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The Effects of the Crisis on Work Inequalities in Europe

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Abstract

This paper provides an overview of the effects that the crisis may be having on inequalities in the world of work in European countries. Has the crisis exacerbated existing inequalities? Has it brought new tensions and disparities into the labour market? This paper analyses work inequalities in a multi-dimensional fashion, looking at the effects of the crisis in different and complementary areas: employment, wages, other working conditions and social dialogue. At the same time, it investigates whether the crisis may halt the progress made in Europe toward higher quality jobs and working conditions. It also provides a survey of the policy responses that have been proposed and followed during the crisis, and identifies major areas of concern for future policy-making on inequalities in the world of work.

The Effects of the Crisis on Work Inequalities in Europe

Daniel Vaughan-Whitehead[1]

1. Introduction

This paper aims at addressing inequalities in the world of work in European countries during the financial and economic crisis that started to hit Europe, after the US, at the end of 2008. Did this crisis exacerbate existing inequalities in the World of Work? Did it affect all workers, including the most protected, or were there categories of workers particularly at risk? What lessons can we draw from the crisis for our future fight against inequalities? These are the questions to which this paper tries to answer, notably by studying sources of inequality and counter-policies and institutions in the crisis in different and complementary areas: employment, wages, working time, other working conditions and social dialogue.

This paper is the outcome of an International Labour Office-European Commission (ILO-EC) two-years' project on the issue, with a high level group of noted European experts in this field that tried to reconstitute, on the basis of national statistics and evidence at national level, what have been the main inequality features in their country, and to provide a comparative assessment of inequalities in Europe.[2]

One purpose of this project was to shed light on one aspect of the crisis that has been poorly documented so far – its microeconomic effects at enterprise level – on various worker categories and the areas of work that directly concern them. We believe this is important considering the legitimate recognition that the current crisis has been given to the role of the real economy not only for recovery but also for sustainable development. We identified three main lessons from the crisis and also three major areas of concern for future policy-making on inequalities in the world of work.

2. Major lessons from the crisis: What effects on inequalities?

2.1. First lesson: The crisis exacerbated work inequalities

Evidence collected on European countries shows that the financial and economic crisis indeed had an impact on inequalities in the world of work, and that certain categories of workers were hit more than others. We present below some evidence in different areas.

The first source of inequality unleashed by the crisis was the variegated impact of *employment* adjustments imposed on the workforce. Most employment adjustments involved atypical workers on temporary or agency contracts. The evidence provided, for instance, on France, Spain and Sweden illustrates how temporary workers functioned as a sort of employment buffer in the crisis: 90 percent of employment losses in Spain for instance concerned temporary workers. Figure 1

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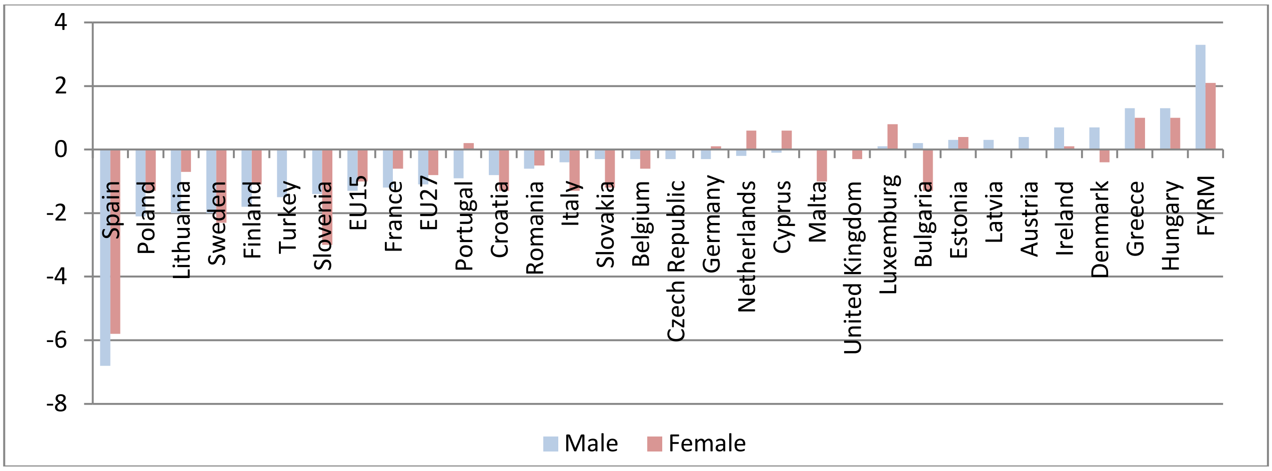
2 For more detailed results, see Vaughan-Whitehead, ed. (2011).

shows how the share of temporary contracts in total employment has declined rapidly in almost all European countries, for both men and women.

