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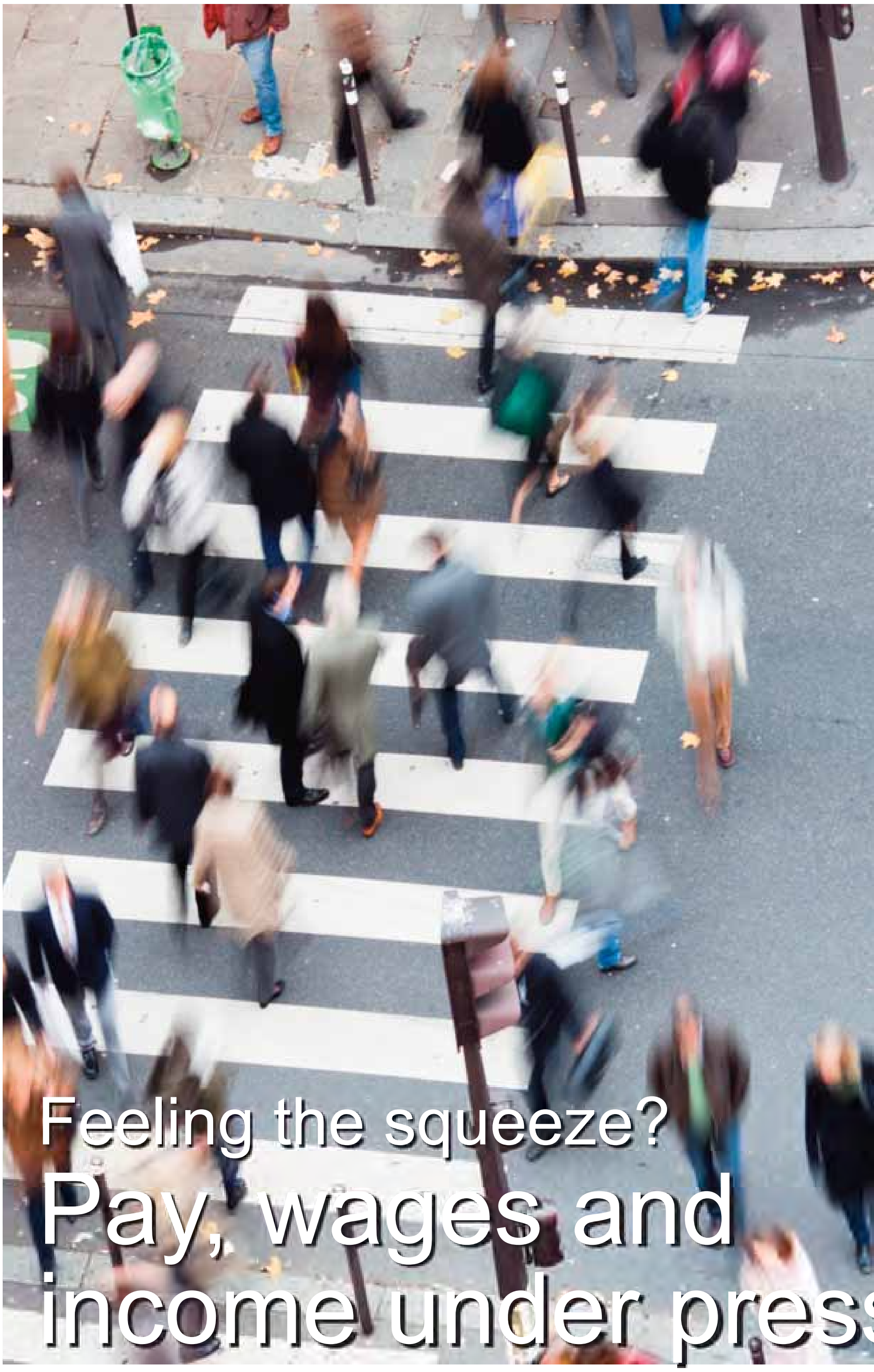
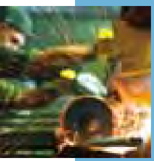
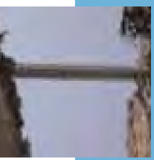


Feeling the squeeze?
Pay, wages and income under pressure

European Foundation for the Improvement of Living and Working Conditions

IN THIS ISSUE





FOCUS **issue 14** – November 2013

This issue of *Foundation Focus* looks at issues surrounding pay, wages and income in Europe in the face of sustained difficult economic circumstances. For example, what sort of hardship are ordinary people experiencing? Which workers are being most affected by wage cuts? Are wage cuts the best way to achieve competitiveness? Given the pressure on pension systems, how many Europeans are returning to work after retirement? European countries make extensive use of collectively agreed pay; is real pay matching or surpassing the agreements reached through social dialogue? And what would be the impact of a Europe-wide minimum wage? These are among the questions addressed in this issue.

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Editorial

Given how central a role work plays in most people's lives, it is sobering to learn that six million fewer Europeans are in employment at the close of 2013 than in mid-2008. In addition to those who lost their jobs, many workers have experienced a reduction in working time and pay; others, a greater sense of job insecurity. The overall loss of income profoundly affects workers, their families and the wider economy and society as aggregate spending power diminishes.

Recent Eurofound research on pay, income and material well-being points to wide-scale, long-term change. The crisis has changed the pattern of employment in Europe, as measured by pay: the loss of jobs in the middle of the pay scale – principally in construction and manufacturing – has meant that there are now more low-paid and high-paid jobs. This has the potential to increase wage inequality, at a time when social cohesion is being tested. Inequality of a different kind – that between the working situations of men and women – may appear to have eased somewhat in recent years; however, rather than an improvement in the wages and working conditions of women, this may well reflect a deterioration in conditions for men.

The crisis appears to have reinforced the rising trend of retirees returning to the workplace to augment their pension and to maintain contact with the wider society. This trend may help ease the demographic and fiscal pressure of a growing population of older people and a shrinking workforce. At the same time, attention needs to be paid the situation of younger workers; one approach may be a coordinated Europe-wide minimum wage. The range of policy responses will need to be wide enough to embrace the limited positive aspects of the impact of the crisis on people's incomes while strongly addressing the major challenges.

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Under strain: Financial situation in European households

Making ends meet

Many Europeans are feeling the squeeze financially. According to Eurofound research, in 2007 38% of residents of the now EU28 reported that their household had between 'some difficulties' and 'great difficulties' in making ends meet. In 2011–2012, this proportion had increased by seven percentage points to 45%. The increase can be observed in all EU Member States, except Austria and Bulgaria, where the proportion of people reporting difficulties in making ends meet decreased by four and six percentage points respectively. Increases were most dramatic in Slovakia, Ireland, Greece, Estonia and the UK. The proportion of people reporting 'great' difficulties in making ends meet also increased, from 5% to 7% in the same period – amounting to an increase of over 10 million Europeans.

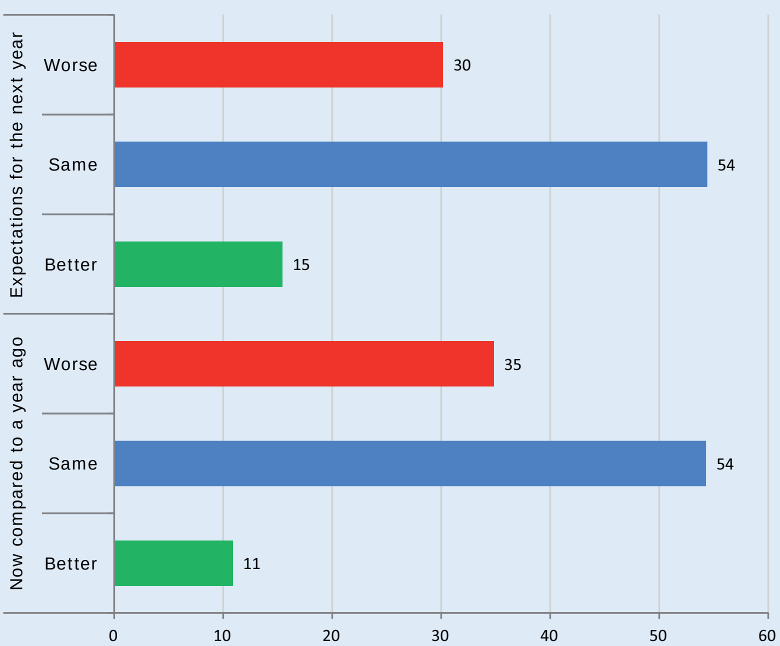
In particular, people with a tertiary level of education more often reported that their household had difficulties making ends meet, rising from 24% in 2007 to 30% in 2011. For people with a primary level of education or lower, the proportion is still higher but the increase has been smaller, from 56% to 59%. The same holds true for people with a secondary education, from 44% to 47%.

Arrears

While many are struggling to make ends meet, there are also Europeans who have not been able to pay their bills. In 2007, some 8% reported they were unable to make rent or mortgage payments as scheduled. This proportion had increased to 11% by 2011. The proportion of EU28 residents who reported having been unable to make payments related to utility bills at any time in 2007 was 13%. In 2011, this had increased to 15%. With the increase in inability to pay household bills, people have become more insecure about their housing situation. The proportion of people who think they may have to leave their accommodation because they can no longer afford it rose from 4% in 2007 to 6% in 2011. Housing insecurity has traditionally been highest among people living in rented accommodation, but recent increases have come mainly from households living in relatively large, mortgaged homes.

