prevalence of selected groups of workers across all sectors and their prevalence in specific sectors, with a positive value meaning that the group is over-represented in the said sector.

The findings show that vulnerable segments of the working population were overrepresented in the forcefully closed sectors during the lockdown. The sectors most affected by the crisis are much more likely to employ young, low-skilled workers with poor employment conditions. Conversely, these groups are underrepresented in teleworkable sectors, meaning that teleworkers are generally older, more educated workers on permanent contracts. A similar trend can be observed for wage levels, with workers in the forcefully closed sectors belonging to the lowest average wage percentiles and workers in the teleworkable sectors being those with the highest wage levels (European Commission 2020).

These findings clearly demonstrate that the teleworkability divide lies at the crossing of multiple structural inequalities within the labour market, and favours the already privileged members of our society while further endangering vulnerable workers. In addition to being more exposed to the risk of job loss and wage cuts (Sostero et al. 2020), these workers are also likely to have less control over their job security, which has a consequent impact on their mental health. It has been demonstrated that increased job insecurity and financial worries due to Covid-19 have been associated with greater depressive and anxiety symptoms (Wilson et al. 2020). The expectation of unemployment coupled with being helpless to change this outcome contributes to a sense of despair that is central to depression. Moreover, the pandemic has intensified the difficulties for some of accessing mental health support at the right time (Allwood and Bell 2020). These same groups will also be the most vulnerable to mental health difficulties in the longer term, as

Figure 5.12 **Difference between average prevalence of selected groups of workers across all sectors and prevalence in specific sectors (pp)**



Note: *Status during lockdowns.
Source: Fana et al. (2020).

trauma, injustice and abandonment add to the psychological damage. This means that measures to get people back to work after the Covid-19 crisis need to take full account of the risks of doing further harm to the wellbeing of an already fragile workforce. Any moves towards greater labour market deregulation and promoting flexibility could result in widespread and sustained precariousness, adding to the psychosocial toll on vulnerable workers.

The double burden for women

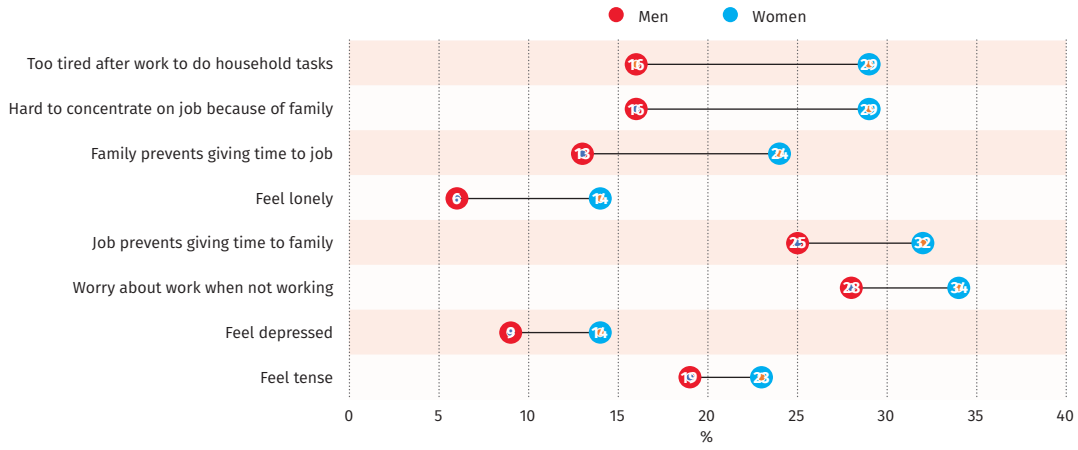
Conflicts between work and family life are on the rise, especially for women with young children

For those able to telework during the lockdowns, the concentration of activities at home led to the collapse of work-life boundaries. When work and domestic responsibilities co-exist in the same physical space, boundaries naturally become blurred and result in increased work-related stress. The first round of the 'Living, working and COVID-19' e-survey (Eurofound 2020c) showed that conflicts between work and family life are on the rise, especially for women with young children: 29% of them found it hard to concentrate on their work due to their family responsibilities, compared with only 16% of men with young children (Figure 5.13). Family responsibilities have prevented more women (24%) than men (13%) from giving the time they wanted to their work. Women's difficulties in setting aside the time required to work is also reflected in an increased likelihood of being worried about it when not working, with a prevalence of 34% compared to 28% for men. At the same time, women with young children are more likely to report that work is impacting on family life. Almost one third of them (32%) declared that their job prevented them from giving time to their family, against a quarter of men. This conflict is also reflected in more women (34%) being too tired after work to do household tasks than men (28%). They are also more likely to feel tense (23% vs 19%), lonely (14% vs 6%) and depressed (14% vs 9%). The same pattern of results occurs for women and men with older children (12–17 years), although the differences are narrower.

The pandemic has revealed how deeply gender inequalities remain embedded in our societies' structures. Despite some progress being made over the last decades, women continue to be responsible for a significant share of domestic, unpaid labour, reflecting the continued presence of the 'double shift'. For mothers of young children, teleworking in a time of lockdown even created a 'double-double shift' by adding home-schooling and taking care of dependents to an already packed day, thus putting extra pressure on the time available for work. During the pandemic, women averaged 62 hours per week caring for children compared to only 36 hours for men (European Commission 2021). The strain caused by this double burden contributed even further to the worsening of women's mental health during the lockdowns. It was demonstrated that women experienced a greater increase in anxiety, depression, poor sleep quality and trauma over the time spent in lockdown than men (Guadagni et al. 2020), and greater worry and anxiety in relation to their role as caregiver (Hamel et al. 2020). These findings add to the growing evidence that working from home is more of a mixed blessing for women than it is for their male partners (Oakman et al. 2020). Besides increased unpaid work, other psychosocial risk factors for women working from home include domestic violence, digital harassment and cyberbullying (Samek Lodovici 2021).

However, evidence also hints at a potential reshuffling of care responsibilities within

Figure 5.13 **Proportion of women and men with children under 12 experiencing work-life conflicts and mental health issues during the pandemic in the EU (%)**



Note: The chart shows the percentage of individuals who responded 'always' or 'most of the time' when asked about each point.
Source: Author's own compilation based on Eurofound 2020a.

households, with increased involvement of fathers as the pandemic has progressed (Alon et al. 2020). Whether these developments will lead to a greater and sustainable shift in traditional gender roles remains to be seen. It may be that the increase in fathers' involvement under these circumstances has remained limited to childcare and home schooling and will not spill over to other types of unpaid care or housework. Nevertheless, the crisis has exposed endemic gender inequality in Europe and presents an opportunity to change the status quo.

> The crisis has exposed endemic gender inequality in Europe and presents an opportunity to change the status quo

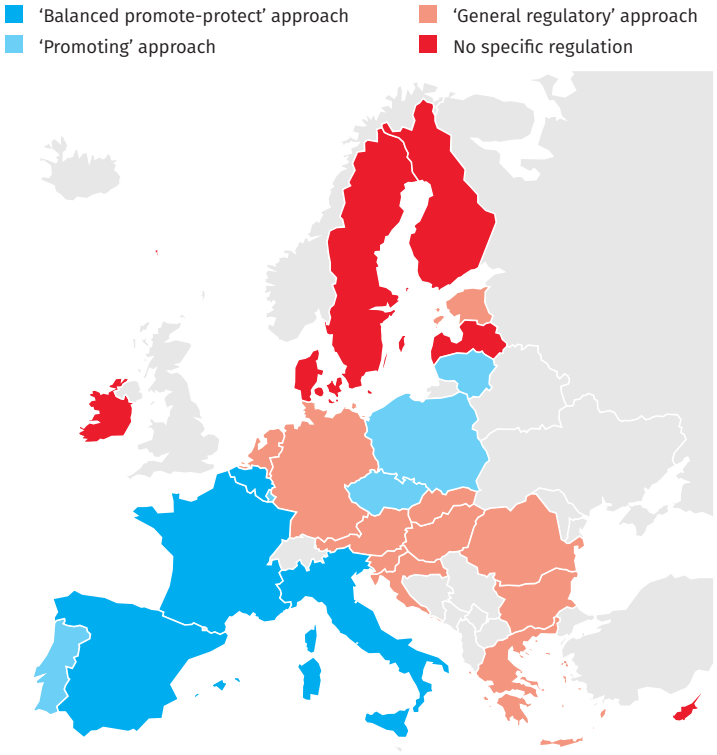
Unequal enforcement of the right to disconnect

Many of the recent initiatives for dealing with the blurring of boundaries between work and personal life have been directed towards restricting access to work systems outside of office hours. However, the right to disconnect is not explicitly regulated in EU law and the situation in the Member States varies widely, adding yet another layer of inequalities. The European Parliamentary Research Service (European Parliament 2020) has identified four types of approaches for regulating telework in the EU27 (Figure 5.14). Belgium, France, Italy and Spain rely on a 'balanced promote-protect' approach, emphasising both the benefits and the risks of teleworking, notably by introducing a legal framework for the right to disconnect. The second type of approach focuses solely on the benefits without specifically dealing with any of the negative aspects, and is found in such countries as Czechia, Lithuania, Poland and Portugal. In the 13 other Member States, there is only a general legislation regulating the possibility to telework, with no direct mention of work-life balance issues. The remaining six Member States have no specific legislation governing teleworking.

These categories illustrate the different degrees of maturity of the initiatives deployed by Member States to facilitate a healthy work-life balance. Recognising both the benefits and the risks of flexible and remote working is of paramount importance, and yet the risks associated with constant connectivity has prompted only four Member States to legislate on the right to disconnect. This is becoming an even more pressing policy consideration as telework is almost certain to become an integral part of the post-pandemic reality. That said, the work–life balance situation of teleworkers has been far from ideal during the pandemic, even in countries following the 'balanced approach'. This raises not only the issue of the coverage of the right to disconnect, but also of its level of enforcement at the company level and its sufficiency. The operationalisation of the right must involve profound changes in company culture so workers feel that they can disconnect from work without facing negative repercussions. This presupposes the need to address the causes of over-connection, including excessive workload, lack of training or unsuitable management and workplace practices. More data is required to clearly assess the impact of these initiatives on employee work-life balance and to identify key factors playing a role in the success of the right to disconnect.

In sum, structural inequalities are widening because of the disproportionate impact of the pandemic on vulnerable groups of workers. These occupational cleavages are reflected in increased financial insecurity for young, low-skilled workers with poor employment conditions, and persistent conflicts between work and family demands for women, especially those with young children. The pandemic has negatively impacted the mental health of vulnerable workers through these societal and economic consequences, with greater emotional distress, feelings of isolation and abandonment. National initiatives deployed to address these issues have been inconsistent, adding yet another layer of inequality to be faced by European workers. The Covid-19 pandemic presents a chance to reflect on these issues and to 'build back better' through ambitious actions at the EU level, improving both access to telework and the working conditions of remote workers.

Figure 5.14 **Cluster analysis of national legislation addressing telework in different Member States**



Source: Eurofund compilation based on the contributions from the network of Eurofound correspondents.

Conclusions

Much of the burden of the crisis has fallen on individuals in the most vulnerable situations, particularly along occupational and socioeconomic divides

One of the key ramifications of the Covid-19 pandemic has been to not only reveal but also reinforce deep structural inequalities. Much of the burden of the crisis has fallen on individuals in the most vulnerable situations, particularly along occupational and socioeconomic divides; and female gender is a common denominator for higher exposure to hazards and risks in both frontline essential jobs and teleworking. The first layer of inequality involves differences in the risk of exposure to the virus. Work-related exposure is higher for occupations that remained fully operational during the lockdowns and did not permit working from home. These typically include low-income jobs in service sectors, health or social care, transportation, cleaning, education, and the food industry. A second layer of inequality relates to the risk of developing a severe form of Covid-19, which is higher among individuals with poor general health and nutritional status or underlying chronic conditions such as cardiovascular diseases, lung diseases, diabetes and cancer. The prevalence of these conditions is also inversely associated with socioeconomic status. Furthermore, persons in disadvantaged socioeconomic groups are more likely to delay seeking care for Covid-19, potentially resulting in a more severe form of the disease (Burström and Tao 2020). The third layer of inequality lies in the social and economic consequences of the pandemic. The risk of unemployment is higher among low-income earners and workers with atypical or precarious employment conditions, as they serve in sectors that have been hit the hardest by the pandemic. Additionally, these workers typically have smaller economic buffers to support periods of lost income (Whitehead et al. 2021). Through these three main layers, the pandemic has exacerbated existing inequalities and disproportionately affected lower socioeconomic groups. And while having a teleworkable job has shielded certain workers from exposure to the virus, psychosocial risks have been rife in this type of work.