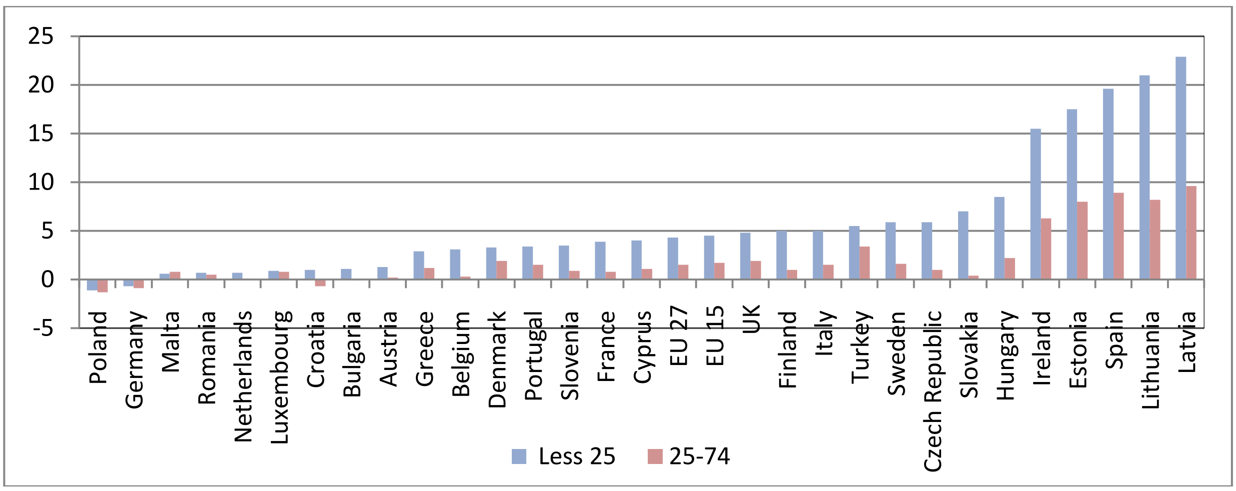
Figure 1: Evolution of temporary work, 30 European countries, 2007-09 (in percent points)



Source: Eurostat.

Young people were also hard hit, as witnessed by the rapid growth of unemployment rates among the youth that was the double the growth of unemployment among other age categories. Increasing youth unemployment has been particularly marked in the three Baltic States, Ireland and Spain, with a progression rate for workers below 25 years of age of 10–15 percentage points above the progression of unemployment among those above 25 years of age (Figure 2). This difference is impressive. It is mainly due to the seniority principle ‘last in, first out’ that was applied in most countries; in Sweden, this principle is even stipulated in the Labour Code. Such unemployment growth among youth also reflects the preponderance of young people on temporary contracts, and the fact that employers have found it easier just not to renew such contracts.

Figure 2: Unemployment increases by age, 29 European countries, 2007-09 (in percentage points)



