



International
Labour
Organization

**STUDIES ON
GROWTH WITH EQUITY**

The European Union flag, featuring a blue field with twelve yellow stars arranged in a circle, is the background for the main title. The flag is shown with a slight wavy texture.

**BUILDING
A SOCIAL
PILLAR FOR
EUROPEAN
CONVERGENCE**



STUDIES ON GROWTH WITH EQUITY
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2016

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FOR EUROPEAN CONVERGENCE**

INTERNATIONAL LABOUR ORGANIZATION

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EXECUTIVE SUMMARY

The economic crisis has raised the degree of socio-economic heterogeneity among EU Member States...

The promotion of economic and social convergence among EU Member States is at the heart of the European integration project. Yet a thorough analysis of key indicators shows that EU Member States are either diverging in terms of socio-economic performance or converging towards deteriorating outcomes, such as worsening inequality and widening structural imbalances. These trends were exacerbated by the economic and financial crisis of 2008 and the European sovereign debt crisis of 2010. For instance, while in 2007 the ratio of the highest to lowest unemployment rates in the EU was roughly 3 to 1 (between Slovakia and Denmark), the most recent figures indicate a ratio that exceeds 5 to 1 (between Greece and Germany). Likewise, despite a positive trend towards convergence in income inequality and poverty before the crisis – due mainly to improvements by the Member States that joined the EU in or after 2004 – the overall trend over the past 15 years suggests there has been a convergence towards higher levels of poverty and inequality for the EU as a whole. These developments were underpinned by a high degree of heterogeneity in economic growth among the Member States over the period.

... aggravated by imbalances in structural factors that could intensify in the future.

The changing nature of work may bode poorly for Member States. If not well managed, the intensification of new technologies and increased fragmentation of production could exacerbate both income polarization within countries and income divergence across EU Member States. Already, over the past decade, there has been a decline in manufacturing jobs in a significant number of European countries, which has partly been associated with an observed decline in the employment share of middle-skilled and middle-waged occupations. Simultaneously, the incidence of workers with

temporary and part-time contracts has increased considerably – often involuntarily – with the risk of poverty among these workers being on average two to three times higher than for permanent and full-time employees. Furthermore, traditional work patterns are being challenged by an increase in the diversity of non-standard forms of employment, and new forms of work are emerging that are blurring the boundary between dependent employment and self-employment. The result is a need for increased legal clarity on workers’ employment status and employers’ responsibility. Positive actions to tackle these issues could be achieved – at least to a certain extent – through the leadership of the EU itself.

These trends point to some degree of imbalance in the European socio-economic governance process. Unlike the procedures established to monitor and correct Member States’ macroeconomic situations, which are binding, the so-called “soft” coordination mechanisms used in the employment and social fields have failed to achieve upward convergence. Policy coordination in these areas would be more effective if it were built upon common social conditions in all Member States. By bringing the employment and social performance of the Member States to the fore, the European Pillar of Social Rights offers an opportunity for a more balanced EU governance framework.

Finally, socio-economic divergence is also a function of the heterogeneous nature of Member States’ asymmetric resilience to shocks, either due to their contrasting labour market institutions or their differing abilities to respond to weakening aggregate demand. For example, despite the positive countercyclical functions of active labour market policies (ALMPs), their prominence – as well as the coverage and adequacy of unemployment benefits – is uneven across the EU. Similarly, in the absence of fiscal capacity at the EU level, member countries of the Economic and Monetary Union (EMU) that are facing deteriorating economic conditions only have a limited margin for manoeuvre as their fiscal policy options are constrained under the strict rules of the Growth and Stability Pact. An EMU-wide approach to support euro area members confronted by weak growth would help to increase the resilience of all members, while preventing the weakest

ones from facing the cascading internal devaluations that often result in higher unemployment and increased social disparities.

The establishment of a European Pillar of Social Rights could foster upward convergence of socio-economic outcomes...

People living in the EU benefit from a range of social rights conferred by national legislation and EU law as well as regional and international Treaties that Member States have ratified, including the European Social Charter and ILO Conventions. By facilitating a common approach at the EU level, the European Pillar of Social Rights proposed by President Juncker could help ensure that people living in the EU fully enjoy their rights.

Convergence towards better socio-economic outcomes, underpinned by such a Pillar, could be the foundation for a more integrated and stable Europe and a fully functioning EMU. Moreover, fostering upward convergence of socio-economic conditions is a necessary condition for political and societal support for the continued construction of the EU. It is therefore imperative that the EU continue to strive collectively towards economic, employment and social improvements for all its members.

...by strengthening existing rights and improving social standards in the EU...

A range of policy and institutional levers at the EU level, many guided by international labour standards, could strengthen existing rights, improve social standards and foster upward convergence in the social and employment fields. A number of critical areas, neither exclusive nor exhaustive, that could be considered in this regard include the following:

- *Minimum wage*: A balanced approach to minimum wage policy based on the principles enshrined in ILO instruments could limit in-work poverty in the EU and help reduce the extent of low-wage competition, while also promoting sustainable enterprises and economic development.

Ensuring the participation of social partners in the fixing and adjusting of rates for minimum wages can lead to better outcomes, outcomes that are enforceable and, in turn, maintain and promote social cohesion.

- *Minimum income:* The establishment of national adequate minimum income guarantees covering as many people as possible, based on obligations arising from European and ILO treaties and assessed as part of comprehensive national social protection systems, would help make sure that no one is left behind in the EU. Taking account of the great diversity in existing schemes across EU Member States, a common approach could focus on ensuring that: (i) there is effective coverage of everyone in need, (ii) the levels of benefits provided are adequate to allow life in dignity and (iii) social partners and other relevant organizations participate in the design and review of the schemes.
- *Work and family reconciliation:* Increased policy coordination at the EU level to reconcile work and family life in line with relevant ILO standards could raise living standards, reduce inequalities and narrow gender gaps. Work–family policies have been found to be effective in increasing women’s labour market participation in several EU Member States and in influencing longer term trends in population and labour supply. Key principles on which to promote a common approach at the EU level could focus on encouraging men’s involvement in care, investing in care services and promoting workplace arrangements through social dialogue and collective bargaining.
- *Employment promotion and unemployment protection:* Stronger linkages between ALMPs and unemployment benefits provide much needed income support, improve skills attainment and act as an effective economic stabilizer. As such, enhancing the effectiveness of unemployment benefit schemes while promoting employment and employability is an important objective of EU Member States. A smart benchmarking strategy for ALMPs and unemployment benefits at the EU level should be demand driven and flexible, both across economic cycles and country characteristics and circumstances. It would require focusing on the

level of expenditure and, consequently, on the coverage across countries, as well as on the quality of the services provided. A set of principles strengthening upward convergence of unemployment benefits could be set up, structured around both a qualitative and a quantitative framework, incorporating relevant ILO standards, which are widely ratified by the EU Member States.

- *Skills development:* The speed and nature of globalization, technological evolution, changes in work organization and demographic trends have profound effects on the world of work. Policies focusing on human capital and skills development are essential to turn these structural changes into an opportunity for all, by increasing productivity levels and quality of life in the EU. In addition to technical skills, education and training can enhance social capacities and hence are central elements in combating poverty and social exclusion. Based on relevant ILO standards, key principles on which to build upward convergence at the EU level could include anticipating skills needs and adapting policies, reinforcing the role of training and work-based learning and enhancing the adaptability of workplaces.

...while offering a unique opportunity to embed effective and inclusive social dialogue as part of the governance of the EU.

As a central component of the European integration project, social dialogue remains essential for consensus building. While the dynamism of social dialogue is uneven across the EU Member States, investing in effective and inclusive dialogue is in the interests of a common European future. As emphasized by the EU social partners, more attention should be paid to recognizing, promoting and respecting social dialogue processes and outcomes. Additionally, building political consensus for a more convergent Europe could help to restore public confidence in the European project.

INTRODUCTION

Since its creation, the European Union (EU) has aimed to promote convergence between its Member States. Achieving higher economic growth in low-income Member States and reducing labour market and social imbalances between all countries and regions have indeed been at the core of the European integration process. More generally, economic and social convergence¹ has been regarded as a key condition for the continued political support to the European integration project.

Over the past few years, however, the process of economic and social convergence has stalled. Disparities persist in many respects and EU countries are actually drifting further away from each other rather than converging towards a union. This is especially true with respect to employment opportunities, income distribution and social inclusion, creating specific challenges to the euro area in particular. A range of factors are underpinning these gaps, including successive waves of EU enlargement (with accession of increasingly heterogeneous countries), inadequate policy coordination, and asymmetric resilience to shocks (particularly during the euro area crisis). Furthermore, there is a risk that the gaps within and across countries will widen in the context of rapid changes in the nature of employment and skill requirements.

Against this backdrop, in September 2015 the President of the European Commission, Jean-Claude Juncker, announced in his State of the Union speech the establishment of a European Pillar of Social Rights. The Pillar would support the construction of a fair and truly pan-European labour market and complement what was already achieved when it comes to the protection of workers in the EU while acknowledging the profound changes taking place in the world of work. In the first instance, the Pillar ought to be applicable to all euro area Member States and serve as a compass for renewed convergence within the euro area. President Juncker underlined the central role to be played by the social partners and, accordingly in March 2016, the Commission launched a broad consultation on a

¹ Throughout this report, convergence is meant in a positive manner, i.e. converging towards improved outcomes.

preliminary outline of the Pillar. The results of the consultation will feed into the White Paper on the future of the European and Monetary Union (EMU) expected in 2017.

The approach proposed by the European Commission takes account of the fact that labour market and social policies in the EU are mainly the result of national developments and are governed under shared competences between the EU and its Member States. Yet, the construction of a European Pillar of Social Rights needs also to consider past and current shortcomings in the European governance framework, in particular the prioritization of economic and financial concerns over employment and social issues. In this regard, another structural obstacle to socio-economic convergence is the uneven level of resources allocated to employment and social objectives at the national level.

The construction of a European Pillar of Social Rights could make a significant contribution to the 2030 Agenda for Sustainable Development which was universally agreed by UN Member States in September 2015. In particular such a Pillar could be relevant to the achievement by EU Member States of Goal No 1 on ending poverty and Goal No 8 on the promotion of inclusive and sustainable economic growth, employment and decent work for all.

Moving forward, it is therefore important to identify the gaps that prevent further convergence from happening, to put forward concrete measures to address these and to bring the European social agenda forward. Ensuring there is a minimum level of compliance on social issues for all Member States would not only improve social standards in the EU, it would also help to create a level playing field among the Member States and nurture economic convergence.

This paper provides an initial contribution to the complex discussion on the construction of the European Pillar of Social Rights envisaged by President Juncker. It is a preliminary attempt by the ILO to examine a range of labour market and social policies, institutions and international

labour standards that could contribute to fostering upward socio-economic convergence between the Member States. As such, it focuses on a limited number of areas, which should not be considered exclusive or exhaustive.

With that in mind, the paper is organized as follows: based on an analysis of economic and social indicators, section A takes stock of convergence and divergence trends in the EU over the past 15 years. Section B then examines the role of EU institutions and policies underpinning these trends. Based on this analysis, section C proposes policy avenues to encourage upward social convergence at the EU level, focusing particularly on (i) minimum wages and collective bargaining; (ii) minimum income guarantees; (iii) reconciliation of work and family life; (iv) employment promotion and unemployment protection; and (v) human capital and skills development. The concluding section briefly addresses the political dimension of the European integration process and the importance of building consensus among key actors, especially through social dialogue.

SECTION A

ECONOMIC, EMPLOYMENT AND SOCIAL PERFORMANCE: CONVERGENCE AND DIVERGENCE

This section begins by assessing the extent of disparities among the socio-economic indicators of the 28 EU Member States.² It then analyses these trends over the period 2000–15, identifying the extent to which outcomes have improved over time and whether there has been convergence between Member States. The third and final part of this section looks at the changing nature of work and how this may affect social convergence in the future.