The issues that we have discussed in this chapter demonstrate the need for more equal health and safety protection and stronger prevention of hazards and risks in the world of work. Our analyses have provided a view on how poor working and employment conditions hinder the prevention of hazards and risks, thereby contributing to immediate and long-term health inequalities. When addressing structural inequalities in OSH, attention must be given to how employment conditions intersect with working conditions and the rights enshrined in the legal framework that the EU Directive on OSH provides. Treating OSH as a bolt-on topic instead of an integral part of workplace policy planning, work organisation, and indeed employment policy, results in a misalignment between the rights of workers to be safe at work and their lived reality.

The pandemic period has seen the adoption of a new EU Strategic Framework on Health and Safety at Work (2021-2027), which has three key objectives: to anticipate and manage change in the world of work, to improve prevention of work-related diseases and accidents, and to increase preparedness for possible future health threats. While the objectives are laudable, the anticipated actions fall short in their robustness. The means proposed in the Framework are characterised by a high degree of voluntarism. What is missing as an essential underpinning factor is the need to maintain and further develop good regulation at EU level. For example, while the Strategy rightly notes that changes in the work environment are required to tackle hazards to psychosocial wellbeing, many of the funded initiatives focus on individual-level mental (e-)health interventions. Instead of focusing on the discourse of individual resilience, employers should organise work in such a way that work-related PSR are being prevented in the first place. The EU-level regulation of risks as prevalent as work-related PSR is long overdue, and a daughter directive on this issue is needed to create a common basis for safeguarding the mental health of all workers in the EU.

Finally, this chapter has shown the large differences that exist in the protection against occupational health and safety risks between the Member States, particularly regarding the recognition of Covid-19 as an occupational disease and in PSR legislation. OSH regulation should aim at an upward convergence between the Member States, but following decades of neoliberal politics, regulation at the EU level now almost seems to be a taboo. It is therefore no surprise that the subsequent EU OSH Strategic Frameworks have mainly taken a voluntaristic approach. Although there is nothing wrong with employers voluntarily applying the preventive principles, evidence has clearly shown that innovative practices in OSH will only occur if they are supported by regulation (EU-OSHA 2019) and strong direction at the EU level (Walters et al. 2021).

References

ADP (2019) The workforce view in Europe 2019, Always Designing for People. https://www.ilos-institut.de/downloads/2019_Workforce%20Europe%20Survey%20Report.pdf

Allwood L. and Bell A. (2020) Covid-19: understanding inequalities in mental health during the pandemic, Briefing, London, Centre for Mental Health. https://www.centreformentalhealth.org.uk/sites/default/files/2020-06/CentreforMentalHealth_CovidInequalities_0.pdf

Alon T., Doepke M., Olmstead-Rumsey J. and Tertilt M. (2020) The impact of COVID-19 on gender equality, NBER Working Paper 26947, Cambridge, MA, National Bureau of Economic Research. http://www.nber.org/papers/w26947

Ammar A. et al. (2021) Effects of home confinement on mental health and lifestyle behaviours during the COVID-19 outbreak: insights from the ECLB-COVID19 multicentre study, Biology of Sport, 38 (1), 9-21. http://doi.org/10.5114/biolsport.2020.96857

Ayoubkhani D., Gaughan C. and Jenkins J. (2021) Update on long COVID prevalence estimate. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962830/s1079-ons-update-on-long-covid-prevalence-estimate.pdf

Burström B. and Tao W. (2020) Social determinants of health and inequalities in COVID-19, European Journal of Public Health, 30 (4), 617-618.

Casse C. and De Troyer M. (eds.) (2021) Gender, working conditions and health. What has changed?, Brussels, ETUI.

Cefaliello A. (2021) Beyond status: the long road towards effective health and safety rights for on-demand workers, UK Labour Law Blog, 16 June 2021. https://uklabourlawblog.com/2021/06/16/beyond-status-the-long-road-towards-effective-health-and-safety-rights-for-on-demand-workers-by-aude-cefaliello/

Côté D. et al. (2021) A rapid scoping review of COVID-19 and vulnerable workers: intersecting occupational and public health issues, American Journal of Industrial Medicine, 64 (7), 551-566. https://onlinelibrary.wiley.com/doi/10.1002/ajim.23256

ECDC (2020) COVID-19 clusters and outbreaks in occupational settings in the EU/EEA and the UK, Solna, European Centre for Disease Prevention and Control. https://www.ecdc.europa.eu/en/publications-data/covid-19-clusters-and-outbreaks-occupational-settings-eueea-and-uk

ETUC, Business Europe, UEAPME and CEEP (2007) Framework agreement on harassment and violence at work.

ETUC, UNICE and UEAPME (2004) Framework agreement on work-related stress. https://resourcecentre.etuc.org/sites/default/files/2019-09/Work-related%20Stress%202004_Framework%20Agreement%20-%20EN.pdf

ETUI and ETUC (2020) Benchmarking Working Europe 2020, Brussels, ETUI.

EU-OSHA (2021) COVID-19 and musculoskeletal disorders: a double burden of risk for migrant workers in Europe?, Discussion Paper, Bilbao, European Agency for Health and Safety at Work. https://osha.europa.eu/en/publications/covid-19-and-musculoskeletal-disorders-double-burden-risk-migrant-workers-europe/view

Eurofound (2015) Violence and harassment in European workplaces: Causes, impacts and policies, Dublin, Eurofound.

Eurofound (2020a) COVID-19 fallout takes a higher toll on women, economically and domestically, Eurofound Blog, 3 June 2020. http://eurofound.link/ef20065

Eurofound (2020b) Long-term care workforce: Employment and working conditions, Luxembourg, Publications Office of the European Union.

Eurofound (2020c) Living, working and COVID-19, COVID-19 series, Luxembourg, Publications Office of the European Union

Eurofound and EU-OSHA (2014) Psychosocial risks in Europe: prevalence and strategies for prevention, Luxembourg, Publications Office of the European Union.

European Commission (2011) Commission staff working paper. Report on the implementation of the European Social partners' Framework Agreement on Work-related Stress, SEC (2011) 241 final, 24 February 2011.

European Commission (2015) Study on the implementation of the autonomous framework agreement on harassment and violence at work – Annex, Luxembourg, Publications Office of the European Union.

European Commission (2020) The impact of COVID confinement measures on EU labour market, Science for Policy Brief. https://ec.europa.eu/jrc/sites/jrcsh/files/jrc.120585_policy.brief_impact.of_.covid-19.on_.eu-labour.market.pdf

European Commission (2021) 2021 report on gender equality in the EU, Luxembourg, Publications Office of the European Union.

European Parliament (2016) Precarious employment in Europe: patterns, trends and policy strategies, Study, Brussels, European Parliament. https://www.europarl.europa.eu/RegData/etudes/STUD/2016/587285/IPOL_STU(2016)587285_EN.pdf

European Parliament (2020) The right to disconnect, EPRS BRIEFING, European Parliamentary Research Service. https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/642847/EPRS_BRI(2020)642847_EN.pdf

Eurostat (2020) Coronavirus may drive change in precarious employment, News, 11 May 2020. https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20200511-1

Fagan C. and Norman H. (2020) Gender, working conditions and health: headlines from the European working conditions survey, in Casse C. and De Troyer M. (eds.) Gender, working conditions and health, Brussels, ETUI, 5-11.

Franklin P., Bambra C. and Albani V. (2021) Gender equality and health in the EU, Luxembourg, Publications Office of the European Union.

Franklin P. and Gkiouleka A. (2021) A scoping review of psychosocial risks to health workers during the Covid-19 pandemic, International Journal of Environmental Research and Public Health, 18 (5), 2453. https://doi.org/10.3390/ijerph18052453

Galmiche S. et al. (2020) Etude des facteurs sociodémographiques, comportements et pratiques associés à l'infection par le SARS-CoV-2 (ComCor). https://www.pasteur.fr/fr/file/37907/download

Greenhalgh T. et al. (2020) Management of post-acute covid-19 in primary care, British Medical Journal, 370. https://doi.org/10.1136/bmj.m3026

Guadagni V., Umilta A. and Iaria G. (2020) Sleep quality, empathy, and mood during the isolation period of the covid-19 pandemic in the Canadian population: females and women suffered the most, Frontiers in Global Women's Health, 1 (13), 1-10. https://doi.org/10.3389/fgwh.2020.585938

Hassard J. and Winski T. (2017) Precarious work: definitions, workers affected and OSH consequences, OSHWiki. https://oshwiki.eu/wiki/Precarious_work:_definitions,_workers_affected_and_OSH_consequences#Impact_of_precarious_work_on_occupational_safety_and_health

ILO (2021) State practice to address COVID-19 infection as a work-related injury. https://www.ilo.org/global/topics/geip/publications/WCMS_741360/lang--en/index.htm

Irastorza X. (2019) Third European survey of enterprises on new and emergent risks (ESENER-3), Bilbao, European Agency for Health and Safety at Work. https://osha.europa.eu/en/publications/third-european-survey-enterprises-new-and-emerging-risks-esener-3/view

Jonsson J., Vives A., Benach J., Kjellberg K., Selander J., Johansson G. and Bodin T. (2019) Measuring precarious employment in Sweden: translation, adaptation and psychometric properties of the employment precariousness scale (EPRES), BMJ Open, 24 September 2019; 9 (9), e029577. https://doi.org/10.1136/bmjopen-2019-029577

Kreshpaj B., Orellana C., Burström B., Davis L., Hemmingsson T., Johansson G., Kjellberg K., Jonsson J., Wegman D.H. and Bodin T. (2020) What is precarious employment? A systematic review of definitions and operationalizations from quantitative and qualitative studies, Scandinavian Journal of Work, Environment & Health, 46 (3), 235-247. https://doi.org/10.5271/sjweh.3875

Kuhlmann E., Falkenbach M., Klasa K., Pavolini E. and Ungureanu M.I. (2020) Migrant carers in Europe in times of COVID-19: a call to action for European health workforce governance and a public health approach, European Journal of Public Health, 30 (Supplement_4), iv22–iv27. https://doi.org/10.1093/eurpub/ckaa126

Leka S., Jain A., Iavicoli S., Vartia M. and Ertel M. (2011) The role of policy for the management of psychosocial risks at the workplace in the European Union, Safety Science, 49 (4), 558-564.

Littler (2020) Littler European Employer COVID-19 survey report. https://www.littler.com/publication-press/publication/littler-european-employer-covid-19-survey-report

Longfonds (2021) Six months after infection: almost all patients in study group still have symptoms. https://coronaplein.nu/informatie/zorg-en-onderzoek/six-months-after-infection-almost-all-patients-study-group-still-have-symptoms

Memmi S., Rosankis E., Sandret N., Duprat P., Leonard M., Morand S. and Tassy V. (2019) Premiers résultats de l'enquête SUMER 2017 : comment ont évolué les expositions des salariés aux risques professionnels sur les vingt dernières années ?, Références en Santé au Travail, (159), 53-78. https://www.inrs.fr/media.html?refINRS=TF%20273

Mutambudzi M. et al. (2021) Occupation and risk of severe COVID-19: prospective cohort study of 120 075 UK Biobank participants, Occupational and Environmental Medicine, 78 (5), 307-314. http://dx.doi.org/10.1136/oemed-2020-106731

OECD (2020) Who cares? Attracting and retaining care workers for the elderly, Paris, OECD Publishing.