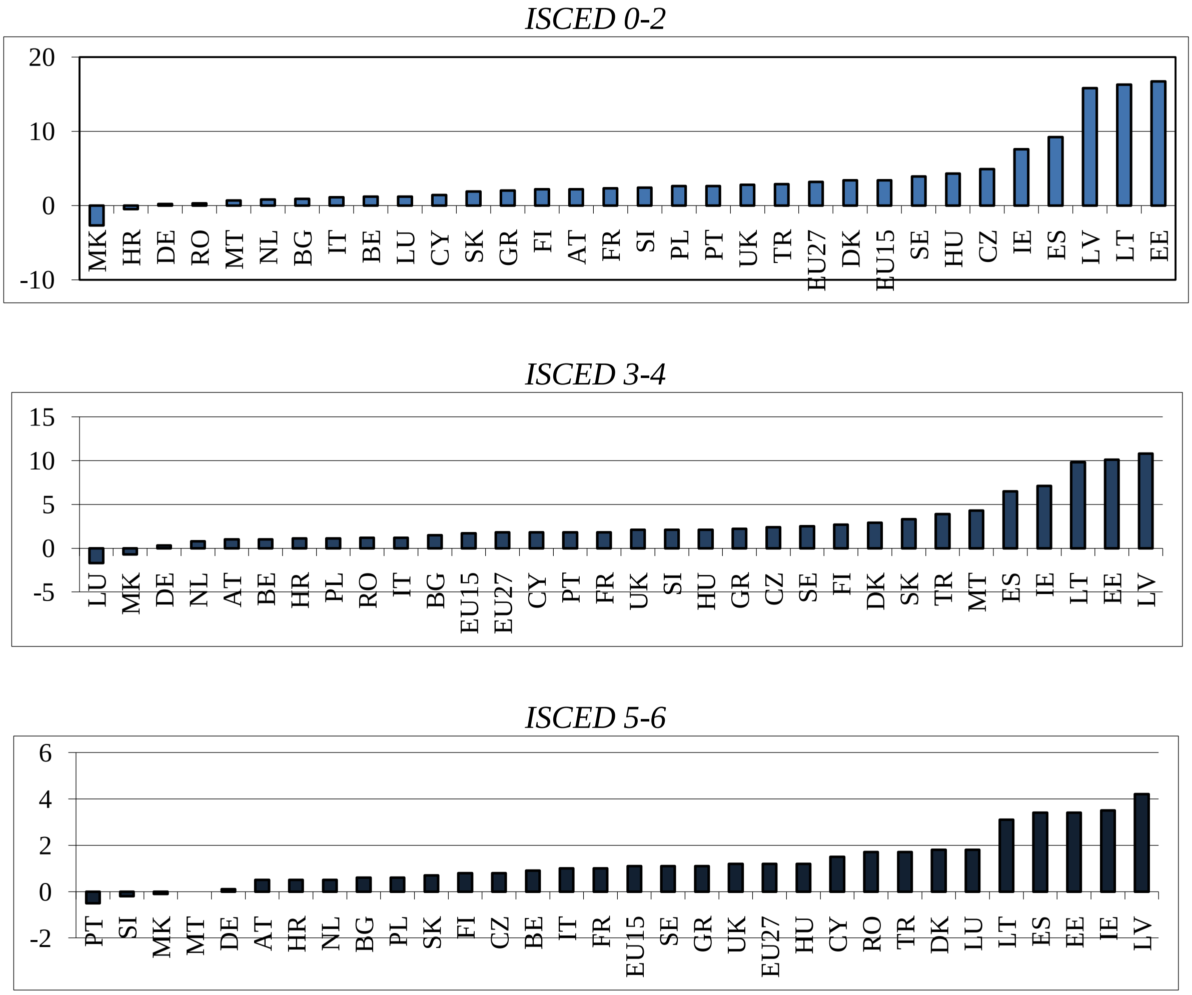
Source: Eurostat.

Interestingly, while older workers – between 50 and 60 years of age – are traditionally a vulnerable group in the labour market, they have been less affected by employment adjustments in a number of countries. This certainly reflects – in comparison to previous crises – the lower reliance on early retirement schemes, especially in a context of possible extension of the retirement age within the framework of pension reforms.

Low skilled workers were also in the frontline with regard to job cuts. The initial impact of the recession saw the loss of relatively high-skilled jobs, especially in the financial services sector. Subsequently, however, the crisis has been affecting manufacturing and construction companies that traditionally employ a high percentage of unskilled or semi-skilled labour.

In Sweden, employment among high skilled workers has even increased, while that of unskilled workers fell sharply. Figure 3 confirms that unemployment rates have increased the most among low skilled workers in almost all European countries (many countries having a 10-15 percentage points progression compared to 5-10 percentage points for middle range and 2-4 percent range progression for skilled).