Many Europeans also default on consumer loans (10%) and on payments related to informal debts – that is, debts to family or friends (8%). In the 2011 wave of the European Quality of Life Survey (EQLS), respondents were asked about such payment problems for the first time, so it is not possible to compare this with the situation before the crisis. Nevertheless, data from Eurostat suggest that an increase in defaults has also occurred for hire-purchase. Furthermore, the fact that defaults on informal debts are particularly common among unemployed people and low-income groups suggests that the crisis has also had an impact in this regard.

Figure 1: Financial situation of households, EU28, 2011 (%)



Source: EQLS, 2011

Deprivation

In the EQLS, respondents are asked whether their households can afford six specific items if desired:

- keeping the home adequately warm;
- paying for a week's annual holiday away from home (not staying with relatives);
- replacing any worn-out furniture;

- a meal with meat, chicken or fish every second day (if desired);
- buying new, rather than second-hand, clothes;
- having friends or family for a drink or meal at least once a month.

In 2007, 10% of EU28 residents reported their households could not afford four or more of these items. In 2011, this proportion had increased to 14%. The deprivation index measures how many of these items European residents say their households cannot afford. On average, the deprivation index in the EU28 rose from 1.0 to 1.2, meaning that on average EU28 residents cannot afford 1.2 of the six items. Only one country showed an improvement in the deprivation index between 2007 and 2011: Austria, from 0.6 to 0.4. Estonia, Greece, Ireland and Portugal showed the most dramatic increases in deprivation.

Financial situation

Most EU28 residents said the financial situation of their household remained the same during 2011 (54%) and most expected no changes in 2012 (54%). Nevertheless, almost one in three Europeans (30%) said their situation had become worse, and an even larger proportion (35%) expected their situation to deteriorate in 2012 (Figure 1).

The largest proportions of people expecting their households' financial situation to deteriorate were recorded in Cyprus, Greece, Hungary and Portugal.

The smallest proportions were recorded in Denmark, Finland, Luxembourg and Sweden; these were also the countries with the smallest proportions of people reporting their situation to be worse than it was 12 months previously.

Croatia, Greece, Ireland and Hungary have the highest proportions of people reporting that their household situation had deteriorated. Among EU28 residents who think their situation was worse than it had been 12 months previously, 62% thought it would become worse still during 2012.

Feeling the pinch

The average European has felt the squeeze financially, is more likely to have difficulties making ends meet, is deprived of more items, and is more likely to have been unable to pay their bills. This pattern can be observed in almost every Member State during the crisis.

The different indicators give somewhat different results, depending on factors such as the spread of deprivation across society. For example, if inequality increases, with deprivation being concentrated in a limited number of households, average deprivation may have gone up, but the proportion of people having difficulties making ends meet or missing payments less so.

A number of recent Eurofound publications seek to unravel such complexities – in particular *Quality of life in Europe: Impacts of the crisis and Quality of life in Europe: Social inequalities*, as well as a forthcoming report – *Quality of life in Europe: Trends 2003–2012*.

Hans Dubois

INTERVIEW WITH TOM BEVERS

The European Employment Strategy: Influencing pay at EU level

Employment policies at national level influence pay and wage setting, and while these matters fall within the competence of national governments, the EU nevertheless does make interventions in the area. The European Employment Strategy, a framework to encourage Member States to exchange information and coordinate their employment policies, is a case in point. The strategy encompasses the country-specific recommendations (CSRs) on the implementation of these policies.

The Employment Committee (EMCO) plays an important role in the development of the European Employment Strategy, and in this issue of Foundation Focus, its chair, Tom Bevers, talks to Eurofound about some of the current issues pertaining to pay.

Eurofound: Despite years of effort and emphasis at both EU and national levels, the gender pay gap remains. What role does EMCO play in eradicating the gender pay gap, and what are your plans to tackle it?

Tom Bevers: From the very start, the European Employment Strategy has strongly underlined the importance of gender equality to reach the aim of more and better jobs in Europe, and if we want to reach the Europe 2020 employment rate target, attracting more women to the labour market will be key. Fostering equal pay is essential in this respect. Eliminating segmentation and segregation in the labour market is high on our agenda, as are ensuring equal access to education and lifelong learning – with some particular attention to attracting women to the so-called STEM [science, technology, engineering and maths] skills.

Policies supporting families, such as the provision of quality and affordable childcare, equally get a lot of attention in the country-specific recommendations [CSRs] and in our work underpinning those. Unfortunately, the gender pay gap is a very strong structural characteristic of our labour markets. We all know that segregation in primary schools can have an effect until these children retire – and afterwards – which means that it will take a lot of time to make progress. But that should not be a reason to lose focus.

Research shows an increasing number of people having difficulties making ends meet in this time of austerity. Household debt is a growing problem in practically all Member States. What are your main concerns in this area, and how do you plan to tackle such challenges?

Obviously, many measures in this respect fall within the remit of our colleagues' work in the Social Protection Committee and the Economic Policy Committee. But clearly a job is still the best way out of poverty, and our focus is therefore on making sure that we try to avoid long-term unemployment. This is challenging in times of austerity, given that a search for more efficiency in the public sector should go together with continued investment in public employment services and active labour market policies. And as far as wages are concerned, we have been underlining the need for looking both at their role in maintaining competitiveness and as a factor underpinning aggregate demand. In the CSRs, we plead for aligning wages and productivity, but it should be clear that this can mean either a downward or an upward adjustment.

What is the current state of play regarding a possible European-wide approach to wage setting across all EU Member States?

Wage setting is essentially a national competence, and in many cases, the social partners have strong autonomy, which should be respected. That said, in many countries the framework for wage setting needed or still needs to be improved, and wages do have a spillover effect from one country to another, which in particular in a monetary union is important. As a committee, we have followed a pragmatic approach and judged the draft recommendations from the Commission on their individual merit, sometimes upholding them and sometimes amending them. I can see some convergence through this process, which makes sense, but I don't see an immediate scope or need for a more European approach – unless the social partners themselves would feel a strong urge to 'Europeanize' the issue.

On the same note, what is the current state of play in EMCO regarding the discussions on a (possible) European-wide approach to the minimum wage?

Minimum wages are one part of the wage-setting process where the balance of power between social partners and governments in many Member States tilts towards the latter. However, in some countries, social partners are strongly attached to their autonomy in this field – this is valuable, and we must make sure we don't try to fix non-existent problems either. In a contribution earlier this year, we suggested that the employment guidelines could contain some minimum commitments on quality of work, including on decent wages.

This may be a first step, but there is still a delicate balance to be struck. However, further technical work by Eurofound on what could be done and the possible consequences would be helpful in any case.

Since 2005, employment rates among retirees have shown the largest increases in Austria, Finland, Germany, Lithuania and the UK. Work after retirement can be enriching and rewarding, but for social policymakers, promoting it may have negative impacts. How do you and other EMCO members tackle this challenge?

If there is one lesson that we as employment policymakers have learned over the years, it is that you should never try to keep people away from the labour market. Skills, talents, personalities are strongly complementary. Obviously, decent pensions are important, but if people want to work and are able to do so, and contribute to society – and to the financing of it – then I don't see why this is problematic.

How important is comparative information, analysis and findings from organisations like Eurofound for your work? How do you use our kind of information in your work?

We want our work to be evidence based, so we need to know what works and what doesn't. To do meaningful, multilateral surveillance of 28 countries, we also need a lot of specific information about all EU countries. This means we highly appreciate input and analysis from many organisations, within and beyond the Union. But Eurofound has a special place in this respect because of the strong links with workfloors all over Europe, and because it fills knowledge gaps on issues such as wage setting, quality of work and economic restructuring that are core concerns. We value a lot this contribution and look forward to improving our cooperation.

About EMCO

EMCO is an advisory committee for the Employment and Social Affairs Council (EPSCO) (the ministers for employment and social affairs) in the field of employment.

Its main area of responsibility is the European Employment Strategy, which over the past number of years has become embedded in the Europe 2020 strategy and the European Semester. EMCO prepares the Council conclusions and a set of key messages for the Joint Employment Report attached to the Annual Growth Survey.

It reviews Member States' National Reform Programmes and discusses (and, if necessary, amends) draft CSRs before they become Council recommendations.

Throughout the year the committee ensures a follow-up of the implementation of these CSRs through its multilateral surveillance.

Interview: Måns Mårtensson

Pay in Europe in the 21st century: Pay outcomes and wage bargaining regimes

For over a decade now, Eurofound has been reporting annually on developments in collectively agreed pay across Europe.[1] Against the background of intensified discussions at European level within the European Semester on pay outcomes and wage-setting regimes, it is now an apt occasion to look back in time and bring more facts to the table.

Eurofound's report *Pay in Europe in the 21st century* seeks to contribute to the policy debate on wages by adding the dimension of collectively agreed pay to the picture, set in context to differences in wage bargaining regimes.

Collectively agreed pay is often neglected in discussions on pay developments: no harmonised data are available and data and knowledge gaps around how pay is set are persistent.

However, collectively agreed pay is an important driver of actual pay in many countries and it is the component of pay that can be most influenced by the actors involved.