Padrosa E., Belvis F., Benach J. and Mireia J. (2021) Measuring precarious employment in the European working conditions survey: psychometric properties and construct validity in Spain, Quality & Quantity, 55 (2), 543-562. https://doi.org/10.1007/s11135-020-01017-2

Pelling L. (2021) On the Corona frontline: the experiences of care workers in nine European countries: Summary report, Stockholm, Friedrich-Ebert-Stiftung. https://nordics.fes.de/e/on-the-corona-frontline-elder-care-workers-in-eight-european-countries

Purkayastha D., Vanroelen C., Bircan T., Vantyghem M.A. and Gantelet Adsera C. (2021) Work, health and Covid-19: a literature review, Report 2021.03, Brussels, ETUI.

Quinlan M. (2021) COVID-19, health and vulnerable societies, Annals of Work Exposures and Health, 65 (3), 239-243. https://doi.org/10.1093/annweh/wxaa127

Quinlan M. (2015) The effects of non-standard forms of employment on worker health and safety, Geneva, ILO. https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/publication/wcms_443266.pdf

Samek Lodovici M. (ed.) (2021) The impact of teleworking and digital work on workers and society Special focus on surveillance and monitoring, as well as on mental health of workers, Luxembourg, European Parliament. https://www.europarl.europa.eu/RegData/etudes/STUD/2021/662904/IPOL_STU(2021)662904_EN.pdf

Sandal A. and Yildiz A.N. (2021) COVID-19 as a recognized work-related disease: the current situation worldwide, Safety and Health at Work, 12 (1), 136-138. http://doi.org/10.1016/j.shaw.2021.01.001

Schaapman M. (2021) Covid-19 reveals the state of health and safety in the workplace, Open Access Government, 24 March 2021. https://www.openaccessgovernment.org/covid-19-reveals-the-state-of-health-and-safety-at-work/106982/

Shallcross L. et al. (2021) Factors associated with SARS-CoV-2 infection and outbreaks in long-term care facilities in England: a national cross-sectional survey, The Lancet. Healthy Longevity, 2 (3), e129-e142. https://www.thelancet.com/journals/lanhl/article/PIIS2666-7568(20)30065-9/fulltext#seccestitle150

Sinclair R.R. et al. (2020) Occupational health science in the time of COVID-19: now more than ever, Occupational Health Science, 4, 1-22. https://doi.org/10.1007/s41542-020-00064-3

Sostero M., Milasi S., Hurley J., Fernandez-Macías E. and Bisello M. (2020) Teleworkability and the COVID-19 crisis: a new digital divide?, JRC Working Papers Series 2020/05, Seville, European Commission. https://ec.europa.eu/jrc/en/publication/eur-scientific-and-technical-research-reports/teleworkability-and-covid-19-crisis-new-digital-divide

Spasova S., Ghailani D., Sabato S., Coster S., Fronteddu B. and Vanhercke B. (2021) Non-standard workers and the self-employed in the EU: social protection during the Covid-19 pandemic, Report 2021.02, Brussels, ETUI.

Spasova S., Bouget D. and Vanhercke B. (2016) Sick pay and sickness benefit schemes in the European Union. Background report for the Social Protection Committee's in-depth review on sickness benefits, Brussels, 17 October 2016, Luxembourg, Publications Office of the European Union. https://op.europa.eu/en/publication-detail/-/publication/fc7a58b4-2599-11e7-ab65-01aa75ed71a1/language-den/format-PDF

Torjesen I. (2021) Covid-19: middle aged women face greater risk of debilitating long term symptoms, British Medical Journal, 372, n829. https://doi.org/10.1136/bmj.n829

Uni Global Union and ITUC (2021) Covid-19: an occupational disease where frontline workers are best protected. https://uniglobalunion.org/sites/default/files/files/news/covid-19_an_occupational_disease.pdf#overlay-context=

Vogel L. (2015) The machinery of occupational safety and health policy in the European Union. History, institutions, actors, Brussels, ETUI. https://www.etui.org/publications/guides/the-machinery-of-occupational-safety-and-health-policy-in-the-european-union-history-institutions-actors

Vogel L. (2020) A return to normality would be the worst defeat, Hesamag, (22), 2-3.

Walters D., Johnstone R., Bluff E., Limborg H.J, and Gensby U. (2021) Securing compliance: some lessons for EU strategy on occupational health and safety, Working paper 2021.05, Brussels, ETUI. https://www.etui.org/publications/securing-compliance

Whitehead M., Taylor-Robinson D. and Barr B. (2021) Poverty, health, and covid-19, British Medical Journal, 372:n376. http://doi.org/10.1136/bmj.n376

Wilson J., Lee J., Fitzgerald H.N., Oosterhoff B., Sevi B. and Shook N.J. (2020) Job insecurity and financial concern during the COVID-19 pandemic are associated with worse mental health, Journal of Occupational and Environmental Medicine, 62 (9),686-691. https://doi.org/10.1097/JOM.0000000000001962

6. Industrial democracy and inequality

Author

Simon Deakin

Topics

> Codetermination laws, in common with labour laws more generally, have stood still in the past two decades, while shareholder protection standards have seen a significant boost. The playing field, far from being level, has been tilted in favour of capital. This is leading to an unbalanced economy, with detrimental effects on social cohesion.
>
> **Simon Deakin**

Introduction

What is the contribution of labour laws to democracy in the workplace and wider society? What are the economic and social impacts of laws promoting worker voice and participation? Until recently, these questions generated a good deal of theoretical and normative argument but little by way of systematic analysis, as evidence was lacking.

This is now changing as a result of the greater availability of cross-national data on legal institutions and their operation in labour and capital markets. This chapter reviews evidence from the Cambridge Leximetric Database (Deakin et al. 2017), a uniquely extensive resource which tracks developments in labour laws over several decades and has recently been updated to include 2020.

New evidence from the database has shed light on the relationship between industrial democracy and inequality. While improvements to workers' codetermination and related representation rights began to plateau across EU Member States after 1990, the rights of shareholders were significantly strengthened. This means that, relative to the protection given to the interests of shareholders within managerial decision-making, that given to workers' interests underwent a marked decline.

This trend is related to the increased share of corporate earnings diverted into dividends and share buy-backs at the expense of wages. There is no evidence that this benefits productivity or innovation in any way – if anything, the opposite is true.

Developments in laws governing worker voice and participation

Laws relating to worker participation in decision-making within the enterprise take two forms. On the one hand are laws which give workers the right to elect or nominate representatives to company boards or equivalent decision-making bodies. On the other are laws which require management to inform or consult with employee representatives on matters of workplace organisation. Sometimes workers are given co-decision or veto rights over management decisions. In certain countries, employees are represented through works councils or enterprise committees elected by the workforce of the relevant unit (plant, company or corporate group); in others, consultation and co-decision rights are vested in trade unions. Specific rules may apply to multinational companies, as in the case, for instance, of those falling under the ambit of the European Works Council Directive.

Both types of laws are commonly referred to under the general heading of 'codetermination', although they have different functions and operate at different levels. Board-level codetermination gives worker representatives a say in issues of corporate strategy, while codetermination via works councils or trade unions allows workers a voice in the running of the enterprise.

Codetermination has a long history in Europe. Antecedents of current arrangements can be found in some countries, most notably Germany, as early as the turn of the twentieth century. After World War Two, codetermination laws were passed for the first time in several European countries and significantly strengthened in others. This was done in order to democratise the operation of industry and to avoid concentrations of economic and political power of the kind which were thought to have aided the rise of authoritarian regimes in the inter-war years (McGaughey 2016).

Numerous initiatives in worker participation in management decision-making were developed on either side of the post-war divide between market and non-market (or 'state socialist') systems. After 1989, laws that had been passed to promote worker voice in some former state socialist systems were retained, with modifications, in the transition to a market economy (this was the case, for example, in Czechia, Estonia, Latvia, Lithuania, Poland, Slovakia and Hungary). In others, where institutions for worker participation had atrophied by the end of the 1980s (as in the case of the then Federal Socialist Republic of Yugoslavia), the transition from a planned to a market economy was the occasion for the introduction of fresh legal mandates for codetermination at board and/or workplace level (as in Slovenia in 1993 and Croatia in 1995, 2001 and 2009). A number of EU-level initiatives, including the European Works Councils Directive (in its original form dating from 1994), the Directive on information and consultation of employees (2002), and the Council Directive supplementing the Statute for a European Company with regard to the involvement of employees (2001), stimulated developments at national level during these years.

Table 6.1 provides summary information on codetermination laws in force in the current EU27 and EEA Member States, plus Switzerland and the United Kingdom, during the period 1970 to 2020. Figure 6.1 shows overall trends, using data from the Centre for Business Research Labour Regulation Index (the 'CBR-LRI', which is part of the wider Cambridge Leximetric Database). The CBR-LRI captures not just the adoption of a law but the degree to which it is protective of workers. It contains 40 indicators altogether, grouped into five sub-indices which code for the law governing the employment relationship, working time, dismissal, employee representation, and industrial action. The codetermination indicators are part of the sub-index on employee representation.

The 'codetermined board' indicator assigns a higher score to a law according to how far it provides for mandatory election or nomination of worker directors. In the case of the 'works council' indicator, a higher value on a 0-1 scale is assigned to laws mandating a works council or enterprise committee with statutory powers of consultation and decision rights; lower values are assigned to laws which provide for standing bodies with fewer powers, or for

Table 6.1 **Codetermination laws in European countries**

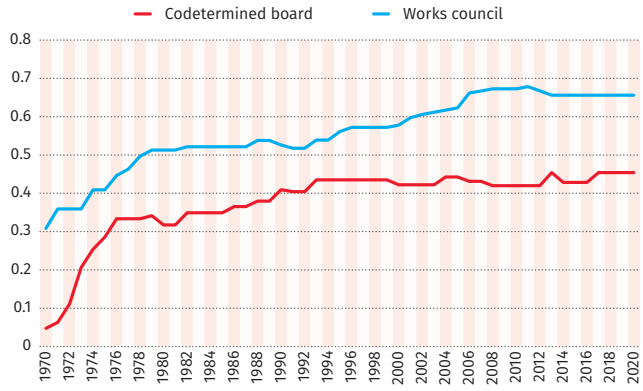
Austria	Legislation dating from 1975 makes provision for worker representation (one third) on the supervisory boards of large undertakings. The codetermination law also provides works councils with extensive participation and co-determination rights.
Belgium	There is no legal provision for worker representation on company boards and it does not occur in practice outside a few state enterprises. Works council powers derive from laws dating back to 1948, and related trade union functions are set out in a series of collective agreements from 1971.
Croatia	Provision for a single worker director to serve on the supervisory boards of certain state-owned and large companies was introduced in 2001 and strengthened in 2004 and 2009. Consultation of employees with respect to redundancy was introduced in 1992; since 1995, legislation provides for works councils with a range of co-decision and consultation rights.
Cyprus	There is no legal right to worker representation on boards. There is no general provision for works councils. Rights to information and consultation over collective redundancies were implemented in 2005.
Czechia	Under a law dating back to 1990, employees have the right to elect one third of the members of the supervisory board in larger companies; from 2014 this only applied to the public sector, but a law passed in 2017 (effective from 2019) restores the right to companies employing more than 500 full-time employees. From 1990 employees have had the right to be informed and consulted on a range of workplace matters, either through a trade union, a works council or a statutory health and safety representative body.
Denmark	Workers have had the legal right to board-level representation in enterprises employing 35 or more employees since the passage of the Companies Act in 1973. Cooperation committees in firms employing 35 or more employees are set up under provisions of collective agreements; they have information and consultation rights but not a veto right.
Estonia	There are no board-level codetermination rights. Rights to information and joint decision-making through workers' councils date back to the labour code inherited from Soviet law; in 1993 workers' representatives were granted statutory rights to information and consultation on workplace issues, and in 2003 veto rights with respect to collective dismissals.
Finland	A 1990 law granted workers in organisations with over 150 employees the right to participate in management decision-making, with the method to be agreed by the concerned parties; employee representatives have the same rights and privileges as company directors. Since 1978, legislation has provided for trade union representatives to have information and consultation rights in companies with 30 or more employees (20 or more since 2007) and co-decision-making rights in relation to specified matters.
France	From 1982, representatives of enterprise committees had the right participate in board meetings and from 1986, legislation provided for employee directors elected by the workforce to be allotted between a quarter and a third of seats on the boards of public limited companies. In 2013, board-level representation became mandatory in all companies employing 10,000 employees worldwide or 5,000 in France. There has been statutory provision for workplace representatives since 1936 and for enterprise committees since 1945, with the law strengthened in 1966, 1982 and 2002; consultation structures were streamlined in 2016.
Germany	Legislation of 1951 provided that half the members of the supervisory boards of coal and steel companies should be employee-nominated, and in 1952 a norm of one third representation was established for companies in other industries, with exceptions for some companies employing fewer than 500 employees. Currently, the norm is half-employee board membership in companies of more than 2,000 employees (Codetermination Act 1976) and one third in those with more than 500 (One Third Participation Act 2004). Works councils were granted joint decision-making powers in legislation of 1952, which were extended in 1972; they include a right to be informed, and in some instances to veto, dismissals.
Greece	There is no general provision for mandatory worker representation on boards; one third of the directors in some state-owned enterprises must be elected by the workforce. Legislation of 1988 provides for works councils in enterprises with 50 or more employees; their role is said to be participatory and consultative and must not prejudice the operation of trade unions.
Hungary	Under a law of 1951, works councils had the right to nominate one third of supervisory board members in companies with two-tier boards and 200 or more employees. Board-level representation has been mandatory since 2006, unless waived by the works council. Legislation from 1957 set out certain rights of codetermination and the labour code of 1992 provided for information and consultation and also for veto rights in relation to major workplace changes; the 2012 code refers to consultation but not to veto.