Figure 3: Unemployment increases by skills, 30 European countries, 2007-09 (in percentage points)

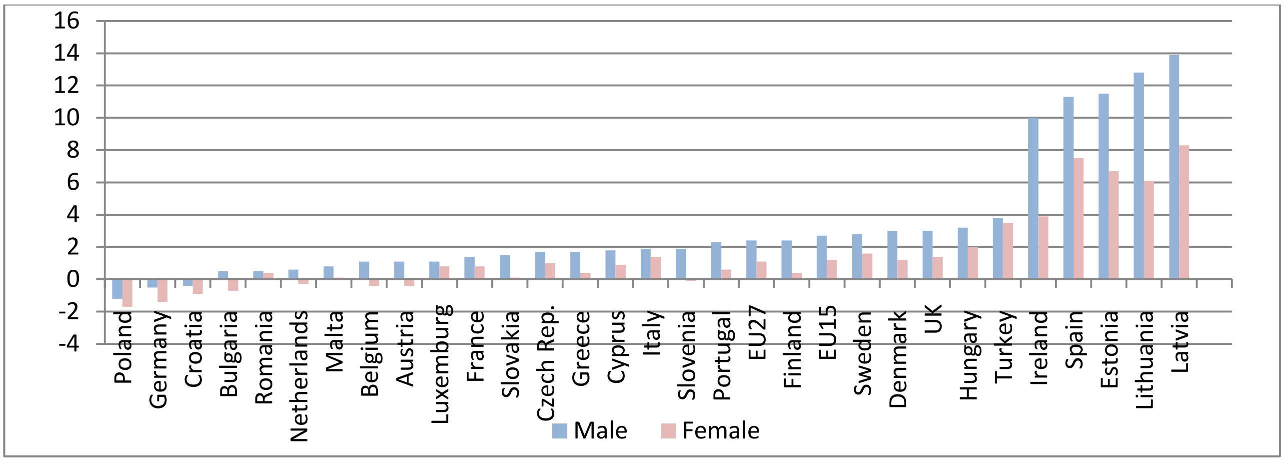


Source: Eurostat.

The recession has also affected the activity rates of the disabled. The situation of ethnic minority groups also began to deteriorate, as reported in the UK, a trend that should continue along the planned employment cuts in the public sector, where ethnic minority groups are strongly represented.

This sectoral impact of the crisis in construction and manufacturing, which traditionally are male-dominated, does also explain why males have been more directly affected by layoffs. In all countries for which we have data men's unemployment rate – that is generally lower – has increased by more than that of women, by 30-50 percent more as shown in Figure 4. The difference is striking, and as high as 6 percentage points or more in the three Baltic countries, Ireland and Spain. In some countries, this has led to a reduction in the gender unemployment gap.

Figure 4: Unemployment increases by gender, 29 European countries, 2007-09 (in percentage points)



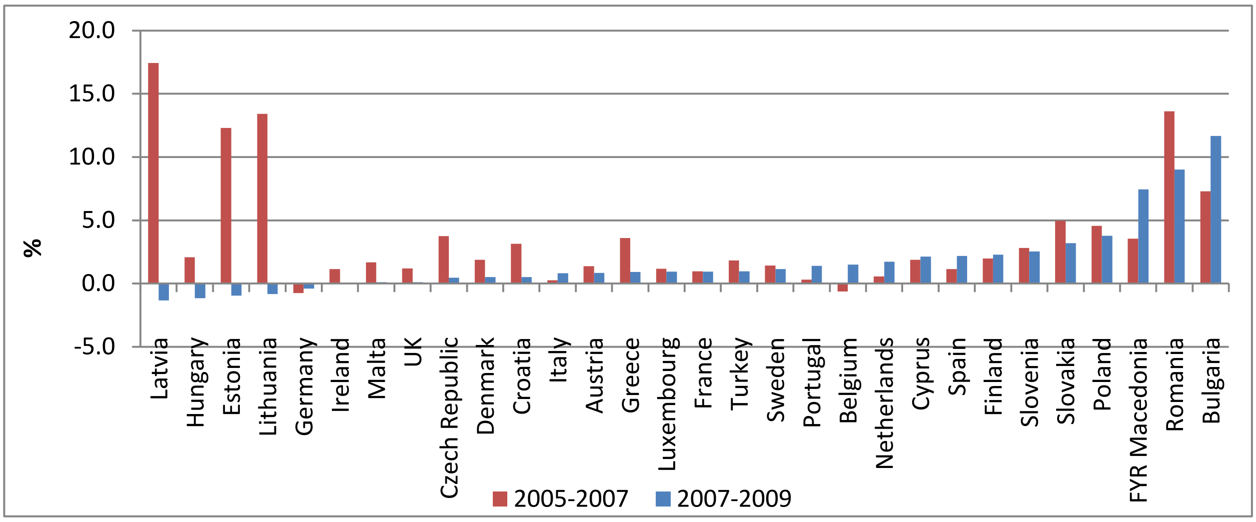
Source: Eurostat.

