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Employment and Social Developments: growing divergence and higher risks of long-term exclusion

After five years of economic crisis and the return of a recession in 2012, unemployment is hitting new peaks not seen for almost twenty years, household incomes have declined and the risk of poverty or exclusion is on the rise, especially in Member States in Southern and Eastern Europe, according to the **2012** edition of the **Employment and Social Developments in Europe Review**. The impact of the crisis on the social situation has now become more acute as the initial protective effects of lower tax receipts and higher levels of spending on social benefits (so-called "automatic stabilisers") have weakened. A new divide is emerging between countries that seem trapped in a downward spiral of falling output, fast rising unemployment and eroding disposable incomes and those that have so far shown good or at least some resilience. The latter tend to have better-functioning labour markets and more robust welfare systems.

"2012 has been another very bad year for Europe in terms of unemployment and the deteriorating social situation", commented European Commissioner for Employment, Social Affairs and Inclusion László Andor. "But our analysis shows how appropriate labour market reforms and improvements in the design of welfare systems can increase Member States' resilience to economic shocks and facilitate faster exit from the crisis. Moreover, it is unlikely that Europe will see much socio-economic improvement in 2013 unless it achieves greater progress also on credibly resolving the euro crisis, finding resources for much needed investment, including in people's skills, employability and social inclusion and making finance work for the real economy."

Growing eurozone divergence

The average EU unemployment rate climbed to almost 11%. The report confirms a new pattern of divergence, which is most striking between the North and the South of the eurozone. The unemployment rate gap between these two areas was 3.5 points in 2000, fell to zero in 2007 but then has widened fast to 7.5 points in 2011. Outside the eurozone the divergence, though also growing, is significantly smaller. This worrying trend points to an urgent need for finding more effective mechanisms of macroeconomic stabilisation, reflected also by the ongoing debate on a [deep and genuine economic and monetary union](#). The analysis also shows that in Member States which had undergone substantial reforms to make their labour markets more dynamic, the unemployed have maintained much better chances of finding a new job even during the crisis years. Such reforms are called for by the Commission's April 2012 [Employment Package](#), the 2013 [Annual Growth Survey](#) and will be looked at in detail as part of the 2013 European Semester and its country-specific recommendations.

Declining household incomes, long-term exclusion risks

Risks of entering and escaping poverty vary greatly across Member States. Some population groups are affected more: young adults, unemployed women and single mothers are among those facing higher risks of persistent poverty. The absence of tangible recovery has put under pressure household incomes in the majority of Member States and increased the risks of long-term exclusion. Real gross household disposable income declined between 2009 and 2011 in two-thirds of EU countries for which data is available, with the largest drops recorded in Greece (17%), Spain (8%), Cyprus (7%) and Estonia and Ireland (5%). This evolution is in stark contrast with the situation observed in the Nordic countries, Germany, Poland and France where welfare systems and more resilient labour markets have allowed overall incomes to continue increasing during the crisis. The continuing crisis is however increasing the risks of long-term exclusion everywhere.

To prevent rising poverty and long-term exclusion from becoming entrenched, policies need to be tailored to specific country situations and population groups most at risk. In early 2013 the Commission will issue a **Social Investment Package** with guidance to the Member States for putting in place adequate, sustainable and effective social policies that strengthen human capital and social cohesion in the face of increasing pressure on private and public resources to tackle these challenges.

Crucial role of welfare and tax system design

In terms of their effectiveness at tackling poverty, the **design** of national welfare systems is as important as their size - similar levels of social spending by Member States result in very different rates of poverty reduction. Tax-benefit systems can significantly influence employment outcomes by particular features such as the provision of childcare services, which is a strong factor facilitating the take-up of jobs, particularly among women. The design of the revenue side of welfare state plays an equally important role. Shifting the tax burden, as proposed in the [Employment Package](#) and the [2012 Country Specific Recommendations](#), from labour to other sources, such as CO2 emissions or consumption and property, boosts employment. However, distributional aspects of tax redesign call for a cautious approach when looking for alternative sources to replace the lost revenues from lower labour taxation. The analysis finds that while there are no optimal solutions for tax shifts from an integrated employment and social policy point of view, an appropriate design of welfare systems increases the desirability of certain tax shifts.

Wages are not only a cost factor but also provide the income for people to buy goods and services. Cutting wages might improve competitiveness but will also reduce domestic demand for the output of companies, potentially leading to job losses. Employees' share in the total income generated by the economy has fallen in Europe over the past decade, while polarisation between high and low income jobs has grown. A large pay gap between men and women persists (16.4% on average in the EU in 2010) and tends to increase with a person's age. The report's analysis of minimum wages shows that countries with higher minimum wages have not priced the low skilled out of a job and on the contrary tend to have higher employment rates for them. Minimum wages also have the potential to narrow the gender pay gap. This is why the 2012 [Employment Package](#) highlighted that structural labour market reforms should aim at ensuring decent and sustainable wages and avoiding low wage traps, including through setting minimum wages at appropriate levels.

Skills

People need the right skills for the right jobs. The report's analysis shows that in some countries, especially in the Southern part of EU, the match between skills and jobs is bad and/or has worsened. This problem is particularly acute for the high and still growing number of young people who are unemployed or not in any form of education or training (NEETs). The proposals outlined in the [Youth Employment Package](#) (see [IP/12/1311](#) and [MEMO/12/938](#)) aim to address this problem by ensuring that all jobless young people can enrol in further education, training courses or quality traineeships or apprenticeships, boosting their chances of finding a job.

To reduce the skills mismatch, countries need to invest more efficiently in education and training, spend better on active labour market policies and support the creation of high skilled jobs in growth sectors such as the green economy and technology, information and communications technologies and healthcare,. The recently-released [EU Skills Panorama](#) (see [IP/12/1329](#)) details where there is demand for workers with all levels of skills. And if not in their own countries, vacancies often exist in other Member States but workers may face many difficulties knowing about these. The Commission recently adopted a decision to modernise and improve [EURES](#), the pan-EU job search network (see [IP/12/1262](#), [MEMO/12/896](#), [MEMO/12/897](#)). The aim is to make it easier for jobseekers to contact employers looking for particular skills across all Member States, to focus on sectors and occupations with skills shortages and to support targeted mobility schemes for young people.

Further information

[MEMO/13/1](#)

<http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7315> Employment and Social Situation Yearly Review

[Employment and Social Analysis web page](#)

László Andor's website: http://ec.europa.eu/commission_2010-2014/andor/

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