Economic disparities

The EU-28 is estimated to have achieved growth of approximately 1.9 per cent in 2015, slightly above the rate of 1.4 per cent attained in 2014, but still considerably lower than the average pre-crisis growth rate of 2.3 per cent, as measured over the period 2000–07. Greece was the only country still showing negative growth in 2015, while some countries that had experienced consecutive contractions over the previous few years achieved positive growth, such as Cyprus and Italy, which recorded growth rates of 1.6 per cent and 0.8 per cent, respectively. Meanwhile, Ireland, another country hit hard by the crisis, has been rapidly recovering in economic terms: it had the highest growth rate of the region in 2015, at 7.8 per cent, followed by Luxembourg, at 4.8 per cent.

GDP per capita, a proxy for living standards, also displays wide disparities across the EU. In Bulgaria and Romania, the countries with the lowest income levels within the EU-28, real GDP per capita is less than a quarter of the EU average (according to 2013 data). In contrast, founding members Belgium, the Netherlands and Luxembourg have GDP per capita levels that are around 1.3, 1.4 and 2.7 times as high as the EU-28 average, respectively.

² Data in this section are based on Eurostat, unless otherwise stated.

Virtually all EU countries (except Hungary) took on more debt after 2008, mostly due to a combination of higher borrowing costs and increased expenditure. As a result, by 2015, many of those EU countries most impacted by the economic crisis exhibited the highest debt-to-GDP ratios, including Greece (176.9 per cent), Italy (132.7 per cent), Portugal (129.0 per cent), Cyprus (108.9 per cent) and Ireland (93.8 per cent). At the other end of the spectrum, Estonia (9.7 per cent – lowest in EU-28), Bulgaria (26.7 per cent) and Romania (38.4 per cent) continued to show some of the lowest debt-to-GDP ratios in the EU, although even these ratios had doubled or even tripled since 2008.

Labour market and social gaps

The economic crisis has highlighted the heterogeneity of employment and social outcomes between Member States. The most recent data indicate that when examining a range of key labour market and social variables, the gap between the highest and lowest performing country is significant in most cases (table 1).

This brings to the fore the diversity of the Union in terms of a range of labour market and social outcomes:

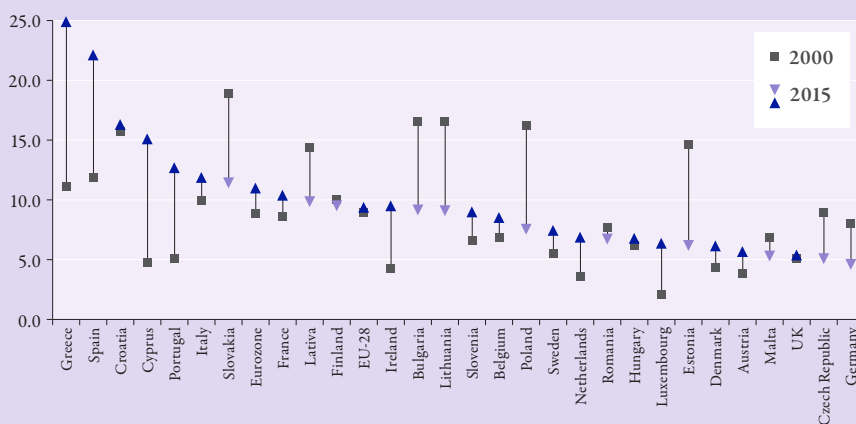
- *Unemployment rates:* Prior to the onset of the crisis in 2007, the ratio of the lowest to highest unemployment rates in the EU was around 1 to 3 (between Denmark and Slovakia). In 2015, it was over 1 to 5 (between Germany and Greece). In addition, figure 1 shows that unemployment rates in 2015 were still above 15 per cent in a number of southern European countries (Croatia, Cyprus, Greece and Spain). However, a few continental countries (Austria, Czech Republic and Germany) as well as Malta and the United Kingdom had unemployment rates below 6 per cent.
- *Long-term unemployment:* In 2015, almost half of all unemployed persons in the EU-28 (48.2 per cent) had been unemployed for 12 months or more. The situation was particularly stark in Greece, where long-term

Table 1. Selected labour market and social indicators, range of values in EU-28 (latest year available)

	Lowest	EU-28 average	Highest	Ratio (high to low)
Labour market indicators				
Unemployment rate (per cent)	4.6	9.4	24.9	5.4
Youth unemployment rate (per cent, aged 15-24)	7.2	20.3	49.8	6.9
Long-term unemployment rate (percentage of total unemployment)	19.6	48.2	73.1	3.7
Gender gap: unemployment rate (female-male, percentage point difference)	-3.2	0.2	7.1	-
Involuntary part-time employment rate (percentage of total part-time employment)	9.9	29.2	68.9	7.0
Social indicators				
Median income (PPS)	4,090	15,777	28,271	6.9
Income inequality (Gini coefficient)	25.0	30.9	35.6	-
At-risk-of-poverty or social exclusion	14.8	24.4	40.1	2.7

Note: Data for labour market indicators are for 2015 and social indicators for 2014.
Source: ILO calculations based on Eurostat.

Figure 1. Unemployment rates in EU-28 countries, 2000 and 2015 (per cent)

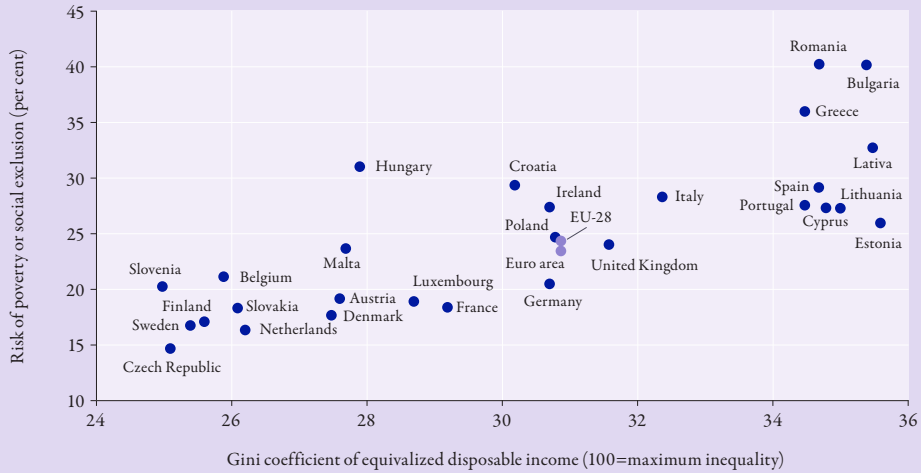


Source: ILO calculations based on Eurostat.

unemployment accounted for nearly three-quarters (73.1 per cent) of all unemployed in 2015. Similarly, in Bulgaria, Croatia and Slovakia, long-term unemployment affected nearly two-thirds of all unemployed, while in several northern countries (Denmark, Finland and Sweden) it accounted for around a quarter or less. The gaps in long-term unemployment have also been driven by the fact that in a number of countries, the share of long-term unemployed has increased significantly over the past two years, even as unemployment rates were falling. For example, between 2013 and 2015 the share of long-term unemployment rose considerably in the Netherlands (8 percentage points), Cyprus (7 percentage points) and Greece (6 percentage points).

- *Youth unemployment:* The share of the youth active population without a job ranges from nearly one in two in Greece and Spain to less than one in 15 in Germany. Indeed, youth in the EU continue to be confronted by high unemployment rates and tackling youth unemployment is a major priority for the Commission and, in April 2013, the European Council adopted the EU Youth Guarantee. Yet, despite the implementation of the Youth Guarantee, progress in this domain remains slow (Escudero and López Mourelo, 2015).
- *Gender-dimension of unemployment:* Since 2007, the unemployment gap between men and women has narrowed significantly at the EU level, from a gap of around 1.3 percentage points in 2007 to 0.2 percentage points in 2015. However, the situation varies widely across countries. In Greece, the female unemployment rate in 2015 at 28.9 per cent was 7.1 percentage points higher than the male rate. Meanwhile, in Slovakia and Spain, the female unemployment rates were only 2.6 percentage points and 2.8 percentage points higher, respectively, than the male rates. In Ireland and Latvia, the situation was the opposite, with female unemployment rates 3.2 percentage points and 2.5 percentage points, respectively, lower than male rates.
- *Involuntary part-time employment:* Part-time work is estimated at nearly 20 per cent of employment in the EU-28 in 2015. However, nearly 30 per

Figure 2. Poverty and inequality in EU-28 countries, 2014



Notes: Euro area refers to the 18-country grouping.
Source: ILO calculations based on Eurostat.

cent of these part-time workers were on an involuntary basis. In southern Europe, the share of part-time work that is involuntary is considerable, estimated at 73 per cent in Greece, over 60 per cent in Italy and Spain and over 50 per cent in Portugal in 2015. In eastern Europe, it was also relatively high, at 61 per cent in Bulgaria and 59 per cent in Romania. In countries such as Austria, Germany, the Netherlands and the United Kingdom involuntary part-time employment was lower, ranging from 12 per cent to 17 per cent in 2015.

- *Risk of poverty or social exclusion:* Figure 2 shows country plots of indicators of risk of poverty and within-country income inequality. The countries with the highest at-risk-of-poverty or social exclusion rates, namely Romania, Bulgaria, Greece, Latvia and, to a certain extent, Spain, also have the highest levels of income inequality. In contrast, the countries with the lowest rates of poverty also tend to have the least inequality. The risk of poverty is on the rise in the EU and affects 17.2 per cent of the total population, according to recent data. The increases in Greece, Spain and Portugal (of between 1.6 percentage points and 2.4 percentage points between 2009 and 2014) are particularly worrying

(ILO, 2016b). Moreover, compared with the EU average, a number of groups – including women, young persons and people with low educational attainment – face a higher risk of poverty or social exclusion. Single parents form a particularly vulnerable group as almost 50 per cent of single adults with one or more dependent children were at risk of poverty in 2013. In addition, those born outside the EU are also found to be considerably more at risk of poverty and social exclusion, with as many as 40.1 per cent at risk in 2014, compared with less than 22.5 per cent for the native-born EU population.

- *Income inequality*: In 2014, the median incomes of EU countries ranged from around 4,000 purchasing power standard (PPS) in Romania to 28,000 PPS in Luxembourg. This corresponds to a Gini coefficient of equivalized disposable income of around 30.9 (on a scale of 0 to 100, where 100 denotes maximum inequality) for the EU-28 as a whole. The lowest levels of income inequality were observed in Slovenia (with a Gini coefficient of 25.0), followed by Czech Republic (25.1) and Sweden (25.4). In contrast, the highest levels of inequality were observed in Estonia (35.6), Latvia (35.5) and Bulgaria (35.4).
- *In-work poverty*: The risk of being in poverty is most dramatic among the unemployed (in 2014 it stood at just over 47 per cent in the EU-28). Yet, having a job is not always a guarantee of income security: the at-risk-of-poverty rate for employed persons is on the rise in Europe, with almost 10 per cent of the EU population at risk in 2014. The risk of poverty in employment was the highest in Romania, at 19.5 per cent, and was at 12.6 per cent in Spain. The lowest rates were observed in Finland, at 3.7 per cent, and in the Czech Republic, at 3.6 per cent.

Convergence and divergence of socio-economic outcomes

The previous subsection highlighted the considerable heterogeneity among EU members and the large gaps between the highest and lowest socio-economic indicators among countries. This subsection analyses these trends over the past few decades in an effort to assess the extent to which – despite

these gaps – countries may be converging. Indeed, the degree to which these disparities may lead to polarization, thereby threatening the stability and socio-economic cohesion of the EU, depends largely on whether countries are moving towards convergence in improved outcomes.