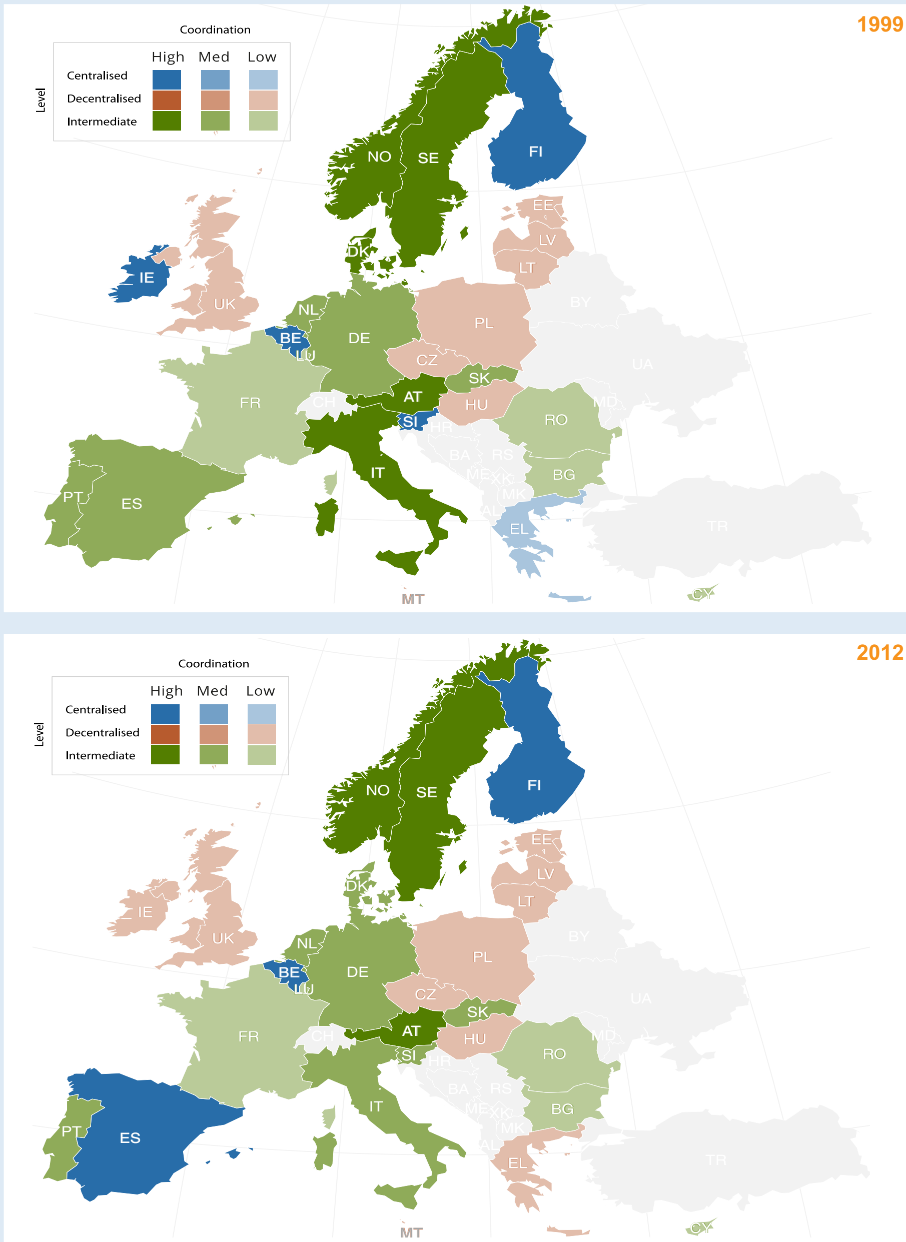
Eurofound's new online portal on collectively agreed pay summarises quantitative and qualitative information on pay outcomes in the 21st century.[2]

Pay outcomes across wage bargaining regimes

Despite an ongoing trend of more decentralised bargaining, wage bargaining regimes have remained quite stable across the EU since the turn of the millennium (Figure 2).

Data on actual and collectively agreed pay since 1998 showed no obvious links between pay outcomes and bargaining regimes (Figure 3). Similar bargaining regimes resulted in different pay outcomes and similar pay outcomes were associated with different bargaining regimes. On average, however, it seems that more highly coordinated bargaining regimes did generate more moderate pay outcomes than others. A more 'countercyclical' aspect of collectively agreed pay can also be observed. Collectively agreed pay – to a larger extent than actual compensation – seems to act as a kind of insurance for employees in times of crisis. It does not

***Figure 2*: Level of wage bargaining and degree of coordination**

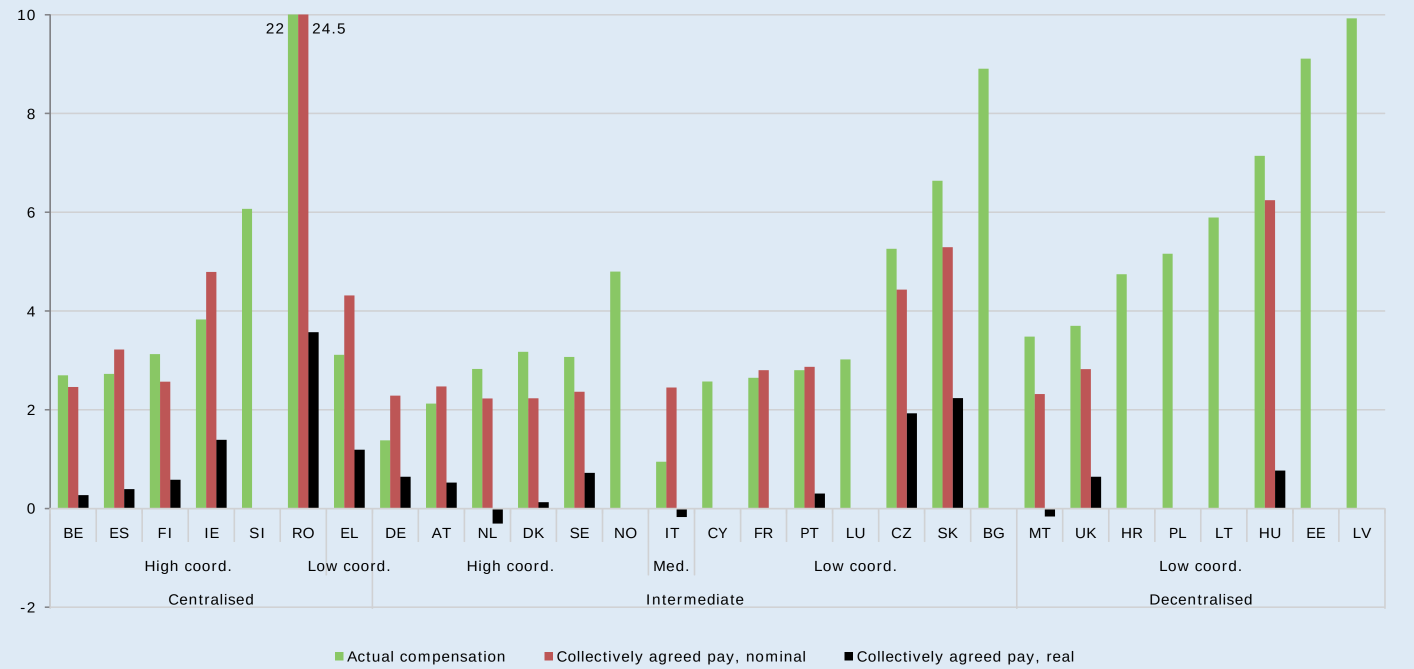


Source: Based on Visser, ICTWSS 4.0, 2012 updated and partly modified by Eurofound.

1 See Eurofound, EIRO (2013), *Developments in collectively agreed pay 2012*.

2 http://www.eurofound.europa.eu/eiro/cwb/

Figure 3: **Average annual growth rate of pay, 1998–2012 (%)**



Source: Annual maceconomic database of the European Commission (AMECO) (national accounts), various national sources for collectively agreed pay

follow entirely the ups and downs of fluctuations in output. Systems with more decentralised bargaining structures and lower bargaining coverage seem to have less of this insurance function for employees, leading to greater exposure of employees in terms of risks to wages (and jobs).

Wage drift: positive or negative trend?