This does not mean however, that women were not hit or that they were not confronted to discriminatory practices in the crisis. Women employed in male-dominated sectors were often the first to be dismissed (Hogarth et al., 2009). Women also seem to have experienced more wage cuts than men. Evidence on the United Kingdom also suggests that the crisis has contributed to halting the ongoing reduction in the gender pay gap – which remains substantial in a number of European countries – and highlights other forms of discrimination, for instance with regard to access of women to unemployment benefits. Moreover, women are more likely to be affected later, in 2011–2012, with a second wave of job losses expected in the public sector.

Wages were also affected by the crisis in most European countries, and represented another source of inequality. The pre-crisis period was already dominated in most European countries by wage moderation, a decrease in the wage share and an increase in low pay and wage inequalities, – except the new EU member states of Central and Eastern Europe (with rapid growth and double-digit real wage increase) (ILO, 2010). Generally, a decline in annual real wage progression has been observed around Europe. In some countries, real wages have continued to increase despite the crisis, but at a much more moderate pace, half the real wage increase – which was already small – reported in European countries before the crisis.

Nevertheless these may be underestimates due a composition effect in the crisis, since those massively laid-off have been generally unskilled and temporary employees who earn relatively lower wages so that this has artificially limited the decline in the national average wage. In some other countries, that experienced rapid real wage growth before the crisis, the fall in real wages within the crisis has been much stronger, as in the Baltics and other Central and Eastern European countries, such as Hungary, Romania and Bulgaria (Figure 5).

Figure 5: Annual real wage growth, 30 European countries, 2005-07 compared to 2007-09



Source: ILO, Global Wage Report data base, 2010.

Wage declines have often been the result of cuts in working hours that were applied as an alternative to layoffs. Evidence tends to show that women have experienced more wage cuts than men. Young workers also tend to have suffered more from wage declines due to their lower bargaining power, especially when confined in temporary and low paid employment.

It is also remarkable that, despite the composition effect – that is, the exit of low paid workers from the labour market – the long-term increase (ILO, 2010) in low paid workers (defined as those earning less than 2/3rd of the median wage) seems to have continued (Vaughan-Whitehead, 2010; 2011). This reflects the wage moderation process during the crisis especially among lowest categories, with freezes in the legal minimum wage in countries such as Ireland or marginal increases, as in France and the United Kingdom.

It is also notable that the number of low paid workers has not increased in those European countries that decided instead to use the minimum wage as a protective tool against the crisis for the most marginal workers, as Poland and Portugal, and, to a lesser extent, Belgium and a few other countries. Wage differentials between those at the top and those at the bottom of the wage scale have also increased, as reported in Bulgaria, Hungary and the United Kingdom. The crisis will thus reinforce the long-term low pay and related poverty trends in Europe. Today, 17.5 million people are experiencing 'in-work' poverty in the EU27 (ILO, 2010). According to Eurofound (2010) survey results, 40 percent of workers reported that their household had great difficulties or some difficulties making ends meet (Table 1), this proportion being particularly high among non-permanent workers and the self-employed.

Table 1: Percentage of workers in households having difficulties making ends meet, European countries, 2010

	Great difficulty	Some difficulty
All	12.2	26.0
Permanent contracts	9.7	24.9
Other forms of contract	19.0	31.8
Self-employed	12.3	24.1

Source: Eurofound, 2010.

The crisis has also affected several *other aspects of working conditions*. Evidence seems to indicate that the crisis may not have particularly decreased *intensity at work*, especially where massive layoffs were implemented, leaving the remaining employees with an even greater burden and stress at work. Increasing harassment and bullying are reported in Turkey (Erdoğdu, 2011), and a deterioration of working conditions also observed in Spain (Muñoz de Bustillo, 2011) and Croatia (Franicevic, 2011).