Economic divergence

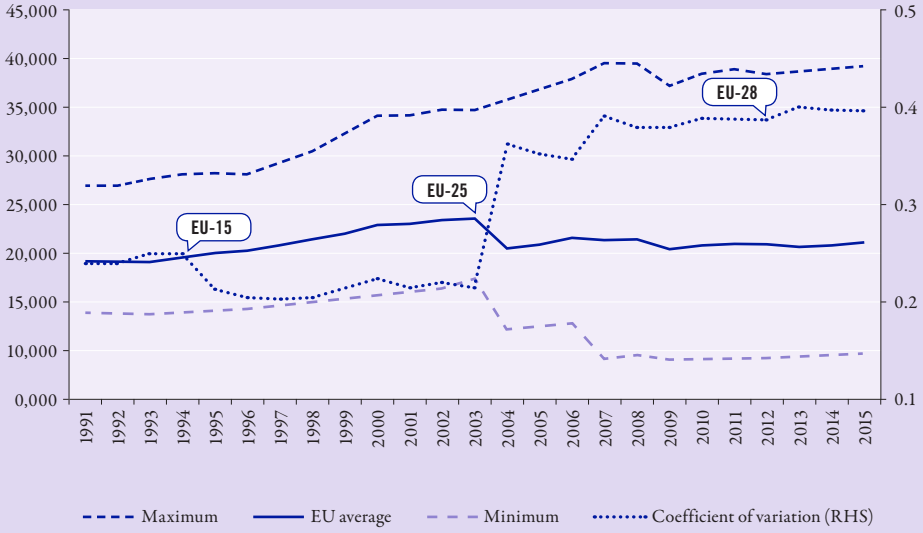
Convergence in economic outcomes has been an ongoing issue throughout the process of European economic integration. European institutions at large have constantly emphasized its importance as a necessary condition to attain sustained long-term growth and social cohesion in the whole Union. Over the past 15 years, several new countries have joined the EU, with the objective of catching-up to the economic and social standards of existing Members. The Union saw the biggest enlargement in its history in the past decade; in particular, in 2004, when ten countries became members,³ and in 2007, when Romania and Bulgaria joined the Union. This brought about significant challenges for economic convergence. For instance, following the 2004 enlargement, the gap between the Member States with the highest and lowest GDP per capita suddenly widened, and the gap widened further in the following years as Romania, Bulgaria and, later, Croatia entered the Union (figure 3). Moreover, the levels of GDP per capita among the new Member States themselves varied widely at the time of their accession in the EU, further increasing the variability of living standards across the EU.

Labour market and social divergence

Regarding labour markets, there is evidence that the twin crises of the global financial and economic crisis along with the euro area debt crisis has had a significant negative impact on the convergence of a number of key labour market outcomes, notably unemployment and long-term unemployment rates. In fact, using coefficients of variation as a measure of dispersion in rates observed in different countries, figure 4 highlights that during the period 2001–08 there was a steady downward trend in the dispersion of both unemployment and long-term unemployment

³ Countries that entered the EU in 2004 were: Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

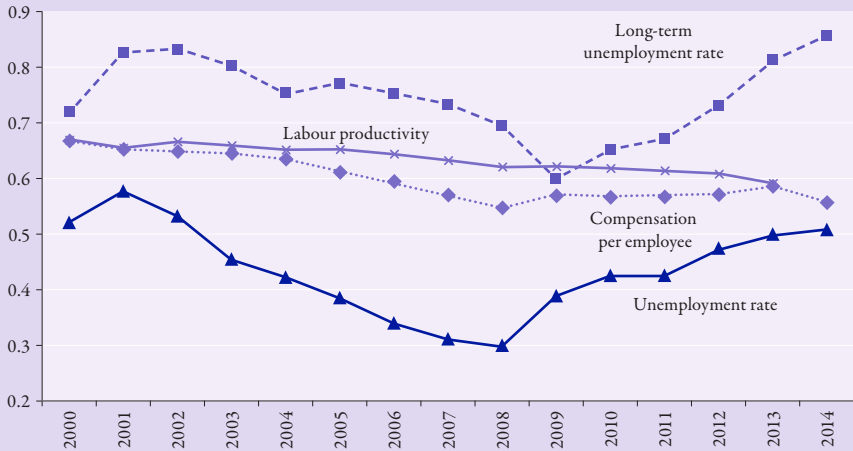
Figure 3. GDP per capita convergence and divergence, EU-28 countries, 1991–2015



Notes: The coefficient of variation is defined as the ratio of the standard deviation to the mean. It reflects the extent of GDP per capita variability across EU Member States in relation to the mean GDP per capita in the EU, taking into account the different stages of the EU enlargement process.

Source: ILO calculations based on The Conference Board Total Economy Database.

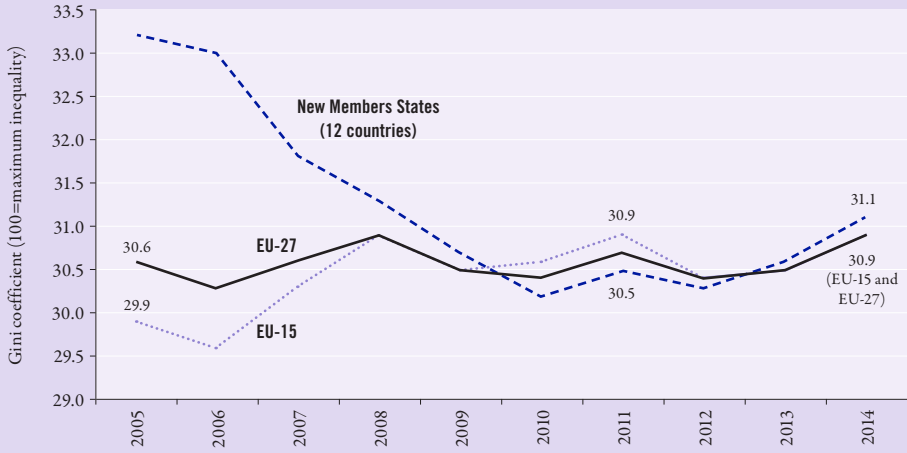
Figure 4. Coefficients of variation, selected labour market variables, EU-28, 2000–14



Note: Data for each year cover all EU-28 countries, both before and after accession. The coefficient of variation is defined as the ratio of the standard deviation to the mean.

Source: ILO based on Eurostat and AMECO database.

Figure 5. Gini coefficients, EU-27, EU-15 and new Member States, 2005–14



Source: ILO calculations based on Eurostat.

across the EU-28, that is, there was some degree of convergence. However, with the onset of the crisis, this trend reversed sharply in 2008–09, as the crisis hit some countries’ labour market structures harder than others’.

Income inequality within the new Member States (i.e. those that joined in or after 2004) had been decreasing over the 2005–10 period, as indicated by Gini coefficients (figure 5). However, over the same period, Gini coefficients for the EU-15 (i.e. those countries in the EU prior to 2004) had been rising, albeit at a slow rate. As a result of these two opposite trends, the Gini coefficient for the EU-27 remained relatively stable. However, since 2010, income inequality has risen modestly among both new Member States and the EU-15 (leading to a modest increase within the EU-27, from 30.2 to 30.9 in 2014). Moreover, it is likely that the lagged impact of high unemployment, particularly long-term unemployment, will lead to further income inequality in the medium term, particularly in the eastern European Member States.

Although the share of individuals in the EU-28 at risk of poverty or social exclusion increased between 2010 and 2014,⁴ there was a decrease in the dispersion rate. Subsequently, the trend was much like that seen for income

⁴ In fact, since 2010, only eight countries in the EU-28 showed decreasing at-risk-of-poverty or social exclusion rates.

inequality. In early stages of the enlargement, many new Member States that started with elevated rates, such as Bulgaria and Latvia, saw their rates converging towards the mean, but the overall trend suggests that countries are on average converging towards higher poverty levels.

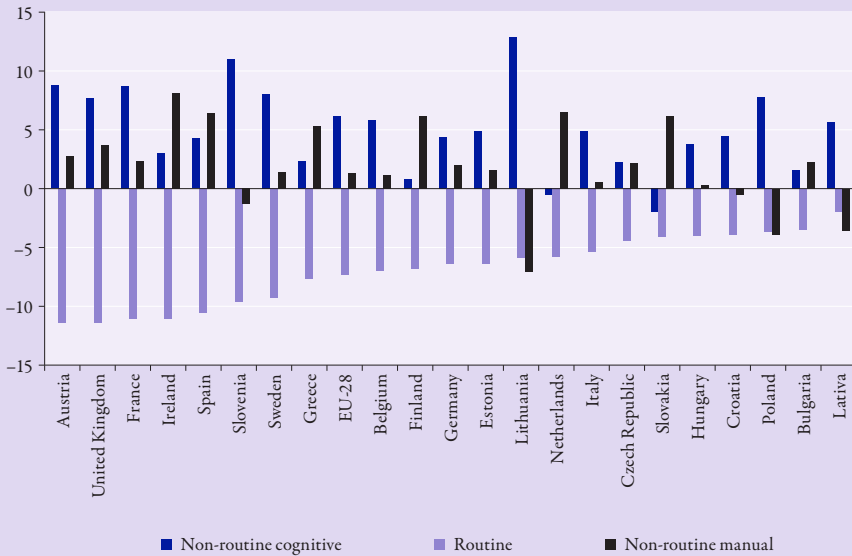
Changing nature of work is impacting EU countries differently

The extent to which EU Member States will be able to converge towards higher living standards and lower levels of inequality will crucially depend on their ability to meet the challenges, as well as the opportunities, brought about by the rapidly changing nature of work. Indeed, global trends such as growing automation in production, job outsourcing and price competition from large emerging countries have already been seen to have the potential to increase productivity, but they can also widen income disparities both between and within EU Member States (ILO, 2015a).

One of the most visible impacts of these transformative forces has been the significant decline in manufacturing jobs over the past decade, which has affected virtually all EU countries. This decline is partly associated with an observed decline in the employment share of middle-skilled and middle-waged occupations, specifically those that have been relatively easier to automate or to relocate in other regions. For instance, between 2000 and 2015, the share of employment that involves routine tasks declined across all Member States (figure 6).

While these trends have been broadly common across most EU Member States, the overall impact on labour markets have varied considerably, depending, in part, on their ability to respond to the loss of traditional manufacturing jobs. In some countries, such as Austria, France, Slovenia and the United Kingdom, falling employment in traditional manufacturing has been more than offset by expanding employment opportunities in knowledge-intensive manufacturing, including in the production of high-tech goods, and in service activities which cannot be easily automated, such as health care, education and market services. This allowed these countries to attain higher living standards, driven by growing employment

Figure 6. Change in employment share by type of occupational task, selected EU Member States, 2000–15 (percentage points)



Source: ILO calculations based on ILO Research Department's *Trends Econometric Models*, November 2015 update.

in higher-paying, non-routine cognitive occupations. Conversely, in other countries, including Greece, Ireland and Spain, and also Finland and Slovakia, improvements in average income have largely stalled as job losses in traditional manufacturing have mostly been compensated for by transitions to low-productivity sectors, such as jobs in construction and retail activities or lower-paying, non-routine manual jobs. As a result of these different transformation processes, convergence in average GDP per capita across EU countries – as discussed above – has been increasingly challenged in recent years.

Moreover, a comparison of unemployment rates by education level illustrates the challenge for skills development and the unequal impact of the risk of unemployment across the EU. In 2010, there was a three- to four-fold difference in unemployment rates between low- and high-educated people in the majority of Member States. In addition, low-educated workers are three times less likely to participate in adult learning than their

high-educated counterparts (European Commission, 2016a). Europe also suffers from important skills shortages and mismatches. While different mismatch measures tend to give slightly different pictures, a recent ILO study confirmed that the level of skills mismatch is significant in Europe, with large variations existing by age groups and gender (ILO, 2014a). The study found that, overall, overeducation is increasing and undereducation is decreasing, and that, according to the normative measure, the incidence of overeducation is consistently highest for women and youth.

Other critical features of the changing nature of work are the intensification of competition which has increased the demand for a more flexible workforce. This has had important implications for new work arrangements and employment protection legislation. Indeed, the share of workers with temporary and part-time work contracts has increased over the past decade in the majority of EU countries. In 2015, the share of temporary employment in the EU stood at over 14 per cent. At the onset of the crisis, the share of temporary employment fell in many countries, owing largely to the fact that the majority of job losses were concentrated among those without a permanent contract (ILO, 2014b). While having a flexible workforce may help firms to address demand fluctuations, and helps workers to cope with their work–life balance, non-standard forms of employment raise several challenges, including limited earning potential, low job security and poor access to on-the-job training.