Iceland	There are no provisions for board-level representation of employees. A law of 1980 required the establishment of workplace health and safety committees, and 2006 legislation provided for information and consultation rights for workers' representatives in enterprises with 50 or more employees. Article 5 of this legislation stipulates that representatives must be consulted with a view to reaching an agreement on certain matters.
Ireland	Under law dating from 1977, larger state-owned enterprises can provide for up to a third of the board to be worker representatives, but there is no general right to board-level representation. There is no provision for works councils as standing bodies; information and consultation rights have operated in relation to matters covered by EU Directives on collective redundancies and transfers since 1996, and with respect to the information and consultation Directive since 2002.
Italy	There is no legal right to board membership or representation for workers. The Workers' Statute of 1970 provided for the formation of plant-level representative bodies with union involvement; these structures make provision for information and consultation rights which have been periodically strengthened.
Latvia	There is no provision for board-level codetermination. The Soviet-era labour code made provision for employee representative to have certain codetermination rights; from 2002 a works council system was introduced aimed primarily at non-union workplaces, providing codetermination rights on a range of collective and individual labour law issues.
Lithuania	The 2004 labour code referred to a right of employee representation in enterprise management, but was not strictly binding; the law was revoked in 2008. The Soviet-era labour code provided for a system of worker representation at the workplace and from 2004 works councils became mandatory in workplaces with 20 or more employees, although without co-decision powers; rights to information and consultation were strengthened in 2008 and again in 2016, with a focus on the need for consultation over technological changes and employee surveillance.
Luxembourg	Since 1974 legislation has provided for one-third worker representation on boards of companies with 1,000 or more employees. Since 1974 the law has required the establishment of a works committee in certain enterprises with 150 or more employees; co-decision rights were further strengthened with effect from 2018.
Malta	There is no general requirement for employee representation on boards. Since 2006, workers in larger companies who are not represented by a trade union have had the right to elect their own representatives, who enjoy consultation and information rights in line with those of trade unions; from 2008, these information and consultation rights apply in companies of 50 or more employees.
Netherlands	From 1971 the works council had the right to be informed on the nomination or the dismissal of a board member, and from 1979 to be consulted; since 2004 the works council has had the right to nominate up to a third of the members of the supervisory board in larger companies. Legislation of 1950 provided works councils with rights to information and consultation on a limited number of issues, and in 1971 they acquired co-decision rights; in 1979 the constitution of the works council was protected against employer influence, and in 1995 the works councils law was extended to the public sector.
Norway	Since 1973 legislation has provided for one third of the directors of companies with 30 or more employees to be elected by the workforce. Works councils were first established in a 1966 co-operation agreement between the national-level federations of employers and trade unions and subsequent agreements have extended the range of matters over which there should be information and consultation; legislation from 1977 underpins workplace-level representation on matters of the working environment.
Poland	Legislation from 1981 provides for a right to board-level participation in state-owned and formerly state-owned companies. A law of 2001 made provision for information and consultation in line with EU directives, and subsequent laws established employee representative bodies with varying degrees of trade union involvement, some of which have been the subject of constitutional challenges.
Portugal	The 1976 Constitution provides for the election of worker representatives to company boards, and legislation from 1979 confers the right of works councils to elect board-level representatives, with numbers to be determined by the employer. The 1976 Constitution also established the right to set up workers' committees and this was confirmed by legislation in 1979; subsequent legislation has extended information and consultation rights in line with EU directives.
Romania	Legislation of 1991 gives trade unions a right to be invited to board meetings in order to discuss work-related matters but there is no right to nominate or elect worker directors. The labour code of 1972 set out the right of employees to participate in management through works councils with extensive consultation rights but no right of veto; since 1991 trade unions alone have had employee representation rights, which were strengthened with effect from 2006.

Slovakia	At least half of the seats on the supervisory board of private-sector companies employing 50 employees or more are set aside for representatives of the workforce. The 1965 labour code provided for participation rights for all workers, primarily through trade unions, and the 1993 Constitution includes a right of participation in the running of the enterprise; since 2002, works councils have been accorded information and consultation rights in workplaces without a trade union.
Slovenia	The 1991 Constitution contained a right of employee participation in the management of the enterprise and a 1993 law provides for board-level representation in companies with 50 or more employees, subject to an assets threshold. Prior to 1993, codetermination was supported by the constitutional right to participate in management; in 1993 a works council law was introduced.
Spain	A law of 1962, repealed in 1980, provided for employee participation at board level in public-sector enterprises and larger private-sector firms; since then, there has been no legally mandated board-level representation for workers, although in some sectors employee participation at board level has been achieved through collective bargaining. A law of 1971 provided for the establishment of works councils and their information and consultation rights were extended in 1973 and 1980; there is no co-decision right.
Sweden	A right of employee participation at board level was first established in 1972 and extended by later legislation, most recently in 1987. Codetermination, dating from a 1976 law, is based on the employer's duty to negotiate and consult with the trade union on changes in the activities of the enterprise and on major changes affecting the company.
Switzerland	There is no provision for board-level codetermination. A law of 1993 provides for information and consultation rights and for an enterprise committee in enterprises above a certain size.
United Kingdom	There is no legal requirement for worker-elected directors. Changes made to the Corporate Governance Code in 2018 now mean that listed companies must have either a worker director, a non-executive director with designated responsibilities for the workforce, or an advisory panel. They may also adopt alternative arrangements if they can explain and justify doing so. Take-up of the worker director option is therefore effectively voluntary. There is no legal requirement for works councils or similar standing bodies of employee representatives. Information and consultation rights have been enacted in the light of the requirements of relevant EU directives; there is no veto or co-decision right.

Source: Cambridge Leximetric Database (Deakin et al. 2016).

Figure 6.1 **Trends in selected codetermination laws (1970-2020)**



Note: Scores are normalised on a 0-1 scale as shown in the vertical axis. A higher score indicates an increased level of worker protection. For further explanation of the coding method see Deakin et al. (2016).
Source: CBR Leximetric Database (Deakin et al. 2016), updated to 2020.

information and consultation rights of the kind which operate with respect to specific issues including collective redundancies, transfers of undertakings, and occupational health and safety.

Figure 6.1 shows that the 1970s was a period during which codetermination laws of both kinds were significantly strengthened, in the sense of becoming more worker-protective, across Europe. A further strengthening can be observed in the early 1990s and then again in the mid-2000s. The trend has been more or less stable since that point, indicating that codetermination is not one of the areas of labour law impacted by deregulatory reforms associated with the global financial crisis of 2008-9 and the resulting period of 'structural adjustment'. On the contrary: in the past decade laws enhancing board-level representation of workers have been enacted in France (2013) and Czechia (2017), while workplace-level codetermination rights have recently been strengthened in Lithuania (2016).

Trends in shareholder protection

If the general picture with respect to codetermination laws is one of a wave of pro-worker legislation in the 1970s followed by a period of relative stability since then, this must be set against trends in laws relating to shareholder rights. Since the early 1990s there has been a significant rate of increase in the adoption of laws promoting shareholder voice within corporate governance. These are laws which empower shareholders to hold managers to account and in practice tend to put them under pressure to prioritise the interests of shareholders over those of other corporate constituencies, including workers. They apply with particular force in the listed company sector, which substantially overlaps with the larger enterprises where laws on board-level codetermination mostly operate. This strengthening of shareholder influence can be expected to offset the influence which workers might seek leverage over corporate management with the help of codetermination laws.

Figure 6.2 **Trends in shareholder protection laws (1990-2013)**

Note: Scores are normalised on a 0-1 scale as shown in the vertical axis. A higher score indicates an increased level of shareholder protection. For further explanation of the coding method see Deakin et al. (2016). – SPI stands for Shareholder Protection Index.
Source: Cambridge Leximetric Database (Deakin et al. 2016).

Part of the Cambridge Leximetric Database codes for changes in company law uses a methodology similar to that used to construct data on labour law. The CBR Shareholder Protection Index (CBR-SPI) is made up of ten indicators of shareholder rights. The SPI does not currently code for all European countries as the LRI does, and is only available for the years 1990-2013. The country coverage is nonetheless broadly representative of legal changes in the European region as it includes economies with a long history of financial development (France, Germany, Italy, Spain, Sweden, Switzerland and the UK) as well as a number of countries whose financial markets were initially less well developed but experienced rapid growth from the starting point of the economic transition of the early 1990s (Czechia, Estonia, Latvia, Lithuania, and Slovenia). The time period captures the most significant changes made to corporate governance laws over the past two decades.

Figure 6.2 illustrates country-level trends in the SPI. There has been a consistent and steady rise in levels of shareholder protection across virtually all countries in the period covered by the index, with increases particularly marked from around 2000.

Some of the indicators in the SPI are concerned with the extent to which the law protects the rights of minority or retail investors against majority shareholders. Others are relevant to shareholder-worker conflicts since they code for the protection given by the law to the pursuit of shareholder value over other goals or objectives of management, such as preserving employment or maintaining the enterprise as a going concern for the benefit of all stakeholders. Two variables in the SPI are of particular relevance in the present context: these code, respectively, for laws and regulations which either require or 'nudge' companies to appoint independent directors to boards (the 'independent board indicator'), and which govern the conditions under which takeover bids are conducted (the 'takeover bid indicator').

The independent board indicator captures the degree to which laws or regulations require the appointment of directors who are external to the company's management or wider workforce. Although, in principle, independent or non-executive directors owe the same set of fiduciary duties to the company as other directors, and are not bound to prioritise shareholders' concerns above the wider corporate interest, there is evidence that, as a matter of practice, such directors tend to see themselves as tasked with defending shareholders' rights against those of managers and, relatedly, of the workforce, particularly when a change of control or takeover bid is being considered (Deakin 2013). This indicator assigns a higher score depending on the proportion of board members who must be external or independent in this sense (in practice, this ranges from a single director in some countries to a third or half of the board in others).

Relatedly, the takeover indicator captures the role of laws and regulations which seek to ensure that shareholders' interests are fully reflected in boards' responses to takeover bids. It assigns a higher score to laws and regulations which require a bidder to purchase the entire share capital of the target company once their share of the voting equity exceeds a certain threshold, and to offer to purchase the remaining shares for at least the price they have already paid to take a controlling or influencing stake. This 'mandatory bid' rule is intended to protect minority shareholders by guaranteeing that they will benefit from the 'premium' the bidder pays to take control of the target company. It also has the effect of increasing the pressure on bidders to finance the costs of a takeover through post-bid asset sales and enterprise restructurings.

