



2017 Review of Employment and Social Developments in Europe – Questions and Answers

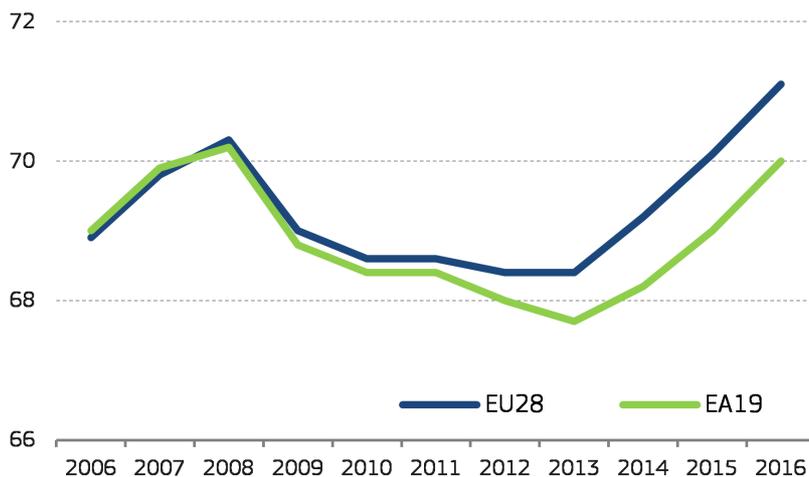
Brussels, 17 July 2017

Today, the Commission published the 2017 edition of its yearly Employment and Social Developments in Europe (ESDE) review.

How is the labour market and social situation in the EU developing?

The labour market recovery is continuing and strengthening further. During the four years of recovery following the recent crisis, economic growth has been moderate but steady. Since 2013, 10 million net jobs have been created in the EU, and employment growth has been rather strong relative to the pace of GDP growth over the last two years. In the first quarter of 2017, 234.2 million people were in employment in the EU (see chart 1), the highest number on record. Likewise, the employment rate has exceeded the pre-crisis level and is now the highest one ever recorded (71.1% of the population aged 20 to 64 in 2016). As a result of the latest increases, the 75% employment rate set as the "[Europe 2020](#)" target is within reach, assuming that the recent trend continues.

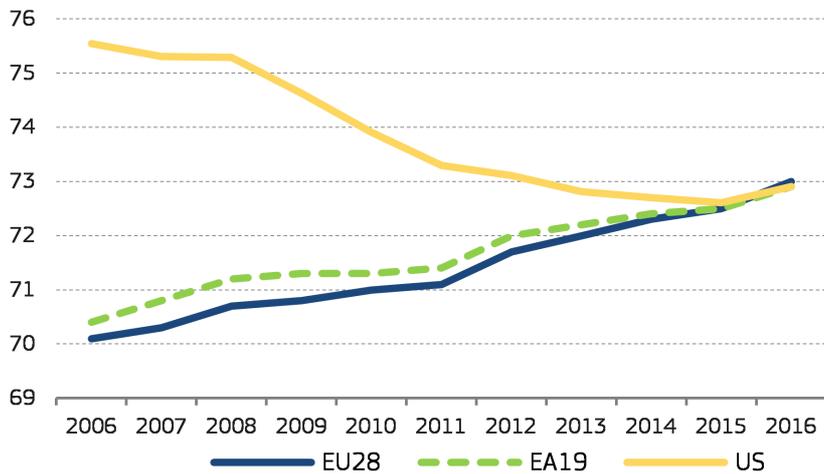
Chart 1: EU employment rate exceeded its 2008 value in 2016



Source: Eurostat

At the same time, more and more people are participating in the labour market; the activity rate has increased at a pace that was not interrupted by the crisis. This reflects mainly older workers delaying their retirement and women's increasing labour force participation. In 2015, the EU reached a higher rate of participation in the labour market than the US, see chart 2.

Chart 2: Steady activity rate increase in the EU since 2006



Source: Eurostat

The reduction in unemployment that started in 2013 accelerated in 2016, and the downward trend continued in early 2017. Nevertheless, unemployment (7.8% in May 2017) and long-term unemployment (4.0 % in 2016) remain at a high level and differences between Member States are still pronounced. Especially youth unemployment (16.9 % in May 2017) remains an important challenge.

Clearer signs of a general improvement in the social situation have emerged. Disposable household income growth continued to strengthen in 2016. The job-rich recovery has helped to significantly reduce the number of people at risk of poverty and social exclusion in the EU, by 4.8 million between 2012 and 2015. Still the number of people at risk of poverty, at almost 119 million in 2015, remained well above the Europe2020 target.