As a result, in the EU the risk of poverty for temporary employees and part-time workers is on average two to three times higher than for permanent and full-time employees, respectively. This largely explains why in several EU countries part-time and temporary employment is often involuntary. This divide across EU countries reflects a number of self-reinforcing factors, including differences in the average skill level of temporary and part-time workers and the different degrees of labour protection afforded to these workers, notably with regard to unemployment insurance and activation strategies in general.

In summary, this section has highlighted the fact that large disparities in economic, labour market and social outcomes exist across EU countries and that, with a few exceptions, the financial and economic crisis has widened these gaps. More worrisome is that an examination of the trends over time indicates that there has been either considerable divergence between countries (e.g. unemployment) or, worse, convergence towards undesirable outcomes (e.g. higher income inequality). Looking ahead, a number of developments – notably the use of technology and increased competition – are likely to remain fixtures of global and EU labour markets and will continue to give rise to a number of challenges. And while these developments are very much a function of national policies and country-specific circumstances (including human capital endowments), the distributional consequences of policy inaction at national and EU-wide levels could be large. There is a risk that such inaction could exacerbate both income polarization within countries and income divergence across EU Member States. The role of EU-wide institutions and policies is discussed in the following section.

SECTION B

ROLE OF EU INSTITUTIONS AND POLICIES IN GENERATING UPWARD CONVERGENCE

This section focuses on the role of the EU in shaping national outcomes. The first part of the section looks at the EU *acquis* and provides suggestions regarding labour legislation. In the second part, the role of the EU's socio-economic governance framework in fostering upward convergence is discussed. The final part focuses on the functioning of the EMU.

The EU social acquis in a changing world of work

Over recent years, labour regulation has grown in importance as a policy tool. Expanding from its original function of protecting workers, it is increasingly seen as a mechanism for stimulating employment growth. Yet at the EU level, labour legislation is limited to a few specific areas,⁵ and in these areas – just as in the field of social policy – the EU has resolved to “support and complement the activities of the Member States”⁶ under shared competences. The EU Charter of Fundamental Rights is binding on EU institutions and Member States when implementing EU law.

Looking at the current transformations taking place in the world of work and the structural changes occurring in EU labour markets, as described in the previous section, a key question is whether the current EU *acquis* is still fit for purpose. In other words, does the current *acquis* provide the right legislative framework to address the challenges and opportunities of these transformations? To what extent does the *acquis* create convergence in the performance of European labour markets? This subsection aims to

⁵ The most relevant directives focus on equal treatment at the workplace, pregnant workers, parental leave, written statement on employment conditions, posted workers, working time, occupational health and safety, workers' information and consultation, part-time, fixed-term and temporary agency work, and some aspects of protection of termination of employment.

⁶ Article 153 of the Treaty on the Functioning of the European Union.

address these questions, focusing in particular on the legislative challenges associated with the rise of non-standard forms of employment.

A recent ILO analysis, based on the Cambridge University Centre for Business Research's Labour Regulation Index (CBR-LRI), looked at employment protection law and regulation of different forms of employment (ILO, 2015a). In the context of that study, employment protection law referred to the rules relating to job security. In particular, it covered such matters as notice periods, redundancy compensation and selection, qualifying or probationary periods affecting dismissal rights, the fairness of dismissal, remedies for dismissal (compensation and reinstatement) and notification of dismissals. Regulation of different forms of employment was concerned with the rules governing self-employment, part-time work, fixed-term employment and agency work.

The analysis identified a modest increase in the legal strength of employment protection law from 2000 until the beginning of the crisis, after which time it fell. The increase in strength observed before the crisis was largely due to regulation concerning fixed-term employment, in particular the constraints attached to the use of such forms of employment and the limitation of maximum duration. The reductions in legal strength during and after the crisis were often related to redundancy compensation and notice periods. Importantly, the analysis of the effects of changes in employment protection legislation on employment and unemployment can be both positive and negative, depending on the context, but are generally very limited (ILO, 2015a).

With respect to different forms of employment, the ILO analysis found that there was an increase in the strength of regulation across EU countries, with particularly strong increases during the period 2000–04. The strength of regulation continued to rise thereafter, even throughout the crisis years. Regulation concerning equal treatment between part-time and fixed-term employment on the one hand and standard (i.e. full time permanent) employment on the other received considerable attention, both areas having relatively strong protection since 2013. In particular,

the adoption of EU legislation on part-time, fixed-term and temporary agency work⁷ is found to have contributed to the overall increase in the strength of legislation.

Yet in recent years, new non-standard forms of employment have emerged in the EU, such as job-sharing and casual, crowd or on-demand work. While little is known about these new forms, it has become clear that they challenge traditional work patterns and the one-to-one employer–employee relationship. A recent ILO Tripartite Experts’ Meeting on non-standard forms of employment⁸ found that workers in these forms of employment more frequently lack protection in law or in practice than other workers, with particular concerns being expressed regarding the exercise of fundamental rights and principles at work. The meeting expressed consensus on the need to strengthen protection of workers in these areas. This could be achieved to a certain extent through the leadership of the EU itself.

Notably, practices such as outsourcing and contracting-out, sometimes through the use of apps or e-platforms, have increasingly blurred the boundaries between dependent employment and self-employment. A new group of workers has emerged, made up of persons who are formally “self-employed” but also have some of the characteristics of employees. Several jurisdictions in the EU have put in place legal remedies to tackle the issue of misclassified or “false” self-employment. A measure commonly adopted is the establishment of a “primacy of facts” rule, whereby the determination of the existence of an employment relationship is guided by the facts related to the actual performance of work and not by how the parties may describe their relationship. Another common approach aimed at combating misclassification is the use of a legal presumption that an employment relationship exists where relevant indicators are observed. Further, a number of EU countries have specifically regulated dependent self-employment or quasi-subordinate work by extending some labour protection to the workers involved (ILO, 2015b), although there is great

⁷ EU Council Directive 97/81/EC of 15 December 1997 on part-time work, EU Council Directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work concluded by ETUC, UNICE and CEEP, and EU Directive 2008/104/EC of the European Parliament and of the Council of 19 November 2009 on temporary agency work.

⁸ February 2015. For the purposes of the Experts’ Meeting, non-standard forms of employment included: (1) temporary employment; (2) temporary agency work and other contractual arrangements involving multiple parties; (3) ambiguous employment relationships; and (4) part-time employment.

Box 1. Employment Relationship Recommendation, 2006 (No. 198)*DETERMINATION OF THE EXISTENCE OF AN EMPLOYMENT RELATIONSHIP***Article 9**

For the purposes of the national policy of protection for workers in an employment relationship, the determination of the existence of such a relationship should be guided primarily by the facts relating to the performance of work and the remuneration of the worker, notwithstanding how the relationship is characterized in any contrary arrangement, contractual or otherwise, that may have been agreed between the parties.

Article 10

Members should promote clear methods for guiding workers and employers as to the determination of the existence of an employment relationship.

Article 11

For the purpose of facilitating the determination of the existence of an employment relationship, Members should, within the framework of the national policy referred to in this Recommendation, consider the possibility of the following: (a) allowing a broad range of means for determining the existence of an employment relationship; (b) providing for a legal presumption that an employment relationship exists where one or more relevant indicators is present; and (c) determining, following prior consultations with the most representative organizations of employers and workers, that workers with certain characteristics, in general or in a particular sector, must be deemed to be either employed or self-employed.

variation across the Member States, both in the definition of dependent self-employment and in the level of protection provided. While these are interesting developments, there are a number of pitfalls regarding the creation of an “in between” category, including the risk of complicating rather than simplifying the issue of classification (De Stefano, 2016).

The growing diversity in non-standard forms of employment requires increased legal clarity on workers’ employment status and employers’ responsibilities. This is essential to promote fair competition among businesses and to ensure that workers can effectively enjoy the protection they are entitled to. The Employment Relationship Recommendation, 2006 (No. 198) provides useful guidance to help in clarifying and adapting the scope of relevant labour laws and regulations (ILO, 2013).

EU economic and social governance processes

As of 2014, the European Commission led by President Juncker, has adopted a new approach to economic policy built on three pillars, namely: increased investment, structural reform and fiscal responsibility.⁹ Since it took office, the Juncker Commission has put emphasis on social considerations and fairness. The 2015 Five Presidents' Report stresses that "Europe's ambition should be to earn a 'social triple A'" and calls for a stronger focus on employment and social performance as part of a broader process of upward convergence towards more resilient economic structures within the euro area (European Commission, 2015a).

The introduction of the Investment Plan for Europe in January 2015 was a welcome initiative. Over the past decade the EU as a whole has increasingly suffered from particularly low levels of investment. Current investment levels, expressed as a share of GDP, are still below pre-crisis levels. Collective and coordinated efforts at EU level are needed to reverse this downward trend and put Europe back on the path of economic growth and job creation. The Plan, which aims to mobilize 315 billion euros over three years, became operational in mid-2015. It is still too early to fully assess its impact, but, by reducing risks for private investors, it has the potential to boost employment and strengthen convergence between the Member States. ILO research has found that the Plan could indeed create over 2 million jobs if funds were allocated with consideration to unemployment levels and if complementary support were to be provided in the form of active labour market policies (ILO, 2015c). Such targeted allocation of funds to economically viable projects would benefit those most in need, and would narrow existing gaps in labour markets and, indeed, foster socio-economic convergence in the EU.

Structural reforms and fiscal responsibility are largely determined within the economic governance framework established since the outbreak of the crisis, and in the context of the European Semester. The reinforcement of the Stability and Growth Pact through the adoption of legislative packages in the form of the so-called Six-Pack (2011) and the Two-Pack (2013)

⁹ See 2015 and 2016 Annual Growth Surveys.

has led to enhanced budgetary surveillance, better monitoring of macroeconomic imbalances and stronger enforcement mechanisms in case of non-compliance with fiscal targets. Between 2010 and 2013, the capacities of European institutions to monitor, coordinate and sanction the economic and budgetary policies of the Member States were greatly extended and strengthened. According to Zeitlin and Vanhercke (2014), the adoption of these mechanisms has significantly extended the role of the Commission into policy areas that fall within the primary competence of the Member States and social partners. It has also resulted in situations where employment and social issues are mostly considered from the perspective of macroeconomic stabilization.

However, the Joint Employment Report and the recent introduction of a scoreboard of social indicators and of auxiliary social and employment indicators in the Alert Mechanism Report provide a solid source of information that can be used to direct economic decision-making towards balanced socio-economic outcomes. Additionally, giving more weight to the employment and social performance monitoring system would help to challenge people's perceptions about difficult adjustments being imposed on them in the name of the EU.

The effectiveness of coordination mechanisms for European socio-economic governance processes has also been questioned. Binding procedures have been established for monitoring and correcting Member States' macroeconomic situations, but much looser procedures are used in the social and employment fields. The so-called "soft" coordination mechanisms usually take the form of common goals and priorities set at the EU level. The Europe 2020 Strategy, a key coordination instrument, is an illustration of this. It relies on five headline targets set at the EU level, which are supported by common priorities and benchmarks identified in the European Employment Strategy, but has no clear budget or effective follow-up procedures attached. Likewise the so-called Open Method of Coordination, which relies primarily on exchanges of best practices, peer reviews and common targets, has been criticized for its lack of efficiency.

An evaluation of these coordination mechanisms would help to inform the construction of a European Pillar of Social Rights. At this stage, their rather disappointing results (at least in terms of convergence in social and employment outcomes) seem to indicate that divergence cannot be addressed by assuming individual policies will converge towards common goals. Soft convergence might not be effective unless it is built upon a social floor applicable in all Member States. The European Pillar of Social Rights offers a unique opportunity to address these shortcomings and to embed stronger types of cooperation in European socio-economic governance processes.