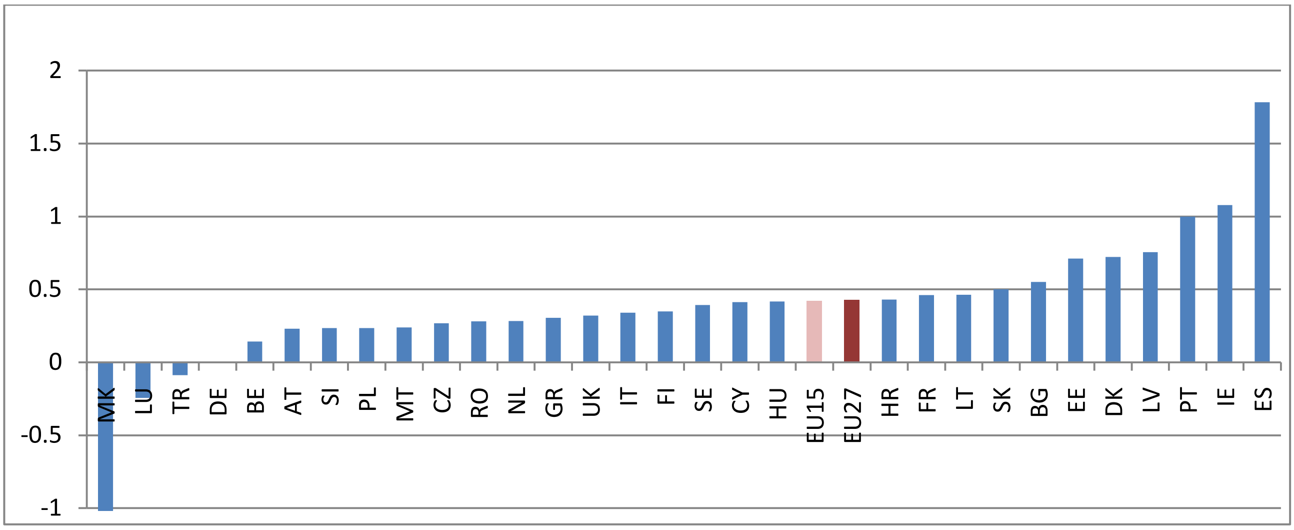
Work-life balance initiatives have also been given lower priority by employers during the current recession something that increased stress at work, especially for women. According to Eurofound (2010), the percentage of workers considering that their working hours fit in very well with their family commitments decreased from 31.1 percent in 2005 to 30.1 percent in 2010.

Within the crisis there is also some evidence of a reduction in *training* programmes carried out by individual enterprises. Country experiences, however, differ widely in this respect. The Danish model, for instance, is based on significant training for the unemployed, complemented by strong labour reallocation (activation) after the period of training. In contrast, Spain is characterized by a lack of vocational training and lifelong learning in individual firms, and a model based on temporary labour. This fall in training expenditure at enterprise level, combined with reduced training programmes financed by the state, can only have a detrimental effect on human capital and the quality of employment in the long term, well after the crisis.

2.2. Second lesson: Policies and institutions matter to limit inequality growth

The European experience within the crisis furnishes another important lesson, namely that policies and institutions count in terms of employment and also work inequalities. More than in other regions, the combination of stimulus packages, subsidies to preserve investment and employment stability, and social dialogue has helped to limit the shocks on employment and social cohesion. They have influenced the inequality outcome of the crisis. Differences between European countries themselves are revealing, as shown in Figure 6 that shows the elasticity of employment losses to GDP losses during the crisis. It is extremely high, nearly 2, in Spain, of 1 in Ireland, Portugal, and on the extreme particularly low in Austria, Belgium, and Germany. How to explain these differences?

Figure 6: Employment elasticity to GDP, 30 European countries, 2008-09



Source: Eurostat.

First, by the different impact and timing of the crisis in different countries, but also the labour market model that prevailed before the crisis. Not surprisingly, the impact of the macro shocks on unemployment has been highest in the Anglo-Saxon-type countries that rely on external numerical flexibility (especially Ireland), but also in Southern (especially Spain) and Central and Eastern European (especially Estonia, Latvia and Lithuania) economies.