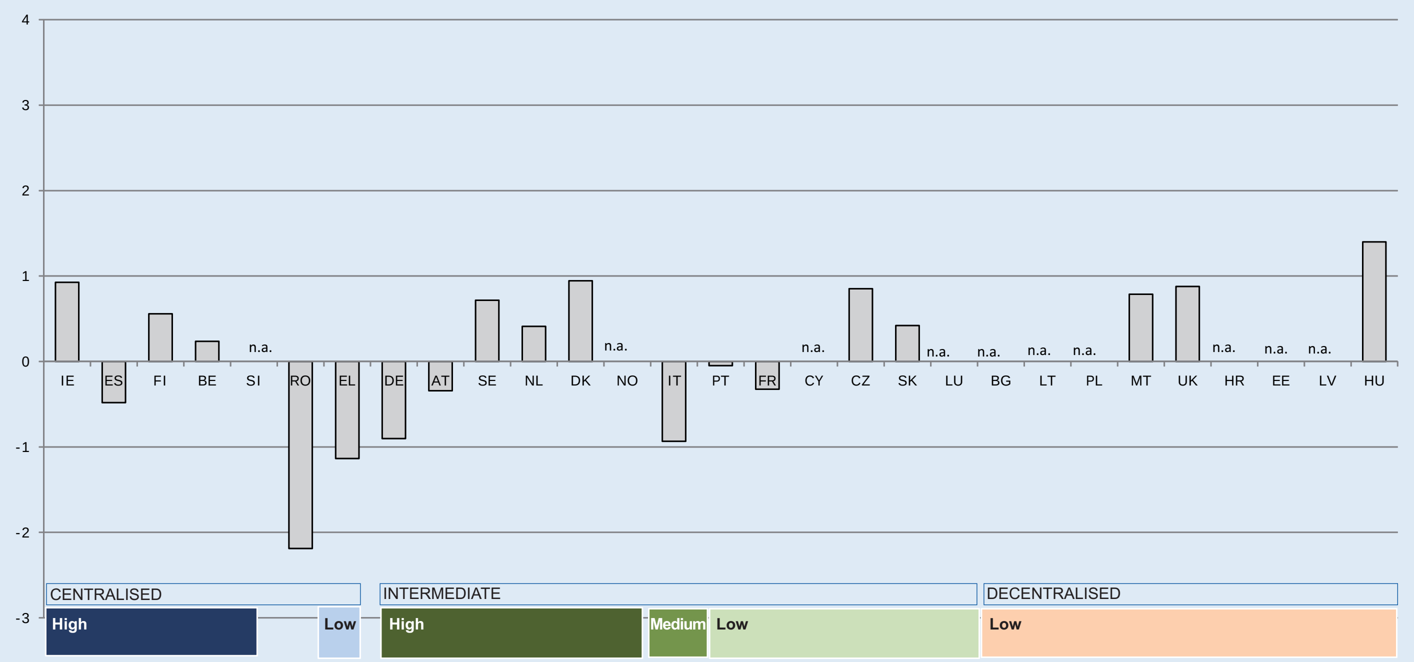
There are a number of reasons why collectively agreed wages might differ from actual compensation.

- Collectively agreed pay most likely refers to basic wages only, while actual wage bills include overtime payments, bonuses, stock options or other forms of variable pay.
- Companies might be willing to pay more than what has been collectively agreed.
- In countries where collective bargaining coverage is not high, the non-covered sector might end up paying different market wages per employee than the covered sector.
- The existence of derogation mechanisms could explain differences.

A negative wage drift means that collectively agreed pay rose more than actual compensation, while a positive wage drift means the opposite. In general, the wage drift is likely to be higher in times of boom and lower in times of crisis. In this sense, it is also sensitive to the choice of base year, or more generally the period covered.

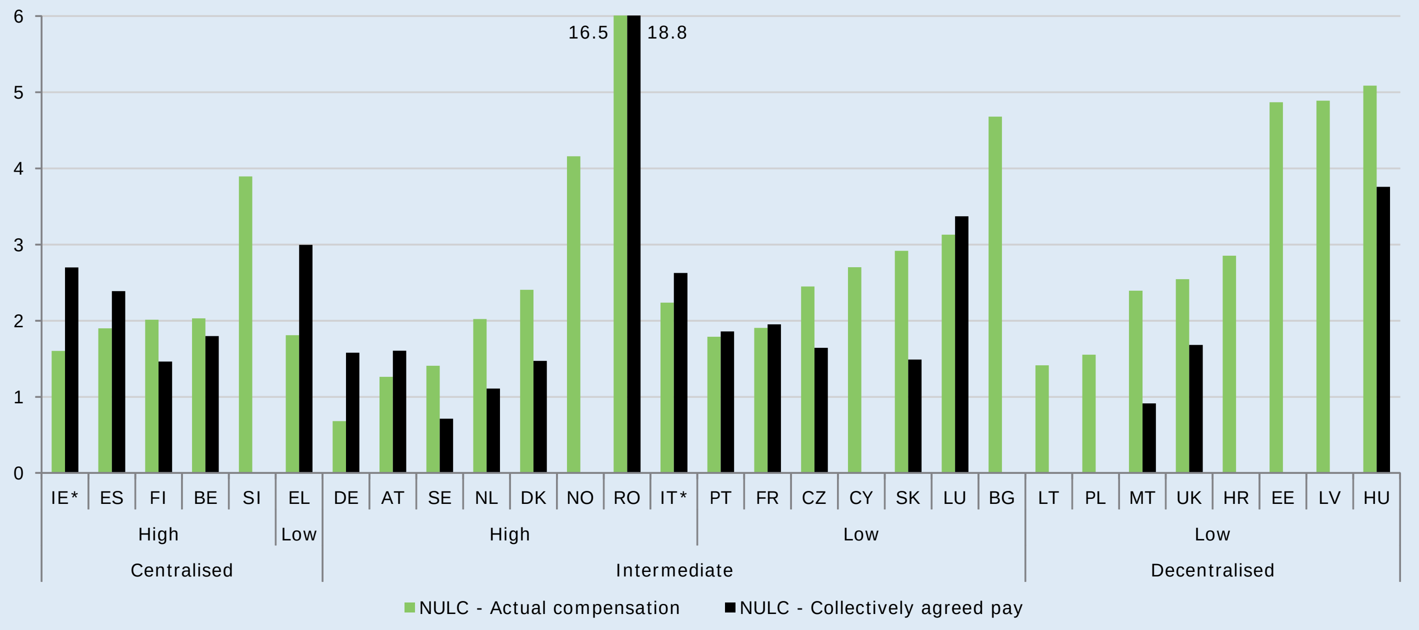
Figure 4 shows that the majority of countries with available data did

Figure 4: **Average increase of wage drift, 1999–2012 (percentage points)**



Source: AMECO, various national sources, Eurofound's own calculation.

Figure 5: Average annual increase in nominal unit labour costs, 1999–2012 (%)



*Note: * In countries for which shorter time series of collectively agreed pay are available, the annual average is reported for a shorter period of time.*
Sources: AMECO, various national sources, Eurofound's own calculation.

experience a positive wage drift over time: actual compensation grew faster than collectively agreed pay. Again, there is no clear link between the wage drift and bargaining regimes. In systems with a low degree of coordination, a positive wage drift is more often observed.

Wage-related competitiveness

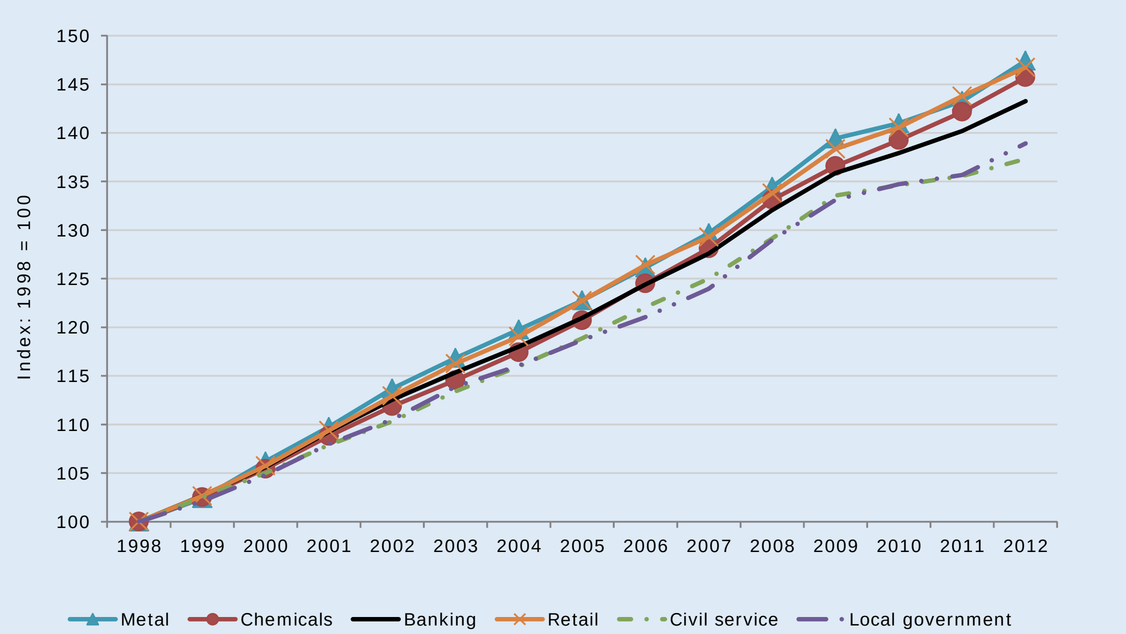
A number of Member States have received a recommendation for some time now to align wage growth more closely with labour productivity growth. The Macroeconomic Imbalance Procedure scoreboard monitors the development of nominal unit labour costs (NULC), which reflects the relationship between growth in wages and growth in labour productivity. If labour costs grow too high (wages growing faster than labour productivity), this is interpreted as a loss of a country's wage-related competitiveness.

Like many other studies, no clear link is evident between bargaining systems and NULC in the medium term. Yet there is some evidence that more coordinated bargaining regimes – where sectoral bargaining is the predominant level – showed the closest link between pay and productivity over the medium term (1999–2012) and hence the smallest loss of wage-related competitiveness (Figure 5).

Return to growth in some regimes

The study looked at yet another aspect of wages – the distributional side – in terms of real unit labour costs or the wage

Figure 6: Average nominal collectively agreed pay, by sector, 1999–2012



Source: AMECO, various national sources, Eurofound's own calculation.

share within the economy. While the overall trend was that of a declining wage share in most Member States, a return towards an increase could be seen in many countries in the period during and after the crisis. This is because wages do not fluctuate to the same extent as output over the business cycle.