The unfinished business of the Economic and Monetary Union

The question of whether the root causes of increased divergence among the Member States are embedded in the design of the EMU came to the fore during the crisis. The current framework, which is based on a common monetary policy but with no political governance of the euro area, appeared increasingly ill-conceived as the crisis unfolded, due to its inability to address asymmetric shocks. A “one-size-fits-all” monetary policy for the euro area poses problems when dealing with individual Member States’ economic cycles. While these problems are common to all currency unions, there is another layer of difficulty specific to the euro area, which is that asymmetries cannot be tackled through fiscal policy. With strict rules limiting the level of sovereign debt and budget deficit of the Member States, euro area members facing economic shocks have little margin for manoeuvre as they have usually reached their authorized limits under the Stability and Growth Pact.

In the absence of a fiscal capacity at the euro area level to support the Member States going through economic turbulence, the current structure makes internal devaluation one of the few remaining adjustment mechanisms available. This mechanism is prone to causing negative social consequences, at least in the short term, as it essentially translates into attempts to achieve price competitiveness by reducing costs and wages in the public and private sectors and by increasing flexibility in the labour

market. As well as having social costs, such attempts have the potential to slash aggregate domestic demand in the countries concerned, thereby further hampering economic growth, job creation and social convergence.

A 2013 paper by Estrada et al. highlights the link between the divergence in unemployment and the structural design of the EMU. It states:

The fact that the increase in dispersion across euro area countries has been much larger than for non-euro countries is consistent with the hypothesis that the common currency in its initial design and the lack of country-specific monetary policies or stabilising risk-sharing devices to accommodate country-specific shocks may have been a factor behind the large difference in unemployment performance.

The recently published Five Presidents' Report recognizes some of these deficits and proposes a time-framed plan of actions. The report states:

For all economies to be permanently better off inside the euro area, they also need to be able to share the impact of shocks through risk-sharing within the EMU. In the short term, this risk-sharing can be achieved through integrated financial and capital markets (private risk-sharing) combined with the necessary common backstops, i.e. a last resort financial safety net, to the Banking Union. In the medium term, as economic structures converge towards the best standards in Europe, public risk-sharing should be enhanced through a mechanism of fiscal stabilisation for the euro area as a whole.

In 2012, the Commission launched the idea of creating an autonomous euro area budget, which would provide the EMU with the fiscal capacity to support Member States going through an economic downturn (European Commission, 2012a). To address sovereign debt problems, the Communication also refers to the creation of a euro area redemption fund and eurobills. Laszlo Andor, a former EU Commissioner for Employment and Social Affairs, made a proposal for an EU unemployment scheme, which would complement national schemes and could serve as an EU macroeconomic stabilizer (see box 2).

Box 2. European Unemployment Insurance (EUI) discussions and proposals

Proposals around the concept of an EUI tend to be based around three different kinds of mechanism. The first and most discussed is an EUI that would be sequential and would complement national insurance; that is, the European pillar would support a basic insurance level for a given period for short-term unemployment (and national insurance would then take over). The second is a reinsurance mechanism inspired by the US federal model (Beblavy et al., 2015a); in this case, the EUI would be activated to support increased expenditure at national level due to large unemployment shocks. The third mechanism, proposed by Jacques Delpla (in Artus et al., 2013), aims to put in place an EUI that would entirely replace national insurance schemes for certain workers, who would have opted into this mechanism at the time of hiring. This type of mechanism would require a new European employment contract, which would be offered to workers as an alternative to a national contract.

Several options have been discussed regarding the funding of an EUI, such as a payroll tax, corporate tax, VAT and a special contribution based on GDP. The first option is often preferred as it could operate as an insurance scheme at a microeconomic level. In this case, funding could be provided by a European social contribution levied on wages, which would replace part of national contributions (without increasing the overall tax burden). In order to reduce the risk of establishing permanent transfers between member states, Lellouch and Sode (2014) proposed that the principle of budget neutrality is strictly applied: contribution rates would be modulated according to the level of unemployment in each Member State, and would be updated regularly based on past trends.¹⁰ Several authors have called for a common mechanism of debt issuance to fund the operation of the EUI between updates.

Finally, with regards to geographical coverage, an EUI is typically conceptualized as a mechanism for economic stabilization within the monetary union, so most of the simulations have focused on the eurozone countries. However, there are some arguments that support the inclusion of all EU member countries (Beblavy et al., 2015b); for example, it would create a larger pool of insured countries and support the establishment of common minimum standards across the EU.

An EMU-wide approach to supporting euro area countries going through an economic downturn would help prevent these Member States from running into a cascade of internal devaluations, doomed to generate unemployment and social disparities. It would also create a level playing field among the members of the euro area. From an economic perspective, a risk-sharing mechanism aimed at ensuring macroeconomic stabilization

¹⁰ Lellouch and Sode also proposed that in the longer term, if unemployment rates across the euro area have converged, a single contribution rate should be considered.

would be an important element in fostering economic and social convergence among euro area members. From a political perspective, it would be a complicated exercise as the current compromise seems to indicate that the creation of a risk-sharing mechanism could only be envisaged through a further sharing of national sovereignty between national and EU levels. However, putting forward a solid agenda for socio-economic upward convergence within the EU would help to create the necessary political support for further sovereignty sharing among the Member States.

SECTION C

POLICY AVENUES FOR UPWARD CONVERGENCE

People living in the EU benefit from a range of social rights conferred by national legislation, EU law as well as regional and international Treaties that Member States have ratified, including the European Social Charter and ILO Conventions. International labour standards have grown into a comprehensive system of instruments on work and social policy, backed by a supervisory system, which has become an essential component for ensuring that today's globalized economy provides benefits to all. This section aims to discuss a number of policy levers at the EU level, many guided by international labour standards, intended to strengthen existing rights, improve social standards and foster upward convergence in the social and employment fields.

In particular, this section focuses on five key areas: (i) minimum wages and collective bargaining, (ii) minimum income guarantees, (iii) reconciliation of work and family life, (iv) employment promotion and unemployment protection, and (v) human capital and skills development. While these areas are deemed important with regard to ensuring higher levels of convergence among the Member States, they are neither exhaustive nor exclusive.

Minimum wages and collective bargaining

Minimum wages have been defined by the ILO as “the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract” (ILO, 2014c). This definition makes it clear that minimum wages are binding, regardless of the wage fixing method used. Minimum wages can be set by statute, by decisions of a competent authority, by a wage board, by a wage council or by industrial or labour courts and tribunals. Minimum wages can also be fixed by provisions in legally binding collective agreements.

Based on this definition, every EU Member State has one or more minimum wage. Most countries have a statutory national minimum wage (with possibly several rates). This is the case in Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, France, Germany, Greece, Hungary, Ireland, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and the United Kingdom. While these minimum wages are usually set by government, in some instances, such as in Austria and Belgium, legally binding national minimum wages are the result of a national collective agreement. In most countries, sectoral minimum wages set in collective agreements complement statutory minimum wages. In a more limited number of countries, minimum wages are set exclusively through collective agreements, such as in Denmark, Finland, Italy and Sweden, where collective agreements are also extended to uncovered sectors.

There is no clear consensus as to the potential impact of adopting a single relative (rather than absolute) European minimum wage level. Given the diversity of national circumstances and productivity levels, convergence may take place around a number of principles of good practice, which are also encapsulated in the Minimum Wage Fixing Convention, 1970 (No. 131) (the most recent ILO Convention on the subject) and the accompanying Minimum Wage Fixing Recommendation, 1970 (No. 135). Currently, only nine EU Member States have ratified Convention No. 131,¹¹ and 15 have ratified the earlier Minimum Wage-Fixing Machinery Convention, 1928 (No. 26). However, a recent ILO report, which reviewed national laws and practices, concluded that the principles laid down in Convention No. 131 enjoy much wider acceptance than the number of ratifications seems to suggest (ILO, 2014c).

Minimum wage systems that adopt the good practices required by the international labour standards:

- offer a broad scope of application, where exclusions are kept to a minimum, particularly in relation to vulnerable categories of workers;

¹¹ France, Latvia, Lithuania, Malta, Netherlands, Portugal, Romania, Slovenia and Spain.

-
- are based on the principle of full consultation with social partners and, where appropriate, their direct participation, on an equal footing, in the operation of the system;
 - set minimum wage levels that take into account the needs of workers and their families, as well as economic factors;
 - provide for the periodic adjustment of minimum wage rates to reflect changes in the cost of living and other economic conditions; and
 - include appropriate measures to ensure the effective application of minimum wages.

Full consultation and the involvement of social partners lie at the heart of all these principles. Social partners' direct participation in fixing the rate and its adjustment can lead to more balanced outcomes that are both enforceable and maintain social cohesion. Consultation can be done in different ways, such as through consultative wage boards or commissions or through tripartite bodies with general competence for economic and social affairs. "Consultation" does not necessarily mean "negotiation", which implies that the objective of each of the different parties is to reach an agreement. The consultations required under the terms of Convention No. 131 will not necessarily lead to an agreement, but steps should be taken to ensure that concerns and arguments put forward by social partners are actually taken into account. This implies that consultation must take place before decisions are taken and that the representatives of employers' and workers' organizations should be provided with full and pertinent information.

The effectiveness of minimum wages depends on many factors, including: whether they afford effective protection to all workers in an employment relationship, regardless of their contractual arrangements, in all industries and occupations in the economy (coverage); whether they are set and adjusted at a level that covers the needs of workers and their families, while taking into account economic factors (level); and whether employers comply with minimum wage regulations (compliance) (ILO, 2015d).

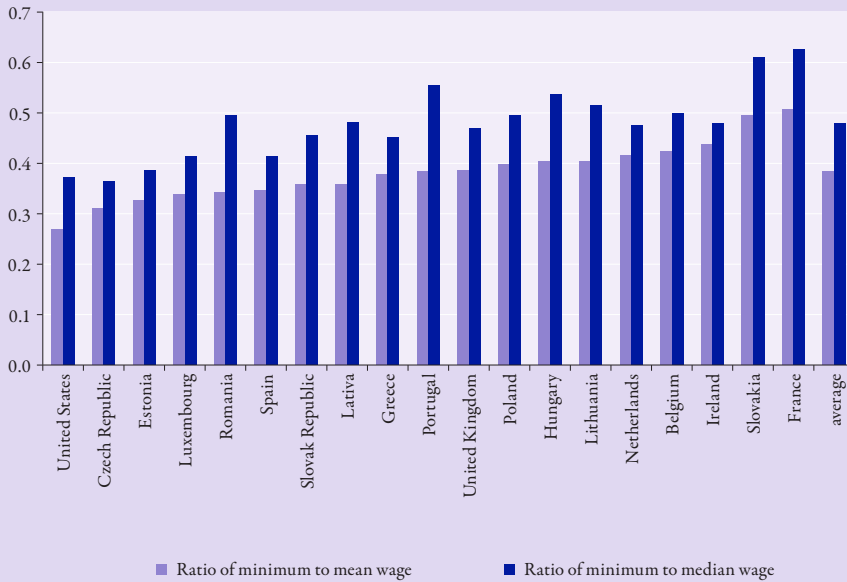
The question of how to define an adequate wage level is probably the most controversial aspect of minimum wage fixing. If set high enough, minimum wages can increase the earnings of low-paid workers, reduce the numbers of the working poor, reduce the gender pay gap in the lower part of the income distribution and reduce overall wage inequality (or limit its increase). If set too high, it has been argued that minimum wages can be counterproductive, potentially restricting job creation and becoming unenforceable, especially among small and medium-sized enterprises.

However, many studies now show that any potential negative effects on employment are close to zero or cannot be observed. In a recent World Bank publication, Kuddo, Robalino and Weber (2015) concluded that “although the range of estimates from the literature varies considerably, the emerging trend in the literature is that the effects of minimum wages on employment are usually small or insignificant (and in some cases positive)”. This conclusion is supported by meta-studies (quantitative studies of studies) on the United States (Doucouliagos and Stanley, 2009), the United Kingdom (Leonard, Stanley and Doucouliagos, 2014) and developed countries in general (Belman and Wolfson, 2014).

The findings of these studies highlight the importance of a balanced approach – as emphasized in Convention No. 131 – with respect to the elements to be considered when determining the level of a minimum wage that, so far as possible and appropriate in relation to national practice and conditions, include: (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

A range of indicators can be used to compare minimum wage levels, which take into account national circumstances, but the most popular is the ratio of minimum to median (or mean) wages. Figure 7 illustrates how this minimum wage indicator varied for 19 selected EU countries and the

Figure 7. Ratio of minimum wages to mean and median wages, 2013



Source: ILO based on OECD.