Why does the 2017 Employment and Social Developments in Europe review focus on intergenerational fairness?

This year's Employment and Social Developments in Europe review focuses on the topic of "Intergenerational fairness and solidarity in Europe". This reflects a growing perception that the impact of the crisis as well as structural changes in the labour market, including technological progress, may be putting younger generations at disadvantage relative to older people, who are less exposed to these developments. If not addressed, these developments may undermine social cohesion, support for reforms and trust in the economic system and institutions. In addition, we know that the ongoing demographic change will result in a growing number of older people and a shrinking working age population. This raises questions about the implications for future economic growth, and how the resources can be fairly distributed between generations. Welfare states play an important role in promoting fairness between generations and may need to be further adapted.

Dedicated chapters in this year's ESDE investigate these questions and provide in-depth analysis of:

- Intergenerational fairness and solidarity today and challenges ahead;
- Working lives: the foundation of prosperity for all generations;
- Securing good living standards in old age also in the future;
- Fostering intergenerational fairness through social dialogue.

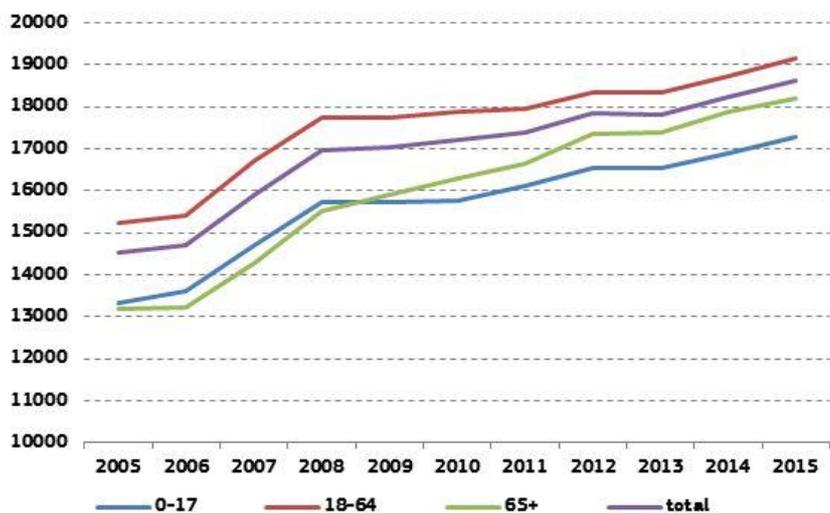
The 2017 ESDE report tries to find answers to the questions raised above and points to how challenges can be addressed.

The review underpins Commission initiatives in the employment and social policy field, in particular the European Pillar of Social Rights and its follow-up initiatives. The report also feeds into the European Semester.

How has the relative income of age groups changed over time?

Average living standards in the EU have improved steadily over recent decades. This is reflected in large increases in household incomes. Comparing age groups' relative income situation shows that over the past decade, the income position of older people has improved when compared with the total population in the EU (see chart 3). Data from several Member States suggest that this is in line with a longer-term trend (see chart 4).

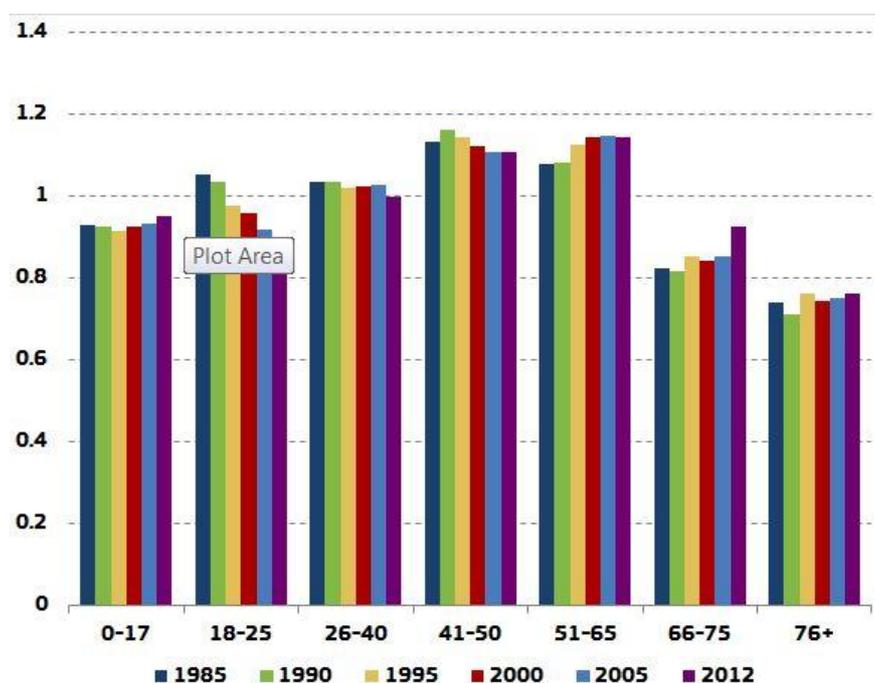
Chart 3: Mean equivalised disposable household income (EUR) by age category, EU27