Because takeovers tend to lead to asset disposals and reorganisation, laws and regulations which empower shareholders when a change of corporate control is being considered can put workers' interests at risk. Hostile bids for listed companies are comparatively rare events even in those countries, such as the US and UK, which have a relatively high incidence of them. However, the presence of a pro-shareholder takeover law has been shown to encourage certain forms of shareholder activism, including activist hedge fund interventions, and certain types of change of control transaction, including private equity-led buyouts, which have become relatively common occurrences in financial markets in Europe, following a trend which began in the US and has since spread worldwide (Deakin 2013).

Hedge fund activism is associated with rising payouts to shareholders in the form of dividends and share repurchases, while private equity-led buyouts enable shareholders to 'cash out' their gains and to shift the resulting costs on to firms in the form of debt. There is evidence in both cases that gains to shareholders translate into losses for workers in the form of redundancies, wage cuts, deteriorating terms and conditions of employment, and a rising incidence of precarious work (Deakin 2013).

Workers' protection underwent a marked decline after 1990

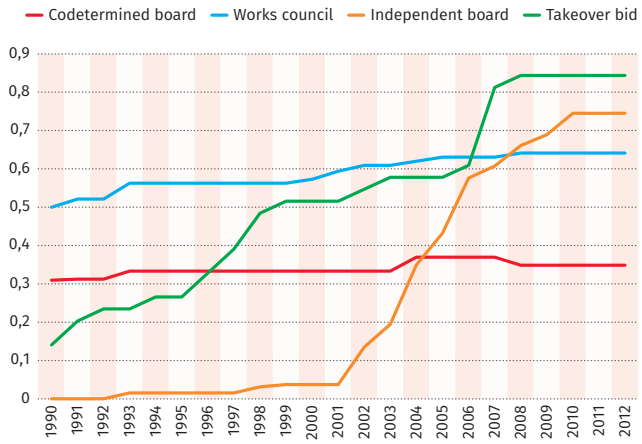
At the start of the covered period (1990-2013), none of the countries coded in the SPI dataset had rules on independent boards. By the end of it, a norm had been established that half or more of the members of the board of a listed company should be independent, either as a matter of law or via standards set out in corporate governance codes in Czechia (2008), Cyprus (2010), Estonia (2006), France (2003), the Netherlands (2004), Poland (2002), Slovenia (2009), Sweden (2008), Switzerland (2002) and the UK (2004). The norm became one third independent membership in Belgium (2004), Italy (2013) and Spain (2003).

With respect to the mandatory bid rule, norms requiring a bidder to purchase the share capital of the target company in its entirety once they acquired either a certain threshold (which can be as low as 30%, as in the long-standing UK rule) or a controlling interest (equivalent to 50% of voting stock) were established in Belgium (1989), Cyprus (2007), Czechia (1996), France (1989), Estonia (2002), Germany (2001), Italy (2008), Latvia (2006), Lithuania (2006), the Netherlands (2006), Poland (1991), Slovenia (1997), Spain (1991), Sweden (1999), and Switzerland (1997). In a number of cases these legal changes were initiated by way of response to the adoption of the Thirteenth Company Law Directive (2004), which requires EU Member States to adopt a version of the mandatory bid rule.

Figure 6.3 compares the rate of increase in the two codetermination indicators with the independent director and takeover bid indicators over the period between 1990 and 2013 for those countries coded in both the LRI and the SPI. The first two indicators increased relatively slowly, the latter two more rapidly.

Put another way, what Figure 6.3 shows is that, while the evolution of workers' codetermination and related representation rights plateaued from 1990 onwards, the rights of shareholders were significantly enhanced. Therefore, relative to the protection given to the interests of shareholders within managerial decision-making, that given to workers' interests underwent a marked decline after 1990.

Figure 6.3 **Trends in codetermination and shareholder protection**



Source: Cambridge Leximetric Database (Deakin et al. 2016).

Impacts on inequality

> Increased legal protection for shareholders is correlated with a range of health inequalities

Research has shown that income and wealth inequalities in industrialised economies peaked in the second decade of the 20th century before undergoing a decades-long decline which, however, went into reverse in the US from the 1970s and in Europe from the 1980s (Atkinson 2015; Milanovic 2016; Palma 2011, 2019a, 2019b; Piketty 2014, 2019). Piketty's (2014) explanation for this pattern is that in a market economy there is an inherent tendency for the rate of return on capital to exceed the growth rate of the economy. Inequality declined in the middle decades of the twentieth century, he argues, as a result of the destruction of rentier wealth brought about by the two world wars and the great depression. In the final decades of the twentieth century, returns to capital revived during a period when economic growth was slowing, as a result of reduced population growth and a productivity slowdown.

If Piketty (2014) is right, the contribution of labour and company laws to inequality trends can be expected to be relatively insignificant. Legal changes will not have much impact on wider developments in the economy, which have technological and demographic origins. The law may, at best, reflect these deep-rooted tendencies; it can reinforce but not fundamentally divert them.

> From a health perspective, it is better for everyone, including the rich, to live in a more equal society

On the other hand, there is evidence to suggest that the steep rate of increase in shareholder rights from the 1990s onwards, during a period when employment rights had reached a plateau, has indeed impacted inequality trends. In the middle decades of the twentieth century, the 'labour share', which measures returns to wages and salaries, was stable at around 65% of national income in most industrial economies. Since 1990 it has fallen by around 5% in the UK, France, Germany, Canada, and Japan and, by over 10% in the US, Korea, Spain and Italy (ILO and OECD 2015).

As the labour share has been falling, the capital share, which measures returns to investments and property, has risen (in national accounting terms the labour share and capital share together represent a unity, so that as one goes down the other goes up). Sjöberg (2009) shows that increases in shareholder rights, as measured by the World Bank's Doing Business reports, are correlated with a rise in the capital share, while Ferguson et al. (2017) show that increased legal protection for shareholders, as measured by the Cambridge index (SPI), is correlated with a range of health inequalities, including rising child mortality rates in lower income groups.

Adams et al. (2019), meanwhile, using the Cambridge index (LRI), show that improvements in workers' rights (including the two codetermination indicators) are correlated with rises in the labour share. This finding implies that while the labour share has been falling more or less consistently throughout the period covered by the part of the LRI index they analysed (1990-2013), it would have fallen even further had it not been for the labour laws enacted to protect workers' rights. Palma (2019a, 2019b) shows that the stagnation of wages relative to labour output which can be observed in industrial economies from the early 1980s can be traced back to institutional changes permitting shareholders to extract higher returns (including the lifting of legal restrictions on share buy-backs which began in the UK and US in the 1980s; see also ETUI and ETUC 2020: 115) at the same time as institutional protections for collective bargaining were being weakened (ETUI and ETUC 2015: 48).

We know from Piketty's research (2014, 2019) that most households in the wealthiest decile owe their position to the returns on labour captured by very highly paid professionals and managers, in particular those working in the financial sector. However, when it comes to the wealthiest 1% and 0.1% of households, where the observed increase in inequality becomes exponentially large, returns to capital (in the form of income from dividends and rents) matter more than those to labour (wages and salaries). It is likely that laws which strengthen capital rights relative to labour rights – the broad pattern in Europe, as we have seen, since 1990 – are driving at least part of this outcome (Deakin 2021; ETUI and ETUC 2019: 67 ff.).

High and rising levels of inequality may be the result of exponential returns to those with capital rights at the very top of the income scale, but they have effects beyond the top 0.1% or 1% of households. Epidemiological research shows that relative differences in income and status are correlated with measures of social wellbeing, including infant mortality, obesity, mental illness, educational performance, teenage motherhood, and homicide, across all income groups (Wilkinson and Pickett, 2008). It would seem that 'everything else being equal, it is better to live in a more equal society' even for those in the 'richer part of society' (Baumard 2016: 1137).

Impacts on investment, innovation, productivity and employment

If it were possible to reverse all or part of the increase in inequality through changes to labour and corporate laws, would this not come at the cost of economic performance? The idea of the 'big trade-off' between equality and efficiency (Okun [1967] 2015) may be a plausible position for some, and one which until recently probably represented a consensus view among European policymakers. However, it is increasingly being questioned as new evidence comes to light on how laws and institutions shape outcomes in labour and capital markets.

In developed economies, the shift in income away from labour towards capital has not produced the expected results on investment

In this respect, an advantage of the Cambridge database is that it provides a longer time series and more extensive coverage by subject matter than alternatives, such as the OECD Employment Protection Indicators and World Bank Doing Business reports. This is important because the economic impacts of changes in labour laws can be expected to differ over the time scale being considered.

In the short run, laws strengthening worker protection impose costs on firms which may lead them to defer hirings or make redundancies in order to avoid future liabilities. In the medium to long term, however, the same laws, by making labour relatively more expensive compared to capital, may induce firms to spend more on training, thereby improving labour quality, and to invest in capital goods and organisational improvements, thereby enhancing productivity and profitability. This phenomenon has been called the 'beneficial constraint' effect (Streeck 1997). Laws which weaken labour by comparison to capital can be expected to have the inverse effect: a short-term rise in employment is likely to be offset by long-run declines in productivity and, ultimately, in the quality of services and products supplied by firms.

In the most comprehensive study so far undertaken using the LRI dataset, Adams et al. find evidence of the 'beneficial constraint' effect. In a panel data analysis of all 117 countries in the dataset covering the period 1990 to 2013, they find that increases in worker protection (including codetermination laws) are correlated with short-term increases in unemployment, which are then offset by gains in labour force participation and employment and by a fall in unemployment over the longer term. While their study does not find a statistically significant relationship between labour laws and productivity, a separate study by Deakin, Malmberg and Sarkar (2014) finds a positive correlation between the employment representation index (which includes the two codetermination variables) and productivity, as well as employment and the labour share, in a smaller sample of industrialised countries (France, Germany, Sweden, the UK and the US). Research by the ETUI on the topic also demonstrates that countries that rate higher in the European Participation Index tend to have a higher labour share in their GDP (ETUI and ETUC 2020: 155).

Labour laws also appear to be positively correlated, and shareholder protection negatively correlated, with innovation. A study by Acharya, Baghai and Subramanian (2014a), using the 'dismissal' sub-index of the LRI, reports a positive correlation between employment protection and innovation, as measured by patenting activity, in a sample of industrialised countries (France, Germany, the US and the UK). They attribute this to the greater willingness of workers to share knowledge with managers in countries with strong dismissal protection laws. Replicating their approach in a study of state-level employment laws in the US, they find that improvements to dismissal protection are correlated not just with a higher incidence of patenting by firms, but by an increase in the number of start-ups and a rise in the number of employees in high-tech firms in regions such as Silicon Valley (Acharya et al. 2014b). Conversely, a study by Belloc (2013), using the Cambridge SPI dataset, reports a negative correlation between innovation and shareholder rights. This result is explained by the role of investor-friendly legislation in enhancing the power shareholders have over managers to extract value from the firm over the short term, at the expense of its long-term development.

An influential argument for weakening labour laws is that worker protections deter investment in firms (Besley and Burgess 2004); conversely, strengthening shareholders' rights

is assumed to improve the supply of capital to the productive sector (La Porta et al. 1998). In the context of codetermination, the opposite may well be the case. Jäger et al. (2021) find that German firms that are beyond the scope of board-level codetermination laws have reduced capital intensity by comparison to those subject to joint governance by employees and shareholders, a result consistent with the 'beneficial constraint' effect.