United States in 2013. On average, within this group of countries, minimum wages were set at slightly less than half of the median wage level (and slightly less than 40 per cent of average wages). Since 2013, Germany and the United Kingdom have implemented or announced minimum wages set at or around 60 per cent of median wages.

The adoption of a common approach to minimum wage policy at the EU level could help to limit the extent of poverty in the enlarged Union, limit the proportion of people on low pay within national contexts and help to reduce the extent of “social dumping” through low-wage competition (see Vaughan-Whitehead, 2010). A starting point could be a tripartite analysis at the national level of minimum wage coverage, level and compliance, such as referred to in ILO instruments.

Minimum income guarantees

The worrying trend toward higher poverty rates in Europe has intensified the discussion around the role of EU institutions in supporting the establishment of effective and efficient minimum income guarantee schemes in the Member States. Complementing other elements of social protection systems, minimum income guarantee schemes are indeed an effective way to mitigate the risk of poverty and foster social integration. A universal and adequate minimum income guarantee in each EU Member State, that takes account of national circumstances, would not only protect the most vulnerable members of society, it would also help create a level playing field at the EU level.

Non-contributory minimum income schemes for the working-age population exist in all Member States except Italy and Greece, and they usually take the form of social assistance. In all EU countries, these schemes complement other schemes, including contributory ones (social insurance), in the provision of income security. A great diversity exists across the Member States with regard to the levels of benefits, coverage, entitlement conditions, financing and the governance structures of these schemes. Member States have also developed different approaches regarding labour market activation for beneficiaries of minimum income schemes, the most successful ones providing personalized and comprehensive support through quality public employment services (ILO, 2015d).

The annual income level of social assistance benefits varies considerably between Member States. In 2012 it ranged from 512 euros in Romania and 914 euros in Bulgaria to 10,543 euros in the Netherlands and 13,889 euros in Luxembourg for a single person (expressed in purchasing power parities (PPP)) (European Commission, 2016b). According to ILO standards, an adequate level of minimum income guarantee would provide at least a basic level of income security, allowing life in dignity, taking into account wage levels and incentives to engage in declared work. Yet, several EU Member States' schemes would not pass that test. A commonly used measure of adequacy of benefits is a comparison with the at-risk-of-poverty threshold, which in the EU is set at 60 per cent of the national median

equalized disposable income. In the countries with the lowest levels of benefits, such as Bulgaria, Latvia, Poland and Romania, the minimum income guarantee for a single person amounts to less than 30 per cent of the national median income, far below the at-risk-of-poverty threshold. Analyses carried out in a number of Member States (*ibid.*) also point to inadequate levels of benefits when other measures are used, such as reference budgets or the cost of a basket of basic food and non-food items.

The Social Security (Minimum Standards) Convention, 1952 (No. 102), ratified by most EU Member States,¹² sets out minimum requirements and key principles to guide national definitions of minimum income guarantee schemes. The European Social Charter, 1961, in its articles 12 and 13 on the right to social security and social assistance, and the European Code of Social Security, 1966, also extensively ratified at EU level, provide similar guidance. Importantly, these standards require that minimum income guarantees provided through social assistance or other social protection programmes respect and promote human rights and dignity, including through non-discrimination, gender equality and responsiveness to special needs.

Finally, the financial sustainability of minimum income guarantee schemes should not be assessed in isolation, but rather within the context of comprehensive national social protection systems, including all their complementary components (ILO, 2014d). Where minimum income is provided in the form of social assistance (resource tested), its interaction with social insurance should be considered, as the sustainability of the minimum income guarantee might be best ensured through redistributive social insurance provisions, complemented by tax-financed benefits.

Against this backdrop, conceptualizing a benchmark on minimum income guarantee at the EU level would require at least three principles to be taken into account: (i) universality of coverage, (ii) adequacy and predictability of benefits and (iii) participation.

¹² Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

Universality of coverage

The Social Protection Floors Recommendation, 2012 (No. 202) provides guidance on closing social security gaps and achieving universal coverage through the establishment and maintenance of comprehensive social security systems. It calls upon governments to ensure the coverage of as many people as possible, at least at a minimum level, and to progressively reach higher levels of protection. Ensuring universality of protection requires eligibility criteria for social security benefits to be determined in such a way as to ensure that all those in need are effectively covered. The relatively low take-up rate for social assistance benefits in some EU Member States might indicate the need for a careful review of both the eligibility criteria and the ways in which benefits are delivered.

Adequacy and predictability

The adoption of an EU relative definition of minimum level of adequacy could stimulate the convergence of social indicators. Such a definition would have to be consistent with Member States' obligations under any ratified ILO Conventions and other regional treaties and with the guidance provided by ILO recommendations and other non-binding instruments. Two main approaches for assessing the adequacy of minimum levels of benefits can be identified, which can be used for determining an adequate level of minimum income guarantee in EU member states:

- The relative approach is based on the principle that minimum levels of income should be relative to national standards of living. Such analyses use a certain proportion (e.g. 40, 50 or 60 per cent) of the national (median) income to define a minimum income threshold. This method is used in the EU to determine the at-risk-of-poverty threshold, which is set at 60 per cent of the national median equivalized disposable income. Although it is relatively simple to calculate, the value of such an income threshold could evolve rather ambiguously during periods of rapid economic growth or in times of economic crisis.
- The absolute approach is based on a 'budget standards' indicator, which is derived from a basket of 'essential' goods and services. It goes beyond

a subsistence standard of living, allowing for the acquisition of resources necessary for taking part in the life of the community and enjoying a 'decent' standard of living. The main advantage of this indicator is that it reflects changes in costs rather than in income. But there are practical difficulties in implementing and monitoring such an indicator, including the choice of what constitutes essential needs and how the composition of the basket should change over time.

Both the Social Security (Minimum Standards) Convention, 1952 (No. 102) and the European Code of Social Security define adequacy in relation to wage levels, regardless of whether benefits are provided through a contributory or non-contributory scheme, or a mixture of both. Both require the provision of income security throughout the life cycle, at a minimum replacement rate varying between 40 per cent and 50 per cent (depending on the contingency for which the benefit is provided) of the standard reference wage for a skilled (for earnings-related benefits) or unskilled (for flat-rate and means-tested benefits) worker considered to be representative of a level of a decent wage earned in a country. Means-tested benefits, usually provided through social assistance schemes, should be sufficient to ensure, together with the other means of beneficiaries, life in health and decency for the beneficiary and his/her family.

The Social Protection Floors Recommendation, 2012 (No. 202) sets out that basic income security should allow "life in dignity", which may correspond to the monetary value of a set of necessary goods and services, national poverty lines, income thresholds or other comparable thresholds established by national law or practice.

EU institutions have taken diverse positions regarding the adequacy of benefits:

- A European Parliament 2010 Resolution invites Member States to introduce adequate minimum income schemes, which should set the minimum income at a level equivalent to at least 60 per cent of median income in the Member State concerned, and asks for stronger EU

recommendations (European Parliament, 2010). A Resolution of 2011, however, urges the Commission to launch a consultation on the possibility of a legislative initiative for a “sensible” minimum income (European Parliament, 2011).

- The European Commission’s Social Investment Package of 2013 calls on Member States to design efficient and adequate income support, and to establish reference budgets containing a list of goods and services that a family needs in order to be able to live at a designated level of well-being, along with the estimated associated costs (European Commission, 2013a).
- The European Economic and Social Committee, while aware of the difficulties related to framing “a specific central role for the EU in minimum income protection”, supports the introduction of a European directive that would “improve the adequacy of existing schemes”. The proposed directive should set “common standards and indicators, provide methods to monitor its implementation and allow for the involvement of social partners, beneficiaries and other stakeholders” (EESC, 2013).

Participation

ILO standards provide for a regular review of social security schemes, including their adequacy levels, through a transparent procedure established by legislation at the national level. ILO instruments refer to the inclusion of social partners in any review processes and mechanisms. Under Recommendation No. 202, tripartite participation, involving employers’ and workers’ representative organizations, as well as consultation with other relevant and representative organizations of persons concerned, should be ensured.

Box 3. Social Protection Floors Recommendation, 2012 (No. 202)

Recommendation No. 202 sets out that social protection floors should be implemented within strategies for the extension of social security that progressively ensure higher levels of social security to as many people as possible, guided by ILO social security standards.

The Recommendation provides guidance for the establishment of social protection floors as nationally defined sets of basic social security guarantees that ensure at a minimum that, over the life cycle, all in need have access to essential health care and to basic income security at a level that allows them to live in dignity.

Social protection floors should, at the least, guarantee:

- access to essential health care, including maternity care, that meets the criteria of availability, accessibility, acceptability and quality;
- basic income security for children, providing access to nutrition, education, care and any other necessary goods and services;
- basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability; and
- basic income security for older persons.

Reconciliation of work and family life

Work–family policies are measures that help people to reconcile their working obligations with their care responsibilities, and commonly include: leave from work to provide care, provision of childcare services, and flexible working arrangements. Like non-standard forms of employment, low levels of skills and single parenthood, poor work–family reconciliation has been identified as a so-called new social risk (Taylor-Gooby, 2004; see also Esping-Andersen, 2009). Effective, adequate and coherent work–family policies thus have an important bearing on this risk, while at the same time they can improve the working conditions, productivity and well-being of all workers (Fagan et al., 2012). Work–family policies have been found to be effective in increasing women’s labour market participation in several EU Member States, as well as important for longer-term trends in population and labour supply. By supporting both dual-parent and single-parent households, these policies also play a role in reducing

inequalities, and help families to acquire or sustain middle class status (Vaughan-Whitehead, 2016).

The objective of minimizing work–family conflicts has been encapsulated in the Workers with Family Responsibilities Convention, 1981 (No. 156)¹³ and accompanying Recommendation No. 165 concerning equal opportunities and equal treatment for workers with care responsibilities. Importantly, these instruments do not just apply to workers with young children, but also to those with care responsibilities towards other members “of their immediate family”. This approach is particularly relevant within the EU context of ageing societies, and the resulting increased demands for elderly care, while also acknowledging the situations of workers who care for a family member with an illness or disability.

Although national leave systems are relatively complex across the EU, three broad types of family-related leave can be distinguished: maternity, paternity and parental leave. The availability of these forms of paid leave plays a significant role in shaping women’s decisions regarding both child-bearing and employment. Impact analysis of leave policies are best carried out in a comprehensive manner, taking into account the different types and characteristics of existing leave options for women and men, as well as the extent to which leave policies are coherently combined with other work–family policies (ILO, 2016).

EU legislation exists on maternity and parental leave. In line with the Maternity Protection Convention, 2000 (No. 183),¹⁴ EU Directive 92/85/EEC on safety and health of pregnant workers and workers who have recently given birth provides for 14 weeks of paid maternity leave. Several EU Member States go beyond the minimum provisions set out in the Directive. EU Directive 2010/18/EU¹⁵ on parental leave provides for four individual months of leave for both parents. Data from 20 EU countries show that over the period 2008–15, the average length of paid maternity

¹³ Convention No. 156 has been ratified by 13 Member States: Belgium, Bulgaria, Croatia, Finland, France, Greece, Lithuania, Netherlands, Portugal, Slovakia, Slovenia, Spain and Sweden.

¹⁴ Convention No. 183 has been ratified by 13 Member States: Austria, Bulgaria, Cyprus, Hungary, Italy, Latvia, Lithuania, Luxembourg, Netherlands, Portugal, Romania, Slovakia and Slovenia.

¹⁵ Council Directive of 8 March 2010 implementing the revised Framework Agreement on parental leave concluded by BUSINESSEUROPE, UEAPME, CEEP and ETUC and repealing Directive 96/34/EC.

and parental leave available for mothers increased from 61.5 weeks to 63 weeks, and paid paternity and parental leave reserved for fathers rose from 4.9 weeks to 7.2 weeks.¹⁶ These averages hide wide disparities between Member States, including in compensation rates, and overall men continue to use a relatively small share of the leave available to them, usually less than 10 per cent (European Parliament, 2015).