Policy responses are also part of the explanation. Governments have adopted a range of responses. Changes in average working hours for instance were used as an important adjustment variable in most European countries, especially in Austria, Germany, Cyprus and the Czech Republic, as well as in a wide variety of other countries. In Germany, in 2009, 1.1 million workers were affected by short-time working. This has also led to a shift of workers from full-time to part-time and thus an increase in part-time arrangements. This type of adjustment has affected men as much as women, although this shift has not been enough among men to avoid a substantial number of layoffs.

There have been several best-practices with regard to policies or institutions that helped to limit inequality growth in the crisis. The 'German miracle' seems to be explained by significant public funding and social dialogue to stimulate short-time working schemes. In Sweden, the performing programme against youth unemployment has offered specific measures for young people to keep a job or engage in training during the recession, thus avoiding an increase in their long-term unemployment. In Italy the 'Cassa Integrazione' system helped to limit short-term layoffs during the crisis. At the same time the absence of a long term industrial policy – not only in Italy but also in Spain and other countries – led to greater job losses compared to countries like Sweden or Germany where coherent programmes to support sectors in difficulty, such as construction and automobiles, were implemented.

Social dialogue is another institutional factor that played an important role in the crisis. It made it possible to negotiate alternatives to layoffs in a number of companies and sectors, generally through wage or/and working time reductions as in Germany and France. In contrast, companies and workers not covered by social dialogue were unable to benefit from these possibilities and generally relied on immediate employment cuts to cope with declining activity. In countries with limited wage bargaining, such as Estonia, Latvia and Lithuania, wage cuts were immediate and substantial.

Policies and institutions thus played a role. Governments generally used arrangements or schemes – such as short-time working or partial unemployment – already in place prior to the crisis, extending or more actively supporting them. Such lessons should be heeded when redesigning labour markets and implementing institutional reforms.

2.3. Third lesson: The changing nature of the crisis' inequality effects

There is a third lesson that came out of this project: the effects of the crisis on inequality may change overtime, especially along shifts in policies and institutions, but also because longer term effects may be observed only years after the crisis.

While economists do not agree whether the crisis is finished or not, it seems obvious that, after the crisis mostly hit the private sector, European countries entered into a second phase of adjustments, due to the consolidation of budgetary policies. Such shift in policies that occurred in the second half of 2009 – from anti-crisis expansionary packages to restrictive budgetary policies – may also change the outcome in terms of inequalities and categories at risk – those concentrated in the public sector such as women, skilled, older, disabled, and ethnic minority groups. These effects have already been reported in countries like Bulgaria, Greece, Hungary, Ireland, Romania, and the UK.

There is another important message from this comparative work, namely that it is essential to capture the impact of the crisis on inequalities not only in the short term but also in the medium and longer term. The impact on inequality in the world of work often requires years to be identified, especially if one takes into account qualitative indicators, such as human capital and job quality. For instance, the fall in training expenditure at enterprise level identified by the case studies, combined with reduced training programmes financed by the state, can only have a detrimental effect on human capital and the quality of employment in the long term, well after the crisis. This emphasizes the need to monitor inequalities not only in the short term but also in the long run, ideally on life cycle employment and wages.

3. Major areas of concern for fighting inequalities in the future

3.1. Flexibility routes: the post-crisis dilemma

Compared to previous economic crises, in the current recession European enterprises have had much more recourse to internal flexibility tools. The crisis has also shown that those countries that have relied on external flexibility adjustments, such as Spain, have experienced severe difficulties on the employment front and may be more affected than others by inequality issues in the long term.

In other countries, like France, the crisis has highlighted the polarization of the labour force: workers on the periphery of the labour force were the first to be affected by employment cuts, with the core labour force remaining protected and benefiting from a series of institutional arrangements. The human cost of such policies should thus be more properly evaluated, especially in light of the long-term adverse effects on the employees' career and pay prospects. This led Spain to limit and better regulate companies' recourse to temporary work contracts.

In contrast, economies able to rely on strong internal flexibility have, to date, been able to avoid major increases in unemployment. Their effects on inequality are also better. As the IMF recognizes, 'these programmes can spread the burden of the downturn more evenly across workers and employers, reduce future hiring costs, and protect workers' human capital until the labour market recovers'.