More generally, it would seem that a significant part of the value released through dividends and share buy-backs during the period of the strengthening of shareholder rights since 2000 has not been finding its way into productive investment. Recent research shows that as a result of investor pressure, dividend payouts in companies have increased to over 50% of profits in recent years (since 2010) which has resulted in an increased financial vulnerability of companies and consequent increased risk of job losses, as well as a deterioration of working conditions during the Covid-19 crisis (ETUI and ETUC 2020: 156). Much of this capital flow from dividends and buyback has been diverted into property and financial assets. In 2015 the ILO and OECD jointly produced an analysis which showed that investment as a proportion of GDP in industrialised economies had been static between 2000 and 2007 and began to fall in 2008, even as the capital share was rising. The analysis concluded that 'in developed economies, the shift in income away from labour towards capital has not produced the expected results on investment' (ILO and OECD 2015: 12). And making labour cheap by comparison to capital has other detrimental effects: for example, the phenomenon of 'capital shallowing', identified with labour replacing capital, is associated with the productivity slowdown which a number of European countries experienced in the wake of the 2008 financial crisis (Pessoa and van Reenan 2014).

Conclusion

The beneficial effects of codetermination laws are increasingly offset by laws and corporate governance standards empowering shareholders

Laws supporting democracy at work have a long history in Europe, and in recent decades have been strengthened in several countries. In supporting workers' codetermination rights, labour laws can contribute not just to greater equality, as measured by labour's share of national income, but also improved productivity and innovation, thus leading to higher employment.

The beneficial effects of codetermination laws are, however, increasingly being offset by laws and corporate governance standards empowering shareholders. Since the early 1990s, changes to company law across Europe have brought about a major shift in board structures, emphasising the role of independent directors in holding managers to account on behalf of shareholders. Laws and regulations designed to facilitate takeover bids have further shifted the balance of power within firms towards financial interests, putting jobs and wages at risk.

Newly available data, analysed in this chapter, has clarified what is at stake in the interaction between codetermination laws and corporate governance standards. Codetermination laws, in common with labour laws more generally, have stood still in the past two decades, while shareholder protection standards have seen a significant boost. The playing field, far from being level, has been tilted in favour of capital. This is leading to an unbalanced economy, with detrimental effects on social cohesion. These developments, however, are neither inevitable nor irreversible, but can be addressed with the right laws and policies.

References

Acharya V., Baghai R. and Subramanian K. (2014a) Labor laws and innovation, Journal of Law and Economics, 56 (4), 997-1073.

Acharya V., Baghai R. and Subramanian K. (2014b) Wrongful discharge laws and innovation, Review of Financial Studies, 27 (1), 301-346.

Adams Z., Bishop L., Deakin S., Fenwick C., Martinsson-Garzelli S. and Rusconi G. (2019) The economic significance of laws relating to employment protection and different forms of employment: analysis of a panel of 117 countries, 1990–2013, International Labour Review, 158 (1), 1–35.

Atkinson A. (2015) Inequality: what can be done?, Cambridge, MA, Harvard University Press.

Baumard N. (2016) Evolutionary psychology and public policy, in Buss D. (ed.) The Handbook of evolutionary psychology Volume 2: Integrations, 2nd ed., Chichester, Wiley.

Belloc F. (2013) Law, finance and innovation: the dark side of shareholder protection, Cambridge Journal of Economics, 37 (4), 863-888.

Besley T. and Burgess R. (2004) Can labor regulation hinder economic performance? Evidence from India, Quarterly Journal of Economics, 119 (1), 91-134.

Deakin S. (2013) The legal framework governing business firms and its implications for manufacturing scale and performance: the UK experience in international perspective, Future of Manufacturing Project, Evidence Paper 5, London, Government Office for Science. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/277169/ep5-legal-framework-implications-for-manufacturing.pdf.

Deakin S. (2021) Employment and wage policies in a post-neoliberal world, in Arestis P. and Sawyer M. (eds.) Economic Policies for a Post-Neoliberal World, International Papers in Political Economy, 345-388. https://doi.org/10.1007/978-3-030-56735-4_8

Deakin S., Armour J. and Siems M. (eds.) (2017) CBR Leximetric Datasets [updated], University of Cambridge, Apollo Data Repository. https://doi.org/10.17863/CAM.9130

Deakin S., Malmberg J. and Sarkar P. (2014) How do labour laws affect unemployment and the labour share of national income? The experience of six OECD countries, 1970–2010, International Labour Review, 153 (1), 1-27.

ETUI and ETUC (2015) Benchmarking Working Europe 2015, Brussels, ETUI.

ETUI and ETUC (2019) Benchmarking Working Europe 2019, Brussels, ETUI.

ETUI and ETUC (2020) Benchmarking Working Europe 2020, Brussels, ETUI.

Ferguson J., Power D., Stevenson L. and Collinson D. (2017) Shareholder protection, income inequality and social health: a proposed research agenda, Accounting Forum, 41 (3), 253–265.

ILO and OECD (2015) The labour share in G20 economies, Report prepared for the G20 Employment Working Group, Antalya, Turkey, 26-27 February 2015. https://www.oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf

Jäger S., Schoefer B. and Heining J. (2021) Labor in the boardroom, Quarterly Journal of Economics, 136 (2), 669-725.

La Porta R., Lopez-de-Silanes F., Shleifer A. and Vishny R. (1998) Law and finance, Journal of Political Economy, 106 (6), 1113-1155.

McGaughey E. (2016) The codetermination bargains: the history of German corporate and labour law, Columbia Journal of European Law, 23 (1), 135-176.

Milanovic B. (2016) Global inequality: a new approach for the age of globalization, Cambridge, MA: Harvard University Press.

Okun A. (2015) Equality and efficiency: the big tradeoff, Washington, DC, Brookings Institution Press.

Palma J.G. (2011) Homogeneous middles vs. heterogeneous tails, and the end of the "inverted-U": it's all about the share of the rich, Development and Change, 42 (1), 87-153.

Palma J.G. (2019a) Why is inequality so unequal across the world? Part 1. The diversity of inequality in disposable income: multiplicity of fundamentals, or complex interactions between political settlements and market failures?, Cambridge Working Papers in Economics CWPE1999. http://www.econ.cam.ac.uk/research-files/repec/cam/pdf/cwpe1999.pdf

Palma J. G. (2019b) Why is inequality so unequal across the world? Part 2. The diversity of inequality in market income – and the increasing asymmetry between the distribution of income before and after taxes and transferences, Cambridge Working Papers in Economics CWPE1910. https://doi.org/10.17863/CAM.47821

Pessoa J. and van Reenan J. (2014) The UK productivity and jobs puzzle: does the answer lie in wage flexibility?, Economic Journal, 124 (576), 433-452.

Piketty T. (2014) Capital in the twenty-first century, Cambridge, MA, Harvard University Press.

Piketty T. (2019) Capital et idéologie, Paris, Seuil.

Sjöberg O. (2009) Corporate governance and earnings inequality in the OECD countries 1979-2000, European Sociological Review, 25 (5), 519-533.

Streeck W. (1997) Beneficial constraints: on the economic limits of rational voluntarism, in Hollingsworth J. R. and Boyer R. (eds.) Contemporary capitalism: the embeddedness of institutions, Cambridge, Cambridge University Press, 197-219.

Wilkinson R. and Pickett K. (2009) The spirit level. Why equality is better for everyone, London, Penguin Books.

All links were checked on 16 November 2021.

7. Towards a societal resilience

Author

Christophe Degryse

Topics

> Only a new form of global ‘societal resilience’ will be able to absorb the impacts of the two megatrends: climate change and the Covid-19 pandemic
>
> **Christophe Degryse**

Introduction

It is often tempting to imagine what the future might be like by looking to the past. Recently, several economists have turned to the study of major historical epidemics, from the Justinianic Plague (6th century) and the Black Death (14th century) to the influenza epidemic of 1918, in an attempt to understand what the economic and social impacts of the current pandemic are likely to be. And there are indeed a wide range of lessons to draw from these experiences: that the impacts of pandemics can last for more than 40 years (Jorda et al. 2020); that these impacts can be highly differentiated across countries or regions due to specific characteristics, such as sectoral exposure, urban concentration and differences in household behaviour (Barbara et al. 2021); that these events have historically 'led to increases in the Gini coefficient [measure of inequality], raised the income shares accruing to the higher deciles of the income distribution, and lowered the employment-to-population ratio for those with basic education compared to those with higher education' (Furceri et al. 2021); and that their impacts increase the risks of instability and social unrest (Barrett and Chen 2021) and may contribute to shifts of power within democratic systems (Gilens 2012).

However, while it is important to learn from the past, the pandemic we are living through today is taking place in an unprecedented situation: climate change and the threat it poses to humanity's very existence. As the chapters of this volume show, the question of inequality is central to both challenges. Covid-19 has reinforced existing inequalities and created new ones, but the year 2021 has also seen a growing awareness of the regressive effects of a climate transition which will be more brutal than expected (Pisani-Ferry 2021), as well as of its major macroeconomic and financial impacts (ECB 2021). The conjunction of these two megatrends – the Covid-19 pandemic and climate change – is creating a new era of major political, economic and social disruptions, which the rest of this chapter will explore, arguing that only a new form of global 'societal resilience' will be able to absorb the impacts of this age of disruption. What that form will be, however, is still to be collectively defined and implemented.

A regressive climate transition

It will undoubtedly go down in history that 2021 was the year in which the absolute urgency of implementing an environmental and economic transition became apparent. One extreme event followed another. Europe experienced its hottest summer on record (Copernicus 2021), with droughts, forest fires (EFFIS 2021) and floods (https://floodlist.com). In the US and Canada, there were heatwaves, a 'heat dome' in the north-west, and hurricanes and floods in the south and on the east coast. Meanwhile, China and India saw torrential rains and deadly floods. This list is far from exhaustive, and thousands of deaths have been added to the more than two million people who have already lost their lives due to extreme weather events in the past half a century (WMO 2021a).

> No action by any government has so far resulted in a clear reversal of the trends

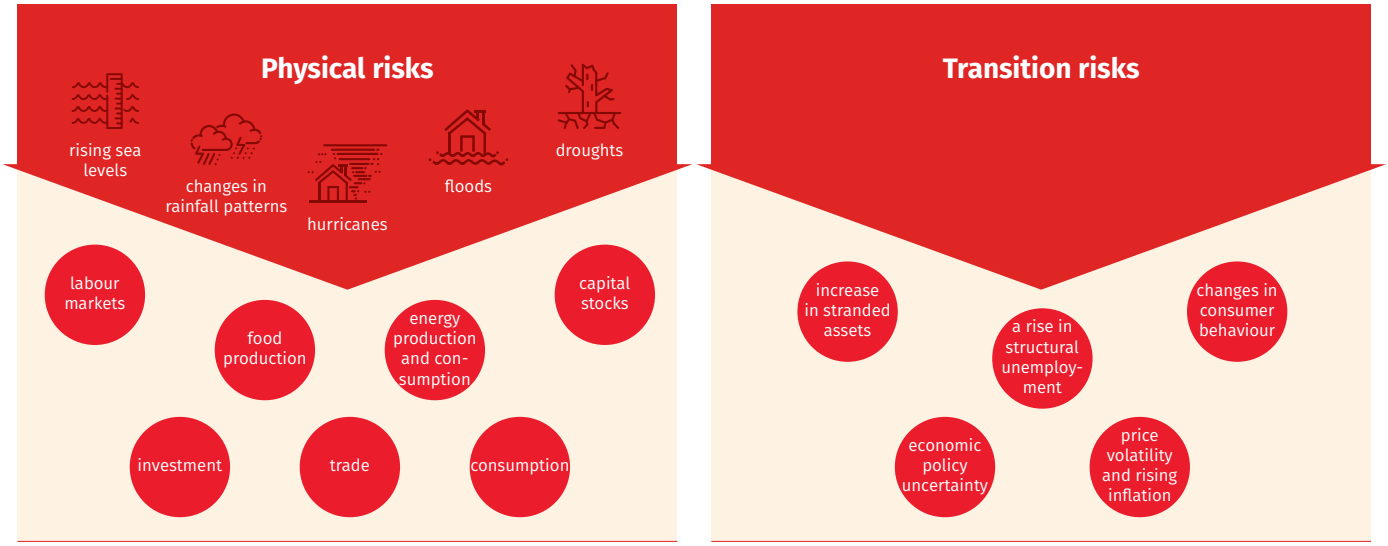
Humanity now seems to be entering the 'new world' that the IPCC experts have been predicting for three decades (IPCC 2021). The European Commission's Strategic Foresight Report, published in September 2021, underlines the importance of understanding the differentiated impacts climate change will have on the world's population, in terms of food and water insecurity, biodiversity, public health, and migration (European Commission 2021). To those who might have hoped that the climate policies implemented in recent years would be able to gradually reverse the trends in greenhouse gas emissions, the World Meteorological Organisation (WMO) had provided a firm rebuttal, observing that the 'concentrations of the major greenhouse gases - CO_2, CH_4 and N_20 - continued to increase in 2020 and the first half of 2021' (WMO 2021b). Although humanity seems to have reached a 'tipping point', in the words of the International Union for Conservation of Nature (IUCN 2021), no action by any government has so far resulted in a clear reversal of the trends. This paints a rather bleak picture of the future.