The ILO has emphasised that fathers taking on a more active role in caregiving is likely to be one of the most significant social developments of the twenty-first century (ILO, 2014e). Providing fathers with effective incentives to take leave is proven to have the potential to promote more equal sharing of unpaid work. One means of increasing fathers' take-up of parental leave is to adopt a "fathers' quota". In Sweden, 44 per cent, and in Germany, 29 per cent of parental leave recipients are fathers, whereas in Austria, Croatia and Spain, less than 2 per cent of parental leave recipients are fathers (European Parliament, 2015).

One barrier to the use of leave by men, and a problem for work–family policies more generally, relates to cultural norms and perceptions, which frame women as caregivers and men as breadwinners. A 2015 survey covering the EU-28 showed that, although 41 per cent of women and men respondents identified changing men's and boys' attitudes towards care as essential to reducing gender inequality in the labour market, 60 per cent still believed that the family was negatively affected (or "suffered") when mothers had full-time jobs (European Commission, 2015b). Convention No. 156 underlines the crucial role of measures to promote information and education that engenders broader public understanding of the importance of equality of opportunity and treatment for women and men, and of reconciliation policies in overcoming work–family tensions.

Alongside the design of leave systems, the characteristics of childcare provision also strongly influence the balancing of work and family life and, to a large degree, determine whether mothers are able to re-enter employment. High-quality childcare not only promotes gender equality

¹⁶ OECD Statistics. Countries considered: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

in regard to career opportunities, but also supports child development, particularly among children from more disadvantaged backgrounds (see Hein and Cassirer, 2010). In the EU, the main barriers preventing parents from using childcare services include cost, availability, physical access and quality (Eurofound, 2015a). In particular, high childcare costs, when combined with joint income taxation, are found to discourage lower-income earners in dual-income households from re-entering the labour market (ILO, 2016). The Workers with Family Responsibilities Recommendation, 1981 (No. 165) emphasizes the importance of developing adequate and appropriate childcare and family services, free of charge, or at a reasonable charge in accordance with a worker's ability to pay, developed along flexible lines and meeting the needs of children of different ages.

Over the period 2007–14, the average enrolment rate for 0–2-year-olds in formal childcare and preschool services increased from 25 per cent to 28 per cent in the EU-27, while in the countries most affected by fiscal consolidation measures there were significant decreases in enrolment rates.¹⁷ The 2014 enrolment rates varied from 2 per cent in Romania and 4 per cent in the Czech Republic to 57 per cent in Sweden and 70 per cent in Denmark. Over the period 2007–12, the EU-28 average rate of enrolment in pre-primary education for children aged between 4 years and the minimum compulsory school age also increased, from 90.5 per cent to 93.9 per cent. In this age group, differences in enrolment rates were more modest and a large majority of Member States had enrolments rates above 80 per cent (Eurostat, 2015a).

In 2002, the European Council set targets for enrolment of children in childcare (the so-called Barcelona targets). These were set at 33 per cent of children under 3 years and at 90 per cent of children aged between 3 years old and the mandatory school age. These tangible targets, which were to be reached by 2010, are still relevant today. However, they should receive a higher political profile as several Member States are still lagging behind, with the greatest challenges concerning children under 3 years of age (European Commission, 2013b).

¹⁷ Enrolment rates defined here as the share of children cared for by formal arrangements for one hour or more per week.

Finally, workplace arrangements contribute to the creation of opportunities for successful reconciliation of work and family life. Social dialogue and collective bargaining are essential tools for ensuring that workplace practices meet the needs and objectives of both workers and employers. Recommendation No. 165 underlines the importance of flexible working arrangements regarding working schedules, rest periods and holidays. Flexible working time, job-protected career breaks and part-time work, based on the principle of equal treatment between part-time and full-time workers, are some examples of workplace practices that, if carefully designed, can improve work–family balance for all workers. Working arrangements are relatively diverse across the Member States; for example, flexible working time schedules tend to be more widespread in the northern and western Member States than in the southern and eastern ones (European Commission, 2009).

Taking account of the fact that national work–family policy packages are shaped in specific historical, cultural and social contexts, a coordinated approach at the EU level regarding the rights of workers with care responsibilities could build upon the following principles:

- *Promotion of men’s involvement in caregiving:* There could be a focus on incentives for involving fathers in the provision of care, such as paternity leave and non-transferable individual parental leave of adequate duration, with replacement rates based on previous earnings. Additionally, coordinated promotional actions to challenge existing gender stereotypes regarding care and work could be more actively supported.
- *Investment in child and elderly care:* The focus could be on revisiting the Barcelona targets, with particular attention given to the factors that have been identified as barriers for their achievement, such as the cost and availability of childcare. Elderly care coverage could also be considered, taking account of the variety in national care provisions.
- *Promotion of workplace arrangements through social dialogue and collective bargaining:* The focus could be on the promotion of social dialogue and

collective bargaining agreements related to work–family arrangements through the exchange and promotion of best practice.

Employment promotion and unemployment protection

Over the past two decades, most EU Member States have adopted measures that strengthen linkages between active labour market policies (ALMPs) and unemployment benefits. These efforts are generally aimed at further enhancing the effectiveness of unemployment benefit schemes while promoting employment and employability.

Active labour market policies

ALMPs represent important policy tools for managing labour market shocks and for tackling structural inefficiencies in labour market functioning. In general, ALMPs aim to keep people active in the labour market, enhance labour market reintegration and counteract rigidities. Evidence from a meta-analysis on EU countries has confirmed the effectiveness of these instruments in raising participants' employment prospects, independently from other context-specific factors or the state of the business cycle (Kluve, 2010).¹⁸ Moreover, well-structured systems of ALMPs, supported by an effective public employment service and based on well-functioning social dialogue, can act as a macroeconomic stabilizer in times of crisis.

Despite these positive elements, the prominence of ALMPs within the EU still varies greatly across countries. Many EU countries have seen a decrease in the level of relative spending on ALMPs since the beginning of the 2000s. In particular, spending on ALMPs as a share of GDP decreased in southern European countries from 0.5 per cent in 2000 to 0.3 per cent in 2013. During the same period, spending on ALMPs decreased in northern EU countries from 1 per cent of GDP to 0.79 per cent, while spending in western Member States decreased from 0.86 per cent of GDP to 0.74 per cent. Only in eastern EU countries did public spending on ALMPs as a share of GDP increase, from 0.17 per cent of GDP in 2000 to 0.37 per cent in 2013, although from lower initial levels.

¹⁸ In particular, the analysis finds that wage subsidies and public employment services show the most significant effects, while public works programmes have detrimental effects on participants.

Data on spending on ALMPs by type of intervention reveal further differences across EU subregions. In particular, in southern, northern and western Europe, training has represented the main item of public spending, accounting for between 25 per cent and 30 per cent of total ALMP expenditure. In western Member States, this has been followed by a considerable investment in labour market services (28 per cent of total spending); while in southern and northern Europe, employment subsidies have represented the second largest item of expenditure. By contrast, in eastern Europe, direct job creation has represented the main source of spending on ALMPs (37 per cent of the total), followed by supported employment creation and employment subsidies, while training has accounted for only 3 per cent of total spending. In all regions, incentives for business startups have generally represented a negligible share of total expenditure on ALMPs, with the notable exception of southern EU countries.

To some extent, these differences very much reflect the heterogeneity of EU countries in terms of labour market and social challenges (as well as institutional set-up). Therefore, any attempt at conceptualizing benchmarks for ALMPs at the EU level needs to take this heterogeneity into account. Potentially, benchmarks could focus on: (i) the level of expenditure and, consequently, coverage across countries; and (ii) the quality of the services provided, making use of best practices and lessons learnt. A smart benchmarking strategy needs to be demand driven as well as flexible, both across the economic cycle and between countries, while also being effective in guaranteeing an adequate level of homogeneity along both dimensions.

In terms of the coverage of ALMPs, a number of different benchmarks could be considered, including the following:

- *Specific level of expenditure on ALMPs (e.g. as share of GDP)*: Such a benchmark would be straightforward, but it would risk oversimplification; for instance, it would not take into consideration differences in labour market structures and trends across Member States.

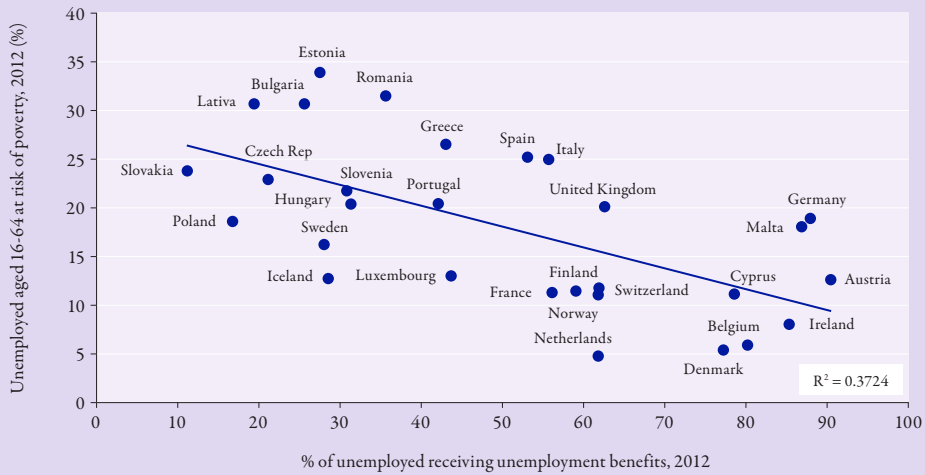
- *Share of jobseekers that participate in ALMPs:* Independently from the specific type of active intervention in which they participate, this quantitative target would test the ability of the national systems of ALMPs to reach potential beneficiaries. The target would focus attention on the different labour market needs across countries, and on the concrete ability of public policies to meet these needs.
- *Specific sub-targets:* Separate targets can be set up for specific categories of people, in terms of their participation in ALMPs. Such groups could include women, recently arrived migrants, youth and long-term unemployed, all of whom are at a higher risk of leaving the labour market after a protracted spell of unemployment.

A second potential benchmark could be with respect to the qualitative convergence in the services that are provided to jobseekers through ALMPs. In order to ensure that ALMPs are effective, adequate coverage of ALMPs must be accompanied by an adequate quality in the services provided to the participants. In this respect, governments should take advantage of lessons learnt in terms of what works for ALMPs and under which specific circumstances. Although these will vary greatly across countries, common elements have emerged as being critical in all different circumstances, including budget stability and intervention early in the job-search process.

Unemployment protection

Unemployment protection schemes provide income support over a determined period of time to unemployed people who are available for work in order to support them in their search for suitable employment (ILO, 2014d). In many EU Member States, they form part of a wider employment protection and promotion system and are often combined with ALMPs – as discussed above – to improve labour market outcomes. Indeed, evidence demonstrates that unemployed workers receiving unemployment benefits are more likely to return to work than those who do not receive any benefits (European Commission, 2011). Unemployment benefit schemes can also act as a powerful countercyclical stabilizer, thereby fostering recovery during periods of weak aggregate demand (ILO, 2014d). In

Figure 8. Proportion of unemployed receiving unemployment benefits and at-risk-of-poverty rate for unemployed, 2012 (cut-off point 40 per cent of median equalized income)



Source: ILO calculations based ILO (2014d).

addition, unemployment benefits play a major role in preventing poverty for the unemployed in EU Member States, provided that benefit levels are adequate. In fact, in countries where the effective coverage rate for unemployment benefits is relatively low (i.e. share of the unemployed receiving benefits), the unemployed are more likely to live in poverty (figure 8).

The features of unemployment benefit systems vary between EU countries. In six Member States (Austria, Estonia, France, Germany, Ireland and Portugal), the unemployment benefit system is based upon a two-pillar system: (i) a contributory unemployment insurance scheme, and (ii) a non-contributory unemployment assistance scheme that can be activated when entitlement to insurance is exhausted. In some cases (e.g. Germany), unemployment assistance is integrated with social assistance. In other cases, unemployment benefits comprise a flat-rate component and/or an earnings-related component. The institutional and operational settings of unemployment insurance schemes also differ significantly between EU countries.