Nevertheless, despite this interesting and unexpected lesson from the crisis, several countries – as well as employers' organizations in a number of European countries – have called for an increase in the number of temporary contracts in anticipation of possible future economic crises. Temporary contracts, after declining immediately as a buffer during the tempest, have started to grow again rapidly in 2010. The reversal of the trend was particularly striking in Portugal, Romania, France, Italy, Cyprus, Turkey and Hungary, but also discernible in, for example, Finland and Sweden. Temporary contracts even started to substitute previous permanent contracts in Spain, Italy, Sweden, and Hungary. Is this new trend desirable? Could it not deepen structural inequalities? And what should be the role of the state in this process?

We should try to answer such questions without entering again in a direct conflict between internal and external flexibility. A few countries such as Germany, Italy and others have tried to extend institutional arrangements such as shorter working time to workers under atypical forms of contract illustrating some possible combination between internal and external flexibility. The Swedish experience has also shown the combination of training with external flexibility. The Italian experience – where the 'Cassa Integrazione' system benefitted the North more than the South – also shows that more territorial balance in institutional flexibility arrangements is needed.

Labour market policy options will have to be selected also according to their potential influence on the contents of post-crisis employment, both in terms of quantity and quality, and also their long term influence on work inequalities.

3.2. Restrictive budgetary policies compatible with better jobs?

The so-called 'public sector shock' may also have an impact on inequality. Current experience shows that 'austerity' policies can be quite demanding. But at what point will they not start to be counterproductive? Several potential effects in both the social and economic spheres are already observed here and there: on demand and thus internal consumption and production; on the quality of public services; on the informal sector; on migration, and more generally on training and education, that is on human capital in both the public and private sector.

Budgetary cuts in public administration in most countries – as already observed in Greece, Ireland, Hungary and Bulgaria – should lead to further wage cuts in the public sector, together with employment reductions, thereby making public employees the category most at risk.

The fact that the crisis has hit unskilled workers harder, in terms of both employment and wages, underlines the importance of education. Programmes promoting training, further supported by government subsidies, have also led to interesting and positive outcomes in the crisis. Nevertheless, the current policies aimed at reducing expenditure in all related sectors, such as education, health, training and also labour market measures, in a majority of European countries could halt the progress made in Europe toward higher quality jobs and working conditions. Possible policy routes in the public sector have also to been analysed according to their potential effect on the double employment objective of the Lisbon Strategy, namely ‘more and better jobs’.

3.3. Fight against inequalities: More ambitious programmes required

Despite some targeted actions to protect the most vulnerable groups from the impact of the crisis, inequalities have increased rapidly. Specific initiatives have been unable to impede the rapid increase in youth unemployment or the systematic laying-off of less qualified workers, not to mention discriminatory practices against immigrant workers.

This lack of effectiveness might be due to the limited scale of these initiatives in terms of financial, human and administrative resources. In this regard, it is notable that where more has been invested, better results have been achieved, as shown by the favourable outcomes of the youth programme implemented by the Swedish Government. The authorities at both national and local level, as well as social partners should therefore propose new approaches to improve the extent and effectiveness of their anti-inequality programmes, although this objective may enter in opposition with current attempts by governments to reduce deficits.

But more generally, such limited results during – but also before – the crisis tend to show the limits of the targeted approach. For protecting vulnerable categories, especially when individual workers often cumulate several adverse features – youth, lack of skills, migrant – targeted programmes are not enough and inequalities need to be tackled from different simultaneous fronts: labour market, wages, social protection, education, and tax policy. More research is needed on the variety of tools and policies at disposal and the optimal ways to combine them to successively reduce inequalities in the world of work.

Such more comprehensive and ambitious programmes against inequality should be further legitimized by the fact that not only work inequalities were exacerbated by the crisis, but were recognized as one major cause of the crisis (ILO, 2010). As emphasized jointly by the ILO and the IMF in 2010, ‘[o]ver the past three decades, inequalities have widened in many countries, driven by various factors, including the diminishing share of wages in national income and increasing inequality within wage income … contributing to the emergence of imbalances nationally and internationally’ (ILO-IMF, 2010). The crisis has thus shown not only the need to move towards a more equal distribution of risks, but also to deeply transform our economic and social models to avoid further increases and imbalances in work inequalities in the future.

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