While the commonly observed decline in the wage share was equally spread across all types of bargaining regimes, the return to growth mostly took place in non-decentralised regimes. However, this cannot be entirely separated from the fact that countries that were affected most by the crisis (and hence experienced the greatest wage cuts) did not see such a shift in trend.

Sectoral disparities in pay outcomes

The research showed that disparities in terms of pay have increased over time between sectors, particularly between the public sector (local governments and civil service) and the sectors illustrated in Figure 6.

This development had started before the crisis, but accelerated in the years following the recession.

Multivariate research framework

This report is only a modest beginning, highlighting the need for more research along these lines.

Eurofound intends to progress this research further by using a multivariate modelling framework to see whether the observed links (or lack of links) between wage bargaining regimes and pay outcomes persist, once other factors are taken into account and controlled for.

Such macrodata-based research should also look into the determinants of any wage drift, and examine to what extent this could be driven by different wage-setting regimes. More disaggregated approaches at the sectoral level could yield further insights.

In the medium and longer term, more harmonised data on collectively agreed pay could help advance the research.

Christine Aumayr-Pintar

The wages dilemma: Reduce costs or make ends meet?

Since the start of the current financial and economic crisis, pressure on wage levels and the mechanisms by which they are set has been on the increase – largely due to the view of wages being an important variable in achieving competitive advantage. Before Economic and Monetary Union, countries could make use of monetary policy in order to boost their competitiveness. With this instrument no longer an option, wage moderation or even reduction emerged as a way of dealing with macroeconomic imbalances and addressing competitiveness – in particular, in those sectors more exposed to international trade.

Cost versus revenue

Wages, in all forms, have different functions according to whose perspective is adopted – the employer's or the worker's. For employers, wages are part of the cost of production and therefore account for a share of the price of goods and services. Wages can also be regarded as an instrument with which organisations attract and maintain workers. However, labour costs are not exclusively composed of wages (in their different components) and related benefits: other 'costs' play a role in labour costs – such as taxes, contributions to social security and pension contributions, which are related to the wages paid to workers. For workers, wages compensate for the work they do and in the absence of any other source of income they correspond to individuals' income for living.

A simple comparison in accounting terms shows that whereas wages are entered as a cost in an employer's balance sheet, they are 'registered' as revenue (often the only form) in individual and household balance sheets. Therefore, a reduction of costs through a reduction of wages can imply a reduction in a household's revenue. An important implication of this in macroeconomic terms is that wages play a central role in terms of price setting but also in terms of consumption and therefore aggregate demand.

Impact of wage changes on working conditions

A Eurofound report about possible trade-offs between wage developments and certain aspects of working conditions during the crisis years since 2008 found that prolonged and excessive wage freezes may have negative effects on workers' motivation, engagement and productivity.[3] These effects impact directly on company and organisational performance; they also, however, carry the risk of creating further macroeconomic imbalances through reduced consumption and demand. The report uses data from Eurofound's fifth European Working Conditions Survey (EWCS) to look at the combined decrease in salaries or income and increased job insecurity (where employees agree with the sentence 'I might lose my job in the next six months') and to characterise the groups of workers most likely to be affected. First, it found that the extent of workers reporting a combination of decrease in salary and increased job insecurity in 2010 is not spread evenly among the working population in the EU Member States. Employees in central European and Nordic countries seem to have been less impacted than those in the newer Member States and Mediterranean countries in terms of lower salaries and greater job insecurity. In addition, within countries, employees with certain characteristics have been impacted more than others. Low-skilled manual workers and migrant (non-native) workers, groups already vulnerable and struggling with social exclusion and poverty, are more likely to report a decrease in salary or income and increased job insecurity.

Strategies for dealing with the crisis

The research suggests two main approaches (or one approach with two elements) in terms of strategies for dealing the crisis. Generally, people in low-ranking jobs (low-skilled, low-paid jobs) have been affected because the jobs were simply cut or their working time was reduced. People in higher-ranking jobs (skilled, well-paid jobs) have been affected mainly through reductions in their 'wage cushion', which is composed of variable pay and/or other extra rewards and benefits. In both cases, labour costs declined. Nevertheless, while reductions in the wage cushion are unlikely to have a significant impact in terms of individuals' ability to meet their basic needs, the former situation implies a severe reduction in that ability. This is particularly worrying for households in which two breadwinners become unemployed or that have seen their wages reduced as a consequence of working time reductions.

This means that measures or actions that have one effect for companies (a reduction of costs, particularly labour

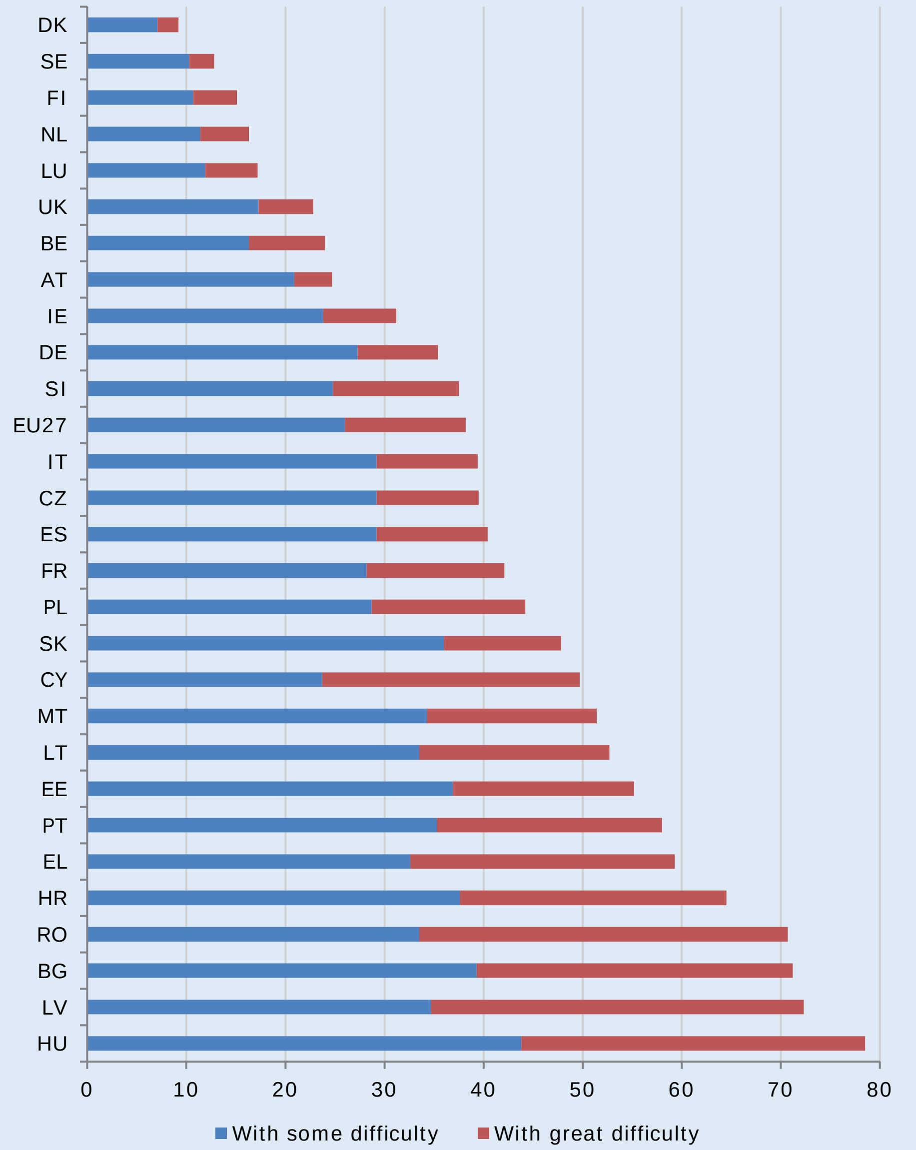
3 Eurofound, EIRO (2013), *Wages and working conditions in the crisis*

costs) may have a different effect for individuals according to the type of job they have. If it is just variable pay and other extra benefits that are cut, a mere readjustment of consumption might take place, leaving the individual's basic needs still met. But if a worker in a low-paid job has their working time cut or they lose their job, something more than a readjustment of consumption is likely to take place. This could mean a person's entry into a situation where they have to struggle for subsistence or strive to make ends meet – having enough money to pay for basic needs.

Financial security and making ends meet

According to the fifth EWCS, 38% of the workers in the EU27 Member States reported having 'some' difficulty making ends meet in 2010. Of these, one-third reported having 'great' difficulty. Among low-skilled manual workers, 52% reported having some difficulty, of whom 38% said they had great difficulty. However, the proportion of low-skilled manual workers reporting great difficulty rises to 55% in Hungary, 52% in Latvia and 46% in Bulgaria. This does not mean that high-skilled clerical workers did not report having great difficulty making ends meet. In fact, in the EU27, 6% of workers in this group also reported great difficulty (Figure 7).