The proportion of unemployed receiving unemployment benefits varies greatly from one Member State to another (figure 8). This can be explained by several factors, including the scope of personal coverage – and notably exclusions from coverage – set out in the relevant legislation, the qualifying conditions for entitlement to a benefit, the procedural requirements for access to the benefit¹⁹ and the duration of benefits. In several countries (Austria, Belgium, Germany, Ireland, Italy and Portugal), the contribution period is approximately 12 months in the last 24 months. Countries that have a shorter contribution period than the EU average include France, Finland and Spain. The duration of benefits payment is also very diverse between countries. The maximum duration of unemployment benefit ranges from 6 months in Slovakia to an unlimited duration in Belgium.

The levels of unemployment benefits also vary greatly between the Member States, with the amounts paid depending mainly on the applied replacement rate. In Ireland, the benefit is a lump sum amount (188 euros per week). In all other Member States, the benefit is calculated as a proportion of the previous earnings of the unemployed worker and can depend on their age, their household composition and the duration of their unemployment. In the hypothetical case of a single person without children and previously receiving an average wage, the replacement rates range widely from 28 per cent in Greece to 75 per cent in the Netherlands. A few countries have experienced a significant decrease in the replacement rate since 2009, such as Portugal (–8 percentage points), Spain (–3.7 percentage points) and Ireland (–4.1 percentage points).

A set of principles for strengthening upward convergence of unemployment benefits at the EU level could be set up, structured around a qualitative and quantitative framework that incorporates the standards included in the Convention on Employment Promotion and Protection against Unemployment, 1988 (No. 168) and the Social Security (Minimum Standards) Convention, 1952 (No. 102), Part IV (Unemployment Benefits),²⁰ which are widely ratified by EU Member

¹⁹ These include job search requirements or sanctions applied by the Public Employment Service in case of refusal of a job offer (Venn, D., 2012).

²⁰ Conventions No. 102 and 168 (complemented by Recommendation No. 176) are the main ILO standards dealing with unemployment benefits.

States.²¹ Both Conventions are flexible regarding means through which income protection can be provided, i.e. contributory or non-contributory schemes or a mix of both, as long as their benchmarks and principles are met.

- *Scope of coverage:* Convention No. 168 sets out that at least 85 per cent of all employees should be covered, including public employees and apprentices, or that all residents whose income is below a certain level should be covered. As well as covering full unemployment, it also covers partial unemployment (i.e. temporary reduction in the number of working hours) and temporary suspension of work, as well as part-time work for those who are seeking full-time work. It also requires the provision of social benefits to certain categories of persons who have never been, or have ceased to be, recognized as unemployed or covered by an unemployment protection scheme (e.g. new entrants to the labour market, previously self-employed).
- *Adequacy of benefits:* Convention No. 168 sets a minimum replacement rate of at least 50 per cent of the reference wage, which varies depending on whether the benefit is earnings-related or a flat rate.
- *Duration and contribution:* Convention No. 168 considers that the initial duration of payment of the benefit could be limited to 26 weeks (6 months) in each spell of unemployment, or to 39 weeks (9 months) over any period of 24 months. One should also take into account the ratio between contribution and duration, as certain countries, such as France, give rights to a short period of benefit for unemployed workers after a very short contribution spell.

²¹ As of January 2016 Convention No. 168 has been ratified by the following EU Member States: Belgium, Finland, Romania and Sweden. Convention No. 102, Part IV (Unemployment Benefits), has been ratified by the following EU Member States: Austria, Belgium, Croatia, Cyprus, Denmark, France, Germany, Greece, Ireland, Luxembourg, Netherlands, Portugal, Slovenia, Spain, Sweden and the United Kingdom.

Unemployment benefit scheme at the EU level

Since 2014, the idea of a European Unemployment Insurance (EUI) has been widely promoted (see Andor, 2014a). It has been proposed mainly as a way to stabilize country-specific economic cycles and to share risk in the eurozone, and not as a mechanism for redistribution (see Section B). The EUI is not intended to replace adequately funded social security systems articulated with well-structured public employment services as a major countercyclical instrument. The redistributive and stabilizing effects of such a scheme may vary greatly between countries, depending on what mechanism is chosen and how the scheme parameters are defined (Jara et al., 2015). Should an EUI materialize, it will be important to ensure that it does not result in a lowering of existing entitlements and levels of protection in individual Member States.

Human capital and skills development

As discussed in section A, the speed and nature of globalization, technological changes, changes in work organization and demographic trends are having profound effects on the world of work. Many traditional jobs and employment relations are being affected, while new job opportunities in emerging sectors are being created. Some of these shifts risk widening existing inequalities and marginalizing some groups in the labour market, especially low-skilled individuals. Policies that focus on human capital and skills development, along with others, are essential for turning these structural changes into an opportunity for all.

Human capital and skills development can enhance the employability of the workforce in the face of ongoing and future structural changes. Further, it fosters innovation and the adoption of new technologies, thereby boosting productivity by speeding up the reallocation of labour from less productive activities to more productive ones. Technology provides opportunities for the creation of new businesses and offers existing firms openings to new markets. The development of human capital and skills in the context of broad national strategies is crucial for increasing levels of productivity and quality of life. Member States' education systems play a critical role in

providing the skills that are currently needed in the labour market and in anticipating which skills will be in demand in the coming years. Further, by working together, governments and social partners can ensure that workers have access to on-the-job training and lifelong learning schemes. These are crucial for upgrading skills levels and preventing skills erosion. Additionally, the recent influx of refugees into the EU requires Member States to identify, maintain and develop the skills and competences of the newcomers in order to facilitate their integration into the labour market, and into society at large.

Human Resources Development Convention, 1975 (No. 142)²² and Recommendation No. 195 aim to achieve productive employment by enhancing the capacities of individuals through vocational training and guidance. Convention No. 142 requires States to put in place comprehensive and coordinated vocational guidance and training programmes, which should be closely linked with employment policy and implemented particularly through public employment services. Consultations with social partners and other affected groups will be required to inform policy-making and implementation.

Beyond technical skills, the social capacity-enhancing features of education and training play a central role in the prevention of poverty and social exclusion. Convention No. 142 puts emphasis on the open, flexible and complementary nature of education and training systems: at any point in their lives, individuals should have the opportunity to opt for enhancing their skills and, through that, their standards of living. This Convention has broad coverage beyond formal systems. These aspects are further developed in Recommendation No. 195, which encourages Member States to create national skills certification frameworks for skills acquired both formally and informally.

²² Convention No. 142 has been ratified by 68 states, including 22 EU countries (all Member States except Belgium, Croatia, Bulgaria, Estonia, Malta and Romania).

The EU has acknowledged the importance of skills development as part of promoting sustainable, smart and inclusive growth. For over a decade, the Commission has run several initiatives to promote skills development both at the EU and national levels. In 2016, a “New Skills Agenda for Europe” will be launched with the objective of promoting basic skills for all, vocational training, lifelong learning and higher education, with a particular focus on digital jobs. EU social partners have on several occasions stressed the importance of skills development and lifelong learning.

Workable areas for benchmarking in the sphere of human capital development and vocational training could, beyond certain goals and thresholds regarding education in general, include work-related training. The focus should be on training for transferable skills, an expanded set of vocational profiles, and competency-based training delivered through programmes that incorporate work-based learning, including quality apprenticeships. This type of programme might be particularly useful for asylum seekers and refugees who recently entered the EU. Close cooperation with employers is needed to ensure that the skills delivered match those that are in demand in the labour market. Employers are also centrally placed in terms of offering apprenticeship and internship places, as well as providing on-the-job training and skills training overall. The institutional settings should facilitate constant dialogue with the private sector, to allow for assessments of current and anticipated skills needs to be fed into employment and educational policies.

Key principles on which to build convergence at the EU level would include the following:

- *Anticipating skills needs and adapting policies:* This could be implemented through a systematic collection of data and analysis of current and future skills needs; the establishment and regular use of coordination mechanisms between business organizations and training institutions; social dialogue with direct channels to policy-making; and the establishment of incentive systems for training institutions, to ensure they provide training programmes adapted to market needs.

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- *Reinforcing the role of training and work-based learning:* Focus could be put on rates of participation in work-based learning; the use of retraining and ALMPs in response to structural change; the participation of local-level actors – including employers’ and workers’ organizations – in the governance of the technical and vocational education and training (TVET) system; the participation rates of disadvantaged groups in lifelong learning and employability programmes; and the degree of transferability of skills provided through educational programmes.
 - *Enhancing the adaptability of workplaces:* This could be measured by the rate of innovation in enterprises and the introduction of high-performance work practices, and by the frequency of use of social dialogue mechanisms to foster workplace adaptability.

CONCLUSION: CONSENSUS BUILDING AND THE ROLE OF SOCIAL DIALOGUE

This last section considers the political dimension of the European integration process and the role of social dialogue in shaping the way forward towards a more convergent Europe.

As defined by the ILO, social dialogue involves all types of negotiation, consultation and information sharing among representatives of governments, employers and workers or between representatives of employers and workers on issues of common interest relating to economic and social policy. Through the involvement of the social partners in EU socio-economic governance processes, social dialogue has been a central pillar of the European integration project. And while its role at both the EU and national levels has been severely challenged since the outbreak of the 2008 financial and economic crisis and the resulting widening employment and social disparities, in various instances social dialogue has, in fact, played an important role in mitigating the effects of the crisis (ILO, 2015e).

The acknowledgment that social dialogue is central to the common European future should be reflected by the provision of sustained support to that process, both at national and EU levels. Such support should be in line with relevant ILO Conventions, including the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98). However, the development and dynamism of social dialogue and collective bargaining systems are uneven across EU Member States. Further, a recent ILO study confirmed that despite a certain degree of improvement in the economic situation of some Member States, social dialogue has not yet fully recovered from the crisis, calling upon all stakeholders to deploy adequate resources to re-establish its rightful role in decision-making and policy implementation processes (ILO, 2016). The quality of the dialogue matters and, as emphasized by the EU social partners themselves, more

attention should be paid to recognizing, promoting and respecting social dialogue outcomes.²³

Social dialogue may be able to help build consensus for a more convergent Europe, but it cannot replace political support. Over the past few years, an increased difficulty in reaching consensus and agreements among the 28 Member States has been evident. Resuming a process of upward socio-economic convergence in the EU could help to overcome some of the current political challenges, while also restoring public confidence in the European project. A European Pillar of Social Rights that seeks incremental consensus through gradual measures that apply on an equal basis to all Member States could be a viable option for attaining that objective.

²³ Declaration of EU social partners “A new start for a strong social dialogue”, 2016.
See also: http://www.spcr.cz/images/EU/2016-03-16_tss_-_declaration_on_social_dialogue.pdf.

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BUILDING A SOCIAL PILLAR FOR EUROPEAN CONVERGENCE

Since its creation, the European Union (EU) has aimed to promote socio-economic convergence between its Member States. However, over the past few years – notably since the onset of the crisis – the process convergence has stalled.

This report finds that EU Member States are either diverging in terms of socio-economic performance or converging towards deteriorating outcomes such as worsening inequality and widening structural imbalances. Furthermore, there is a risk that, if left unaddressed, the gaps within and across countries will widen in the context of rapid changes taking place in the world of work.

In September 2015, the President of the European Commission, Jean-Claude Juncker, announced in his speech on the State of the Union, the establishment of a European Pillar of Social Rights. The Pillar would support the construction of a fair and truly pan-European labour market. Furthermore, Member States' convergence towards better socio-economic outcomes, underpinned by such a Pillar, would be the foundation for a more integrated and stable Europe and a necessary condition for a well-functioning Economic and Monetary Union (EMU).

It is therefore imperative that the EU continues to strive collectively towards economic, employment and social improvements for all its members. Guided by international labour standards, this report presents a range of policy and institutional levers at the EU level that could be considered central to such a Pillar. It further argues that the role of the social partners both at the EU and national levels is key to building consensus and strengthening the societal support for the continued construction of the EU.

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