> Low-income households, as well as women, the elderly and the young, are more vulnerable to the impacts of environmental degradation

The current political awareness that global warming is now an immediate concern is accompanied by a recognition that the transition to a low-carbon economy must be accelerated, but that it will be much more brutal than previously thought. As Pisani-Ferry (2021) notes, this transition is far from being a 'pathway of roses' for many economic sectors: 'Decades of procrastination have turned the expected smooth transition into what is likely to be an abrupt one' (Pisani-Ferry 2021: 1). He elaborates: 'The transition to net zero will imply sizeable relative price changes, accelerated obsolescence of the existing capital stock, significant reallocation of labor, and a major investment push' (Pisani-Ferry 2021: 4). The European Central Bank now supports this finding by highlighting the major macroeconomic and financial risks of the transition (ECB 2021). It distinguishes between 'physical risks' and 'transition risks'. Increased economic losses due to physical risks – rising sea levels, changes in rainfall patterns, hurricanes, floods, droughts, etc. – will have impacts on labour markets, food production, energy production and consumption, capital stocks, investment, trade, consumption, and so on. The ECB distinguishes these physical risks from 'transition risks', which include an increase in stranded assets, a rise in structural unemployment, changes in consumer behaviour, economic policy uncertainty, price volatility and rising inflation. These risks will put a strain on certain policies – in particular, the EU policy of economic, social and territorial cohesion, as the ECB stresses that the impacts will be unevenly distributed across Europe, with the south being more affected than the north.

Moreover, all indications are that the harshest consequences of the transition will hit the most vulnerable populations the hardest. The OECD has analysed the impacts of environmental degradation and environmental policies on four key wellbeing dimensions (health, income and wealth, work and job quality, and safety) (OECD 2021). It shows that low-income households, as well as women (see also 'Climate inequality by gender' in this volume, p. 119), the elderly and the young, are more vulnerable to the impacts of environmental degradation, particularly in terms of health. Air pollution and heatwaves, for example, which will become more intense and more frequent, will have a greater impact on these populations. As for workers, those who work outside (and who are often those with low incomes, such as workers in construction and public works, drivers, deliverymen, technicians, farmers, sea fishermen, etc.) will be more affected by heatwaves. Geographical inequalities are not absent from this picture either, as illustrated by the deadly floods that hit Germany and Belgium in July 2021: 'it was mainly modest households

Figure 7.1 **Major economic and financial risks of the transition**



Source: ECB 2021, own elaboration.

that were affected,' noted a local journalist, with the epicentre of the floods 'feeding primarily on modest working-class houses, dense and working-class neighbourhoods, and sometimes on facades of a different age' (Deffet 2021). In Belgium alone, more than 5,000 homes have been completely or partially destroyed.

And while the most vulnerable groups would, in the medium and long term, benefit directly, and in fact more than others, from the success of green policies, the OECD notes that the costs of these policies 'may put greater burden on low-income households and compromise their well-being' (OECD 2021). Carbon pricing, increasing fuel prices for road transport, limiting energy consumption… All environmental measures, with the exception of taxes on air transport, have a regressive effect (as observed by the think tank Bruegel as early as 2018: Zachmann et al. 2018). Furthermore, the year 2021 has brought increases in food and energy prices, with both trends looking set to continue in the near future. 'The eurozone's consumer price index for energy has risen to its highest level since records began in 1996,' observed *The Financial Times* in September 2021 (FT 2021). The question of the unequal distribution of the costs and benefits of environmental policies among households and workers, with the resulting inflation mostly affecting items of basic need, will thus become the central policy issue in the increasingly near future. It is somewhat regrettable that the Commission's Strategic Foresight Report is silent on this issue, as the ETUC has pointed out (ETUC 2021), despite the fact that the OECD and other research centres have provided detailed analyses of the situation.

Endemic inequalities

200 medical journals called on governments to 'limit global temperature increases, restore biodiversity, and protect health'

A 'long Covid' scenario would entail the need for permanent rather than temporary adaptations

There is evidence that the environmental crisis is closely linked to the health crisis caused by the Covid-19 pandemic (Beyer et al. 2021), but also to health in general (see, for example, articles in *The Lancet* and European Environment Agency 2021). In 2021, 200 medical journals called on governments to 'limit global temperature increases, restore biodiversity, and protect health' (BMJ 2021).

As the pandemic has progressed, hopes of total eradication of the coronavirus have gradually faded due to the technical, logistical, cultural, financial and economic difficulties of achieving a global vaccination rate sufficient to slow and then prevent the circulation of the virus – but also due to a lack of solidarity from rich, developed countries that have decided to provide a third dose to parts of their populations despite vaccination rates still being very low in less affluent nations. As the year 2021 has shown, and could continue to show in the years to come, a low global vaccination rate is fertile ground for the emergence of new variants that could prove to be more virulent and contagious. Consider the Ebola virus and its average case fatality rate of 50% (WHO 2018). At the same time, the ever increasing pressure placed on the environment by humans, mainly due to the destruction of wildlife habitats for food production, is heightening the potential for another pandemic of zoonotic viruses (Gruber 2017). The number of viruses on earth is estimated to be 1.5 million, of which only 3,000 (i.e. 0.01%) are known to health researchers (Bhaktaram and Edelman 2020). This will be a variable of growing importance in the future, to be included in any foresight analysis.

Between the optimistic but increasingly unlikely scenario of a complete eradication of the pandemic in the short or medium term, and the undoubtedly overly pessimistic scenario of a continuous multiplication of new, more virulent variants that could even endanger current vaccine protection, another intermediate scenario has started to be envisaged since summer 2021 by epidemiologists. This is the transformation of the pandemic into an endemic virus, which humanity would have to deal with on a constant basis, but in a less brutal manner (Todd 2021). Endemic refers to 'the constant presence and/or usual prevalence of a disease or infectious agent in a population within a geographic area' (Center for Disease Control and Prevention 2012). In support of this scenario, epidemiologists point out that, historically, many epidemics have turned into endemic ones (tuberculosis, HIV, etc.) that humans have simply had to learn to live with.

In the medium to long term, such a 'long Covid' for society (i.e. with long-term effects) would change our perspective in public health terms: hopes for herd immunity would have to be abandoned. But it could also change our perspective in economic and social terms. In economic terms, a 'long Covid' scenario would entail the need for permanent rather than temporary adaptations in certain sectors and for certain activities that are highly vulnerable to the health threat, such as catering, trade, tourism, agriculture, air transport, and culture. More generally, such a scenario could call into question the logic underlying European and national economic 'recovery' plans. The aim of recovery could not just be a return to 'normal' in terms of the nature and intensity of economic activities prior to the pandemic, for reasons that are not only health-related but also environmental.

In social terms, the main concern will be the impact of a virus that has become endemic on the organisation and financing of healthcare systems, on the organisation of labour markets, and on society as a whole (education, mobility, culture, etc.). As the other chapters of this volume show (see also ETUI and ETUC 2020), the Covid-19 pandemic has already accelerated and reinforced inequalities between men and women, the young and the old, the self-employed and the employed, precarious workers and migrants, and so on. The transformation of the pandemic into an endemic virus could thus generate further inequalities: between those who will be permanently more exposed through their work and professional activities and those who will be protected; between those whose health status is more vulnerable and those who are more resistant; between those who benefit from social security and those who are excluded; between those who have the financial resources and skills to adapt and those who do not; and between those who are covered by complementary private insurance and those who are not. In the end, an even more polarised society would emerge, and from a global geopolitical perspective, the extant inequalities between developed and developing countries would become even stronger and more permanent.

Technological solutionism?

> Likely scenario: a climate transition with regressive effects coupled with a ‘long Covid’ that reinforces inequalities

A climate transition with regressive effects coupled with a society-wide ‘long Covid’ that reinforces inequalities: this scenario is of course not the only one that can be envisaged, but it appears, at the end of 2021, to be one of the most likely. And there will be other challenges, the main ones being: technological transformations and their impact on the world of work; demographic changes and migrations fuelled both by geopolitical instability in certain regions of the world and by global warming (UNHCR 2018); the decline of democracy, political rights and civil liberties; Europe’s place in the world, both in terms of strategic autonomy and the demographic shift towards Asia and Africa; new international rivalries and conflicts (in particular between the United States and China, but also between the EU and Russia); and new tools of large-scale disinformation that spread mistrust, suspicion and even paranoia in democratic societies and that may serve as weapons in modern hybrid wars.

The European Commission is rightly analysing these trends and seeing in the concept of ‘resilience’ the hope of escaping from a very dark scenario. However, much of its faith seems to be placed, some may consider excessively, in the capacity of technologies to develop this resilience: through the implementation of intelligent health systems, the strengthening of data management, artificial intelligence, digital hyperconnectivity, and technological transformations that have, it says, a high potential for decarbonisation (European Commission 2021).

Apart from the fact that the Commission’s above-mentioned report only devotes a short line to the increased energy demand of such a digital transformation, to the use of scarce resources and to electronic waste, it does not tackle head-on the central issue of the unequal distribution of the costs and benefits of the multiple transitions that await us, between workers, households and European regions. But if the climatic, health and technological challenges have been correctly identified, then one of the most important political conditions for these transitions will be ‘societal resilience’.

Conclusion: what does 'societal resilience' look like?

The concept of resilience, understood as the capacity to recover quickly from difficulties, has been widely used in recent debates. The Commission has used it as a label for one of the financial instruments of the 'Next Generation EU' programme: the Recovery and Resilience Facility (RRF), which supports Member States based on their National Recovery and Resilience Plans. Other actors, particularly from the business world, have also used this concept during the crisis. Microsoft, for example, stresses that 'resilience is found at the intersection of science, technology, and human ingenuity'.

Beyond investments in infrastructure and technological innovation, therefore, societal resilience is about preparing populations for transitions

However, in both of these examples, the concept of resilience has arguably been reduced to a question of either budget and investment (the approximately EUR 750 billion of the Next Generation programme) or technology (Microsoft's artificial intelligence and data infrastructure). But while investments and technologies are certainly necessary, the radical institutional and societal transformations that lie ahead require a broader conceptualisation.

In this regard, the International Science Council has launched a pioneering research project entitled the 'INGSA Societal Resilience Project'. This project is based on the observation that human experience thus far ill equips us to weather the multiple transitions ahead of us and the long-term uncertainties they will bring. It defines societal resilience as 'the ability of a society or an organization to adapt or transform positively in response to significant transitions or threats to its wellbeing. Social cohesion is a critical precursor of the broader concept of societal resilience, which we define in practical societal and policy terms as a willingness of members of a society, accepting their diversity, to cooperate in order to prevail and prosper. The five key considerations are belonging, inclusion, participation, recognition and legitimacy' (ISC 2021).