Figure 7: Percentage of workers reporting households with difficulty making ends meet, EU27 and Croatia, 2010



Source: Eurofound: Fifth EWCS

Considerations for the future

The crisis has been very difficult, from many different perspectives. Even social dialogue has not succeeded in generating solutions for exiting the recession. In many cases, especially at company level, social dialogue has focused on trading wage concessions for saving jobs – almost an 'all or nothing' type of situation. In reality, in very few national examples are employability or aspects of job quality aspects included in those negotiations.

It seems that the opportunity generated by the crisis to create long-term strategies to tackle it and simultaneously enable the 'inclusive growth' sought in the Europe 2020 strategy has, to some extent, been lost.

Many important social and economic achievements in the EU over the last decades have come into question over the course of the crisis. The research described above highlights three aspects that deserve careful attention.

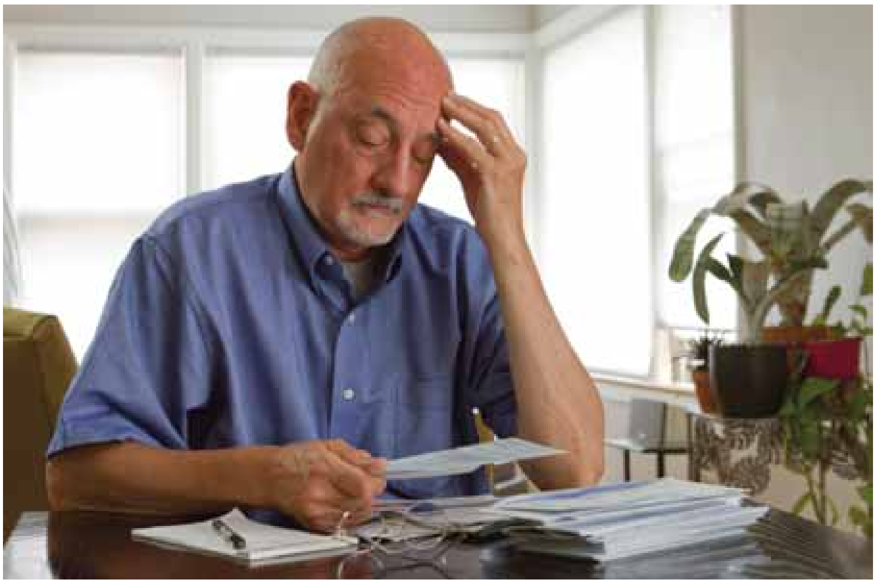
First, it is important to ensure that the differentiated impacts of any measures taken (or recommendations made) in terms of wages are well understood and responsibility is taken for any possible perverse effects: some groups of workers are already quite vulnerable and certain measures might only increase that vulnerability.

Secondly, it is crucial to ensure that current discussions go beyond job creation and wage adjustments in order to improve competitiveness; it could be the ideal time to (re)think what role the European Social Model might play in the economic upturn and to reflect strategically about job quality in the EU in the long run.

Finally, it is also necessary to question why the issue of countries' competitiveness is currently discussed mostly in terms of cost. So far, most of the focus has been on wages as the one cost that can or should be reduced. However, there are other ways of achieving competitiveness gains that could also be brought to the discussion table.

Jorge Cabrita

Income of retirees: To work or not to work?



Are retirees feeling the squeeze? One indicator certainly suggests so. Almost all Europeans aged 65 years and over are entitled to a pension. Nevertheless, the number of people in this age group in paid employment is rising. This phenomenon of 'working retirees' has become increasingly common in recent years (Figure 8) – noteworthy in a period marked by one of the deepest crises ever experienced in the European Union. Has their income been affected by the crisis and they see no option other than to work?

Work as a source of necessary income

According to Eurofound's 2012 report *Income from work after retirement in the EU*, some groups of retirees experience difficulties making ends meet, especially in the Member States that joined the EU after 2004 and in particular among those aged over 65 who live alone.

The crisis has made it more difficult for many retirees to make ends meet in two main ways.

- Incomes of some retirees have decreased – public pensions are the main source of income and have been subject to cuts in some Member States, while occupational or private pensions have also suffered.
- Costs have increased for many people – cuts in public expenditure have led to increased personal contributions towards public services and decreased subsidies for housing and utility usage. In particular, co-payments for healthcare services have risen in many Member States.[4]

Paid work is a way to make ends meet for many who are faced with these increased costs and reduced incomes. Overall, 7% of the income of people aged between 65 and 80 years comes from work.

Figure 8: Employment rates among 65–69 year-olds in the EU, 2004–2012 (%)

Source: Compiled by Eurofound from Eurostat's online database

Rewards of paid work

If the increase in work after retirement comes from 'the squeeze' alone, a sudden increase when the crisis started to hit would have been expected. Considering the data depicted in Figure 8, this is clearly not the case. Rather, there seems to be an ongoing, longer-term trend.

The report *Income from work after retirement in the EU* estimates that around one-fifth of working retirees work purely because of financial need, but feel that their quality of life would be improved by not having to work. The other four-fifths may appreciate the additional income, but non-financial motives also play an important role. Retirees live longer and stay healthier than ever before. Many see paid employment as a way to stay in contact with others and to contribute to society. Work also helps them to stay active and healthy, and to keep up to date in a field of interest to them.

4 Eurofound (2013), *Impacts of the crisis on access to healthcare services in the EU*.

Eurofound's European Quality of Life Survey (EQLS) supports this finding: on average, people who work after retirement tend to be very satisfied with their current job, regardless of income (from forthcoming analysis of the survey findings). European workers aged 65 and over rate their current jobs with an average score of 8.4 out of 10, compared to 7.4 for 18–64 year-olds. Clearly, this is mainly due to a 'selection effect': those who are satisfied with their work are most likely to continue. Others may have been able to find more suitable working conditions after retirement – in particular, working reduced hours.

Encouraging workers to stay in work longer

As the population of the EU is ageing, policymakers are seeking to motivate people to stay longer in the workforce by discouraging early retirement and increasing the statutory pension age (as highlighted in the European Commission's White Paper on pensions). Such measures have their limitations: for instance, working conditions may not permit people to continue working even until the current statutory pension age. From this perspective, it is good news for policymakers that reaching the pension age does not stop many retirees from working, and that many are satisfied with their work.

Who are these working retirees? Where do they work? What groups of working retirees can be identified in the various Member States? Why are so many retirees self-employed? Why do employers employ retirees? The report *Income from work after retirement in the EU* investigates these and many other questions and offers suggestions on how work after retirement can be facilitated, touching on the possible challenges.

Pre-retirement conversations between employers and employees can remove assumptions that may form a barrier. Retirees may assume employers will not allow them to work part time; employers may assume retirees do not want to continue working. Innovative approaches may yield results: stimulating entrepreneurship and mentoring among those retirees who wish to continue working has the potential to help integrate younger people into the labour market.

Role of pension systems

To avoid the rise of undeclared work while creating opportunities for those who want to and can work, it is important that going to work pays off for the retiree and that their wage income is not directly deducted from pensions. The research has documented that retirees sometimes receive exceptionally low wages. As retirees usually also receive some income from basic pensions, this still allows them to make ends meet. Nevertheless, it provides some dilemmas with regard to wage competition with people who do not receive a pension. One way around this is the use of systems with public pension postponement, which allow for the accumulation of larger future pensions, rather than earnings in addition to one's pension. It is also crucial for retirees and companies to have taxation and pension rules that are easily understood, as complexity and insecurity in the rules discourage the taking up of work after retirement. Furthermore, reforms aimed at encouraging work after retirement may fail to have an impact if they are not communicated well.

Stereotypes exist in society about both older workers generally and about retirees – 'shouldn't our retired colleague be enjoying her retirement?' Such stereotypes also need to be addressed. Pension regulation provides important norms with regard to work after retirement. While policy action will still be needed, the rising incidence of work after retirement may mean that stereotypes will fade over time.

Many retirees are not currently involved in paid employment, but would like to be, mostly on a part-time basis. For older people to continue working, it is vital that they are already integrated into the labour market long before reaching the retirement age. Work satisfaction and working conditions are important elements if longer working lives are to be achieved on a larger scale.

Hans Dubois

Employment polarisation: Crisis hits mid-paying jobs most

Labour markets in Europe have changed as a result of the crisis. Six million fewer people are at work in the EU than in mid-2008 in what has been an unprecedented period of recession or near-recession. Labour markets are also changing due to underlying long-term trends, which relate more to developments in technology, international trade and labour market institutions. Technology displaces some types of jobs (on factory floors and in typing pools, for instance) while creating others (in web design or biotechnology). Trade exposes some sectors – such as shipbuilding or textiles, for example – to competitive pressures that shrink employment in the EU; however, this lost employment is in part replaced by emerging industries such as renewables manufacturing. It is important to note that at an aggregate level over a longer period, these factors have not led to decreasing demand for labour: in fact, employment levels in the EU28 have increased by 5% in the period 2002–2012, despite the crisis.

Labour market areas affected

The 'jobs approach' of the European Jobs Monitor (EJM) offers a useful way of summarising the impacts of this creative destruction on EU labour markets. It shows where (that is, in what sectors and occupations and in what parts of the wage distribution) employment is being created and destroyed. Though not specifically analysing wages or wage shifts, the approach uses wage data to rank jobs and can make some contribution to the debate about trends in wage (in)equality, for example.

The most recent EJM analysis describes employment shifts in individual Member States as well as at EU27 aggregate level for three periods: the pre-crisis expansion up to 2007, the core years of the Great Recession (2008–2010) and the halting recovery (2011–2012).

European Jobs Monitor

Eurofound's European Jobs Monitor (EJM) uses the 'jobs approach' to analyse employment shifts from a structural perspective, based on European Labour Force Survey (EU LFS) and Structure of Earnings Survey (SES) data. This is a simple but a powerful approach that involves characterising a job as a given occupation in a given sector using standardised international classifications (ISCO for occupations and NACE for sectors) and then describing the employment shifts in each Member State as well as the EU as a whole. Ranking jobs – based on wages, education or a broader multidimensional index of job quality – adds a qualitative dimension.

The jobs approach was first pioneered in the 1990s in the US by Nobel laureate Joseph Stiglitz and refined thereafter by Erik Olin Wright and Rachel Dwyer. The particular question that this approach addressed – was job growth being achieved at the expense of job quality? – has become more nuanced over time. The jobs approach has in particular been used to assess the extent to which employment structures in developed economies are polarising, leading to a 'shrinking' or 'disappearing' middle, or upgrading in line with the predictions of 'skill-biased technical change'.

Polarisation effect of crisis

A key finding is that the crisis accentuated employment polarisation in most countries. This results from relatively stronger demand for high-paid and low-paid jobs at the expense of mid-paying jobs. The crisis has also considerably reduced the amount of diversity across Europe in the patterns of structural change. Throughout the period of employment expansion before the crisis (from the late 1990s to 2007), there were different patterns associated with European institutional families (broadly speaking, polarisation in continental Europe, upgrading in northern countries and expansions in mid-paid jobs in the south); however, during the crisis, the majority of countries experienced some type of polarisation.

A key contributor to sharper polarisation of employment during the period 2008–2010 was the disproportionate destruction of jobs in two sectors – construction and manufacturing, in which jobs tend to be near the middle of the wage distribution. The fact that both sectors are predominantly male meant that the employment impacts of the crisis have been notably gender-differentiated. Between 2008 and 2010, net employment losses among men were four times those among women. Subsequently, there has been some convergence.

Growth in better-paid jobs

Higher-paid jobs were much more resilient during the crisis, continuing to grow in many countries (albeit marginally) even during the core years of the Great Recession. In the period 2008–2010, the expansion of higher-paid jobs was mostly sustained by knowledge-intensive services in the public sector (principally health and education). Between 2011 and 2012, the focus shifted to knowledge-intensive services in the private sector, which added over 400,000 new jobs to the top quintile of the wage distribution in this period across the EU. The motor of services employment growth has shifted therefore from the public to the private sector. This is not unexpected in view of widespread public spending cuts since 2010.

Impact on wage structure and outcomes for workers

The process of job polarisation was mostly restricted to the wage structure, even during the recession. In terms of the classification of jobs according to their average level of educational attainment or non-pecuniary job quality attributes, the process of structural change since 1995 has been mostly one of upgrading in nearly all EU countries. This is because the jobs responsible for the decline of the middle wage quintiles tend to occupy lower positions when characterised by their average level of educational attainment or non-pecuniary job quality than when they are characterised by their wages: male-dominated jobs in manufacturing and construction, for example, are well paid relative to the average levels of education of the jobholders.

This has some important consequences. Workers losing these mid-paid but low-skilled (and/or sector-specific skilled) jobs will find it very hard to find replacement jobs at similar pay levels and may find it especially difficult to reintegrate into employment. Initiatives have been started in some countries (such as Ireland) to retrain construction workers to retrofit houses for energy efficiency but in countries where 40%–60% of workers in this sector have lost their jobs, this is likely to be only a very partial solution.

Changes across the EU and outlook for the future

During the most recent period covered by the EJM (2011–2012), employment shifts were somewhat less polarising with greater growth in higher-paid jobs, less pronounced declines in mid-paid jobs and relatively greater declines in low-paid jobs. In particular, employment patterns in countries with more resilient labour markets (such as Austria, Belgium, Germany and Sweden) showed more pronounced upgrading, while those in countries experiencing persisting employment declines (Greece, Ireland, Portugal and Spain for example) continued to polarise.

The performance of European labour markets has therefore been increasingly divergent in both quantitative and qualitative terms. A further complication is that the two main observed patterns of employment shift – upgrading and polarisation – tend in different ways to increase overall wage inequality within countries, potentially undermining social cohesion. These developments pose major challenges to EU efforts to coordinate macroeconomic policy and employment policy. Identifying ‘one size fits all’ policies or common approaches has become even more difficult.

John Hurley

Gender inequality in Europe: Less pay for more work?

***Women, men and working conditions*, a recently published Eurofound study based on findings from the fifth European Working Conditions Survey (EWCS) using data collected from 44,000 workers across 34 European countries, sheds light on the problem of workplace gender inequalities. Despite many years of laudable legislation and considerable progress in promoting and achieving gender equality in the workplace, gender-based gaps persist across many aspects of the labour market, including pay.**

One step forward, two steps back?

The impacts of the current economic crisis threaten to undo some of the advances achieved by social policies in closing gender gaps. Although at first glance it may appear that gender gaps in some EU countries have begun to narrow as a result of the current crisis, rather than reflecting any great improvement in workplace equality for women, this is actually a consequence of deteriorating working conditions and pay for men. In examining the medium and long-term effects of the crisis on the gender pay gap in Europe, *Women, men and working conditions* highlights the fact that the employment experiences of some men, especially the lower-skilled, may converge with those of women as more and more of them are employed on temporary or part-time contracts and receive pay at lower wage rates.

A lot of pressure on jobs and pay in the crisis has been concentrated on the public sector (where some 28% of women in paid employment in the EU27 work). The public sector is often considered a pioneer in paving the way towards workplace gender equality: for example, women's average monthly earnings in the private sector represent only 70% of men's earnings, but this proportion rises to 78% in the public sector.

Generally, men's monthly earnings are higher in every occupation examined in this study and the pay gap is widest in white-collar, male-dominated professions. In addition, employees in female-dominated occupations have an above-average risk of being in the lowest third of incomes. The average monthly income for men working in a company with between 250 and 499 employees is €1,754, while for women in an enterprise of the same size it is €1,122 – an income gap of €632. For the 34 countries included in the EWCS, the monthly gender pay gap amounts to around 23.8%. While the gender difference in monthly earnings is lowest in medium-sized companies (of between 50 and 99 employees), women in all sizes of workplaces report poorer job prospects than men, especially those working part time.

Part-time work – a help or hindrance?

The prevalence of part-time work varies across the EU: in southern and eastern European countries like Greece and Poland, less than 10% of the workforce is engaged in part-time work; in contrast, in western and northern countries such as Denmark, France and the UK, at least 15% of the labour force works part time. Occupations with high levels of people working part time include teaching, cleaning, sales, and personal care – all jobs at the female-dominated end of the occupational spectrum. A total of 5% of working men and around 10% of working women in the EU27 work short part-time hours (fewer than 20 hours per week). Some 25% of working women work long part-time hours (between 20 and 34 hours), in comparison with 8% of men.

Even if often viewed positively and considered convenient by many women, especially those with caring responsibilities outside work, part-time employment is more often than not found at the lower end of the occupational distribution, with employees frequently excluded from benefits and disadvantaged in terms of access to promotion.

A fundamental element of gender inequalities in European workplaces today is the uneven division of time spent on unpaid yet laborious activities outside work. Men in Europe spend an average of 41 hours per week at work while women spend only an average of 34 hours per week. However, when a more in-depth comparison is made taking into account unpaid work and other commitments (such as volunteering or caring for children and elderly relatives), women actually work an average of 64 hours per week, a total of 11 hours more than men's average of 53 hours. Indeed, the average time spent per week by women on caring activities alone amounts to 26 hours, almost three times the number of hours spent by men (9 hours).

Unpromising outlook

The gender pay gap in Europe remains significant and slow to change. Most politicians and analysts talk about the slow progress in closing the gender pay gap but the current crisis may herald widening gaps, particularly if cutbacks in the public sector negatively affect highly educated women's wages, and high unemployment leads to pressure to cut or freeze legal or collectively agreed minimum wages – all of which will primarily affect women.

James Harrington

Exploring the potential of a European minimum wage policy

While in principle the EU has no competences with respect to wage levels or wage formation mechanisms, European policymaking has been focusing increased attention on national wage developments since the onset of the crisis. European institutions have repeatedly expressed their concern about low pay and minimum wage levels across Europe and in 2010 the European Parliament asked the European Commission to study the impact that the introduction of a minimum income at EU level would have in each Member State.[5]

Against this background, Eurofound carried out an analysis on the issue of a coordinated EU minimum wage policy as part of a wider study – *Pay in Europe in the 21st century*. The analysis looks at the potential impact (both in terms of policy and wage distribution) of a hypothetical minimum wage policy coordinated at EU level that would set minimum wages at 60% of the median wage in each EU Member State, implying a coordinated increase in minimum wages in most states.[6]

Impact of an EU-level minimum wage

Table 1 summarises the impact that a hypothetical EU minimum wage set at 60% of the median wage could have in each Member State along two axes: an institutional one and a quantitative one.

Institutionally, the coordination of a minimum wage policy would be easier in countries with the statutory model (a single universal wage floor set by the government through regulation) because the complexity of the system and the number of actors involved is smaller and the policy would therefore only require a commitment from the governments to gradually move towards the EU-agreed framework.