Beyond investments in infrastructure and technological innovation, therefore, societal resilience is about preparing populations for transitions, not in a passive way but by including them concretely in the dynamics of these transitions. This concept deserves to be further developed and eventually implemented to help society cope with the transition to a possibly more unstable world. In this respect, the European Union's strategic foresight work could also play an important role in developing these five key 'considerations', which could then be translated into policies:

- **Belonging:** How can people be encouraged to adhere to the values of a post-transition society? How can people be convinced that this society will be better, and how can we make sure it is so? In particular, how can educational systems be reformed and shaped to keep up with dynamic developments, equip children in lifelong learning skills, and prepare citizens for the challenges of tomorrow, namely the climate and digital transitions?
- **Inclusion:** How can we ensure that the costs and benefits of the transition are shared, and that redistributive systems (taxation and social protection) are adapted to play their full role in ensuring greater social justice in this transition, rather than fuelling extant inequalities? How can the economic and societal exclusion of people who are not equipped to deal with digitalisation be prevented so that they are not pushed to the margins of society?
- **Participation:** Contrary to the potentially demobilising effects of 'technological solutionism', which would leave it to technical innovation to meet all the challenges we are facing ('To solve everything, click here', Morozov 2013), it is the involvement and participation of all people – women, men, young people, the elderly, workers, students, pensioners, migrants, etc. – that will truly ensure the efficacy of the measures taken to implement the climate transition. How can such participation be mobilised? How can the transition be used to spark engagement in democratic procedures at local, state and EU levels to prevent the emergence of non-liberal democracies or anti-democratic autocracies?

Societal transformation will be the indispensable third side of a 'resilience triangle', the other two of which are massive investment in new green infrastructures and sustainable technological innovation

— **Recognition:** How can we take the specific realities and situations of the various socio-professional categories into account in the measures to be adopted? And how can we take into consideration the needs and capacities of each individual (in terms of mobility, consumption, energy, etc.) so that everyone has a place in these transitions?

— **Legitimacy:** How can we forge the broadest possible consensus on the measures to be adopted, and give political, economic and social actors and all citizens the confidence needed to move society in this direction? How can we initiate and conduct debates on the future of the democratic state in the 21st century – one that will be resilient against the forces of populism and that will take advantage of technological advances which could increase direct democracy?

This is a broad-brush representation of a concept that still needs to be refined, deepened and implemented. But we can already reflect on how building such a capacity for adaptation and societal transformation will be the indispensable third side of a 'resilience triangle', the other two of which are massive investment in new green infrastructures and sustainable technological innovation.

References

Barbara M.-A., Le Gall C. and Moutel A. (2021) Effets économiques des épidémies, Trésor-Éco 279. https://www.tresor.economie.gouv.fr/Articles/2021/03/16/effets-economiques-des-epidemies

Barrett P. and Chen S. (2021) Social Repercussions of Pandemics, Working Paper WP/21/21, Washington, DC, IMF.

Beyer R. M., Manica A. and Mora C. (2021) Shifts in global bat diversity suggest a possible role of climate change in the emergence of SARS-CoV-1 and SARS-CoV-2, Science of The Total Environment, 767, 145413. https://doi.org/10.1016/j.scitotenv.2021.145413

Bhaktaram S. and Edelman S. (2020) Not so unprecedented: Netflix's 'Explained' predicted the COVID-19 pandemic, Vanderbilt hustler, 15 November 2020. https://vanderbilthustler.com/36567/life/not-so-unprecedented-netflixs-explained-predicted-the-covid-19-pandemic/

BMJ (2021) Climate crisis: over 200 health journals urge world leaders to tackle "catastrophic harm", 374, n2177. https://doi.org/10.1136/bmj.n2177

CDC (2012) Principles of epidemiology in public health practice. An introduction to applied epidemiology and biostatistics, 3rd ed., Atlanta, Centers for Disease Control and Prevention. https://www.cdc.gov/csels/dsepd/ss1978/lesson1/section11.html

Copernicus (2021) Warmest summer for Europe by small margin; August globally joint third warmest on record, NewsFlash, 7 September 2021. https://climate.copernicus.eu/copernicus-warmest-summer-europe-small-margin-august-globally-joint-third-warmest-record

Deffet E. (2021) Les inondations sont aussi un tsunami social, Le Soir, 29 juillet 2021.

ECB (2021) Climate change and monetary policy in the euro area, Occasional Paper Series 271, Frankfurt am Main, European Central Bank.

EEA, The Lancet (2021) Responding to the health risks of climate change in Europe, Copenhagen, European Environment Agency. https://climate-adapt.eea.europa.eu/observatory/++aq++metadata/publications/responding-to-the-health-risks-of-climate-change-in-europe/

EFFIS (2021) European Forest Fire Information System. https://effis.jrc.ec.europa.eu

ETUC (2021) Foresight Report fails to put people at its heart, Press Release, 8 September 2021. https://www.etuc.org/en/pressrelease/foresight-report-fails-put-people-its-heart

European Commission (2021) Communication from the Commission to the European Parliament and the Council, 2021 Strategic Foresight Report – The EU's capacity and freedom to act, COM (2021)750 final, Brussels, 8 September 2021.

FT (2021) Energy prices will push up inflation across Europe, economists warn, Financial Times, 19 September 2021. https://www.ft.com/content/b1ce2232-b25a-4fd9-9b80-04da79fa68b9

Furceri D., Loungani P., Ostry J.D. and Pizzuto P. (2021) Will COVID-19 have long-lasting effects on inequality? Evidence from past pandemics, Working paper 2021/127, Washington, DC, IMF. https://doi.org/10.5089/9781513582375.001

Gilens M. (2012) Affluence and influence: economic inequality and political power in America, Princeton, NJ, Princeton University Press.

Gruber K. (2017) Predicting zoonoses, Nature Ecology & Evolution, 1, 0098. https://doi.org/10.1038/s41559-017-0098

IPCC (2021) IPCC, 2021: climate change 2021. The physical science basis, Cambridge, Cambridge University Press. https://www.ipcc.ch/report/ar6/wg1/#FullReport

ISC (2021) INGSA Societal Resilience Project, International Science Council. https://resilience.ingsa.org

IUCN (2021) Manifeste de Marseille 10 septembre 2021, UICN Congrès mondial de la nature. https://bit.ly/3wzci7n

Jordà O., Singh S.R. and Taylor A.M. (2020) Longer-run economic consequences of pandemics, Federal Reserve Bank of San Francisco Working Paper 2020-09. https://doi.org/10.24148/wp2020-09

Mozorov E. (2013) To save everything, click here: technology, solutionism, and the urge to fix problems that don't exist, London, Allen Lane.

OECD (2021) The inequality-environment nexus: towards a people-centred green transition, OECD Green Growth Papers 2021-01, Paris, OECD Publishing. https://doi.org/10.1787/ca9d8479-en

Pisani-Ferry J. (2021) Climate policy is macroeconomic policy, and the implications will be significant, Policy Brief 21-20, Washington, DC, Peterson Institute. https://www.piie.com/publications/policy-briefs/climate-policy-macroeconomic-policy-and-implications-will-be-significant

Todd S. (2021) Covid forever? Has Covid-19 gone from pandemic to endemic? Quartz, 17 August 2021. https://bit.ly/3H8sQYP

UNHCR (2018) Report of the United Nations High Commissioner for Refugees. Part II: Global compact on refugees, General Assembly Official Records Seventy-third Session Supplement 12, New York, UN. https://www.unhcr.org/gcr/GCR_English.pdf

WHO (2018) Maladie à virus Ebola, Aide-mémoire janvier 2018. https://apps.who.int/mediacentre/factsheets/fs103/fr/index.html#

WMO (2021a) WMO Atlas of mortality and economic losses from weather, climate and water extremes (1970-2019), WMO 1267, Geneva, World Meteorological Organization. https://library.wmo.int/doc_num.php?explnum_id=10769

WMO (2021b) United in science 2021: a multi-organization high-level compilation of the latest climate science information, Geneva, World Meteorological Organization. https://library.wmo.int/index.php?lvl=notice_display&id=21946#.YUhc5y0iv0o

Zachmann G., Fredriksson G. and Claeys G. (2018) The distributional effects of climate policies, Bruegel Blueprint Series 28, Brussels, Bruegel. https://www.bruegel.org/2018/11/distributional-effects-of-climate-policies/

All links were checked on 2 November 2021.

List of figures

List of authors

Editors

Nicola Countouris. Director of the Research Department at the European Trade Union Institute (ETUI).

Romuald Jagodziński. Senior Researcher in the Europeanisation of Industrial Relations Unit, ETUI. Research areas include industrial relations, workers' participation, European and SE Works Councils, implementation and enforcement of workers' rights. Romuald was also data visualisation editor of this publication.

Sotiria Theodoropoulou. Senior Researcher and head of the European Economic, Employment and Social Policies Unit, ETUI. Research areas: EU socio-economic governance, national economic, labour market and social policies and inequality.

Authors

Mehtap Akgüç. Senior Researcher in the Economic, Employment and Social Policies Unit, ETUI. She has a PhD in economics from Toulouse School of Economics. Fields of research include labour market impacts of green and digital transitions, migration and mobility, and economic development.

Kalina Arabadjieva. Researcher in the Economic, Employment and Social Policies Unit, ETUI. Research areas: labour law, gender equality, climate change and just transitions.

Pierre Bérastégui. Researcher in the Health and Safety and Working Conditions Unit, ETUI. Fields of research: psychosocial risks, musculoskeletal disorders, fatigue risk management systems and digitalisation.

Aude Cefaliello. Researcher in the Health and Safety and Working Conditions Unit, ETUI, she has a law degree from the University of Glasgow (Scotland), and the Université d'Auvergne (France).

Simon Deakin. Professor of Law at the Faculty of Law, Cambridge, and a Fellow of Peterhouse, Cambridge. He is regarded as a leading expert in the field of employment law and labour law.

Christophe Degryse. Head of the Foresight Unit, ETUI. Main research topics: foresight studies, European social dialogue, digitalisation of the economy and its social impact.

Jan Drahokoupil. Senior Researcher on multinational corporations. He also coordinates research on digitalization and the future of work. His broader expertise lies in political economy and development, particularly in the context of east European countries.

Paula Franklin. Senior Researcher in the Health and Safety and Working Conditions Unit, ETUI. Research topics include psychosocial risks and health equity.

Béla Galgóczi. Senior Researcher in the Foresight Unit, ETUI. Working on capital and labour mobility in the EU. Current main research topic is the just transition towards a carbon neutral economy with a focus on fair labour market transitions.

Torsten Müller. Senior Researcher in the Economic, Employment and Social Policies Unit, ETUI. Responsible for the areas of wages, collective bargaining and trade unions in Europe.

Tony Musu. Senior Researcher in the Health and Safety and Working Conditions Unit, ETUI. Research topics include chemical risks, occupational cancers, chemicals regulations and worker protection legislations.

Agnieszka Piasna. Senior Researcher in the Economic, Employment and Social Policies Unit, ETUI. Research areas include job quality, working time, labour market policies, gender inequalities and platform work.

Kate Pickett. Professor of Epidemiology, University of York (UK), she is Deputy Director of the Centre for Future Health and Associate Director of the Leverhulme Centre for Anthropocene Biodiversity. She is the co-founder of The Equality Trust.

Silvia Rainone. Researcher in the Europeanisation of Industrial Relations Unit, ETUI. Fields of research: EU labour and social policy and the transformative effect of digitalisation on labour law.

Zane Rasnača. Senior researcher in EU law and labour law. She is the coordinator of the Transnational Trade Union Rights (TTUR) expert network.

Marian Schaapman. Head of the Health and Safety and Working Conditions Unit, ETUI and coordinator of the Workers' Interest Group of the EU Advisory Committee on Safety and Health.

Kurt Vandaele. Senior Researcher in the Europeanisation of Industrial Relations Unit, ETUI. His research interests include trade union revitalisation, the workers' repertoire of collective action and the platform economy.

Wouter Zwysen. Senior Researcher in Economic, Employment and Social Policies Unit, ETUI. Research areas: earnings, job quality, migration and ethnic diversity.

European
Trade Union Institute
Boulevard du Roi Albert II, 5, box 4
B-1210 Brussels
+32 (0)2 224 04 70
etui@etui.org
www.etui.org

European
Trade Union Confederation
Boulevard du Roi Albert II, 5
B-1210 Brussels
+32 (0)2 224 04 11
etuc@etuc.org
www.etuc.org

D/2021/10.574/29
978-2-87452-615-2

CONFEDERATION SYNDICAT EUROPEÆN TRADE UNION

etui.