In countries where minimum wages are national but collectively agreed, the extent of institutional disruption would be greater, since moving towards a common EU threshold would diminish the role of social partners in the setting of minimum wages. The greatest extent of institutional disruption and difficulty would be in countries with collectively agreed sector-specific minimum wages (with no single universal wage floor) because it would either involve a shift towards a kind of second-level statutory model (underlying the collectively agreed system) or require a commitment to reaching the EU target from all the partners involved, at all levels.

Quantitatively, the impact would mostly depend on the proportion of workers whose current wages are below the hypothetical common threshold within each country, as shown in Table 1.

Institutional versus quantitative effect

Importantly, the institutional and quantitative impacts seem to go in opposite directions. In most countries where a high proportion of the workforce would be affected (high quantitative

Table 1: Impact of a hypothetical EU minimum wage

		Institutional impact			
		High	**Medium**	**Low**	
Quantitative impact	High	Germany	Cyprus, Estonia, Poland	Italy, Lithuania, Latvia, Romania, United Kingdom	More than 15% of workers below the EUMW threshold
	Medium	Austria, Denmark, Italy	Bulgaria, Greece	Czech Republic, Spain, Hungary, Luxembourg, Malta, Netherlands, Slovenia	Between 10% and 15% of workers below the threshold
	Low	Finland, Sweden	Belgium, Slovakia	Belgium, Slovakia	Less than 10% of workers below the threshold
		Collectively agreed sectoral and occupational minimum wages	Collectively agreed national minimum wages	Statutory national minimum wages	

5 European Parliament (2010), 'Role of minimum income in combating poverty and promoting an inclusive society in Europe', resolution adopted on 20 October 2010 (2010/2039(INI)).

6 This analysis is based on the two main existing EU-wide surveys on income and wages, the 2010 European Union Survey on Income and Living Conditions (EU-SILC) and the 2010 European Structure of Earnings Survey.

impact), the institutional impact would be low. This is because countries with statutory minimum wages, which would be easier to coordinate at the EU level, are generally characterised by a larger low-pay segment in their workforces: this is the case in the UK, Ireland and the Baltic states.

In contrast, those countries where minimum wages are not universal and result from collective bargaining (where the institutional impact would be larger) are generally characterised by a smaller low-pay segment and the quantitative impact would then be lower – as in the Scandinavian countries. Southern and eastern European countries other than the Baltic states are characterised by a medium quantitative and/or institutional impact. There are important exceptions in both cases: Germany has a large proportion of low-paid workers despite belonging to the collectively agreed model, whereas France has a very small proportion despite its statutory model.

Employees and jobs most affected

European employees would be affected differently by the introduction of an EU-level minimum wage depending on the type of companies they work for, the type of jobs they hold, and their individual characteristics. Employees working in service activities of lower added value (such as hotels and restaurants, retail or arts and entertainment) and in smaller companies not currently covered by collective pay agreements are more likely to be affected by the introduction of an EU minimum wage, which would increase their wages.

A higher proportion of employees in lower-skilled occupations, working part time or with temporary contracts would also be affected. And younger, female or lower-educated employees would also tend to be affected.

Large impact on young workers

The impact of a hypothetical EU minimum wage would vary greatly among different age groups. Introducing a common EU minimum wage would affect the wages of around 80% of people aged 14–19 years; 35% of those aged 20–24 years; and 16% of those aged 25–29 years. For workers aged 30 years and older, this proportion would remain around 12%.

It would then start to rise again from the age category 55–59 years. While the different groups of young employees under 30 years old would be much more affected by the introduction of the EU minimum wage, especially the youngest ones, their relative importance in terms of employment differs and justifies a different policy concern.

More attention could be focused on the potential impact of a common minimum wage on those employees aged 20–29 years, who represent almost 20% of the workforce of the EU27, than to the teenaged segment that represents less than 2% of the European working population.

Enrique Fernández and ***Carlos Vacas***

Recent pay developments in the EU – A mixed picture

The economic crisis continues to shape bargaining and negotiations across Europe. The current pay bargaining rounds have already taken place in some countries. In others, multiannual agreements will continue to apply. Against this background, a recent Eurofound report, *Impact of the crisis on industrial relations*, examined major changes that have taken place in European countries since the onset of the downturn. The report found that not all changes are due to the crisis but, rather, result from a combination of factors. Public sector reforms or decentralisation of collective bargaining are to some extent the result of pre-existing national-level trends and global megatrends.

However, the most central issue continues to be pay, which has been critically affected by austerity measures such as budget cuts, wage cuts and pay freezes. Many adjustments at government level are being made, with or without the input of social partners. In some cases, the social partners are responding to government measures rather than playing a direct role in their creation and no more so than in the area of minimum wages, the level where incomes are most at risk.

In general, minimum wage-setting has been subject to delays, with one notable positive exception in Lithuania, which is described below.

Minimum wage talks halted

In times of crisis, regular pay agreements are immediately threatened. In Slovakia, customary negotiations on the minimum wage recently stalled. Although representatives of the trade unions and the employers took part in the 2014 tripartite Economic and Social Council minimum wage negotiations, they failed to reach an agreement. The minimum wage in Slovakia has increased almost every year since 1993. It is likely that the government will reject both the trade unions' demand for an increase and the employers' insistence on keeping the current minimum wage level, agreeing a small increase of €10 a month.

In the Czech Republic, the minimum wage has been in place since 1991 and is usually increased annually. But due to political change, it remained static from 2007 until recently, when all parties agreed to a compromise increase.

Salaries restored

Latvia also suffered a delay in setting a new minimum wage. In 2011, the government decided that increases could occur only in an economic situation favourable to the country and rejected any further negotiations. Following a World Bank report highlighting poverty in Latvia, the government did agree to an increase. More than a quarter of Latvia's inhabitants earn only the minimum wage. Moreover, following ongoing trade union pressure, Latvia restored health and social care salaries to previous levels, and awarded increases in sectors with historically low pay levels. Although it is likely that a continuing crisis might hold back the more holistic approach to the sector that trade unions would like, these are welcoming signs for the industrial relations situation in Latvia.

Positive developments

Possibly the most notable increase took place in Lithuania. Here, the minimum monthly wage increased by 6% and 18% in the space of six months after a five-year freeze following the economic crisis.

Also noteworthy was the UK's agreement to maintain the minimum wage, although it remains a little uncertain, in that amendments allow for 'benefits in kind' – such as accommodation – to be offset against workers' pay.

It seems that the key factor in the minimum pay area was either modification or delay. Employers feel that minimum wages affect the ability of businesses to survive.

Trade unions, however, argue that maintaining and increasing minimum wages increases effective demand for goods and services. Governments continue to argue for the economic interests of the state. But there are states without statutory minimum pay levels.

In Germany, the argument on the introduction of a minimum wage continues, but a draft law places it firmly on the current agenda for 2013. Despite the delay, a Bavarian initiative by the metal and electrical industry resulted in a new sectoral, collective-bargaining agreement being adopted at a wider level in Germany. A two-stage pay increase of 5.6% will benefit 3.7 million workers and is to be accompanied by a €200 million fund to help disadvantaged young workers.

Social partner dialogue affected

Other countries have been affected by the crisis and the way in which key actors organised. The Finnish government struggled to bring about agreement between opposing employer and trade union forces. It was the increasingly unpromising financial situation that finally brought together the opposing sides, who returned to the table to discuss centralised pay agreements in the interests of economic stability in the country.

In contrast to this was the ease of agreement in Ireland, where a tripartite agreement has been in place for some time. Following an agreement for 2010–2013, trade unions initially rejected a further plan to save €1 billion in public service costs. However, almost all public sector unions agreed to a new plan that avoided wage cuts imposed by legislation. In this way, pay reductions like those in Portugal were avoided. Dialogue in Ireland allowed compromise, as did dialogue in Belgium following social unrest.

In Greece, draconian wage measures, social provisions and benefit cuts set the scene for a new agreement that averted major wage cuts, but at a cost. The social partners signed the National General Collective Employment Agreement – said to be of limited content and influence – without having any effect on the regulation of the minimum basic wage. Although the marriage allowance was reintroduced, the key crisis effect was the legal removal of minimum pay from social partnership influence.

Impact on trends in industrial relations

All this takes place against a background of longer-term trends in industrial relations. These can be split into two groups: crisis-induced trends and megatrends accelerated by the crisis.

The period shows a clear trend of merger and reorganisation activity by several different actors. Other factors are a decline in agreements that may or may not depend on the crisis – the overall volume of bargaining, participation rates and trade union membership.

Among the complex reactions to the crisis, the UK's adoption of zero-hours contracts, through which employers may keep workers 'on standby', could signal a profound change in the way in which workers are recruited. The government's removal of negotiating areas from the social partners also signals a possible reaction to the megatrends outlined above.

As a general rule, social partners appear more constrained in their ability to react to the crisis, other than to reach compromises with national governments. Wage cuts have tended to affect employment that is under government control. The diminution of partnership interaction and subsequent penetration of social partnership discussions into the realm of government is also a trend revealed by the crisis.

This article is based on recent articles and reports published on Eurofound's European Industrial Relations Observatory (EIRO) and European Working Conditions Observatory (EWCO).

Camilla Galli da Bino

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Country Codes

BE	Belgium	**HR**	Croatia	**PL**	Poland
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CZ	Czech Republic	**CY**	Cyprus	**RO**	Romania
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