Note: Equivalised disposable household income. Not including Croatia.

Source: Eurostat, based on EU-SILC

Chart 4: Relative mean equivalised disposable household income by age group (population average = 1)



Note: Unweighted average of DK, FI, DE, IT, NL, SE, UK

Source: OECD.Stat

However, the more recent improvement in the income position of older people was to a large extent relative: working age adults (and indirectly their children) experienced a stagnation of incomes during the crisis years. In contrast, old age pensions were relatively well-protected during the recession.

At the same time, there has been a gradual shift in the patterns of age-related social protection spending since the 2000s. Old age pensions and healthcare constitute a growing proportion of social expenditure, while the proportion devoted to family and unemployment benefits, which benefit younger age groups more, has tended to decrease. Even though the number of old people has increased, this does not fully explain the observed shift. This underlines the importance of continuing to move towards a social welfare model that supports citizens throughout their life course.

Are there clear generational differences in labour market outcomes?

All generations benefit from the working-age population being active in the labour market. However, today's younger generations face significant challenges in the labour market which reflect both

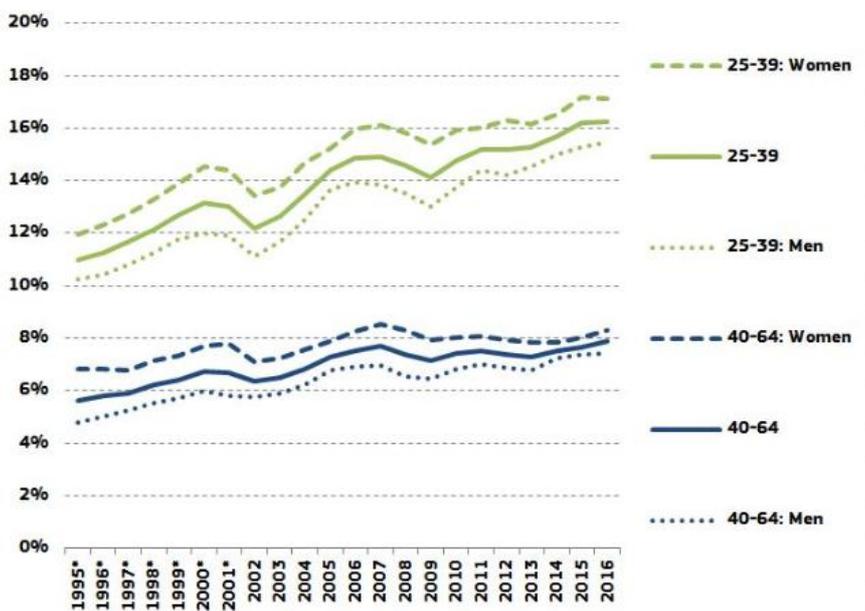
structural changes, including the increasing importance of atypical forms of employment and the legacy of the crisis.

Despite increasing educational attainments, younger generations have been hit harder than older ones by unemployment over the last decade. The employment of younger workers (aged 25-39) has been stagnating over the same period, while prime-age (aged 40-54) and older workers (aged 55-64) have experienced a rapid rise in their employment rates, mainly driven by the increase in the employment of the older workers (55-64).

The shift to non-standard work has affected the newer generation of younger workers more than the prime-age and older ones. Younger workers are twice as likely to be in temporary work as older age groups, and this gap has widened since the early 2000s (see chart 5). Much of the observed increase in part-time work is involuntary as more than one in three of today's younger part-time workers have taken that work because they could not find full-time work (see chart 6).

Moreover, the distribution of income from work between age groups has also changed, with most countries having seen a decline in the corresponding income share of younger workers over the last decade. While this is partly due to demographic changes, in a large number of Member States it also reflects a relative decrease in income per younger worker.

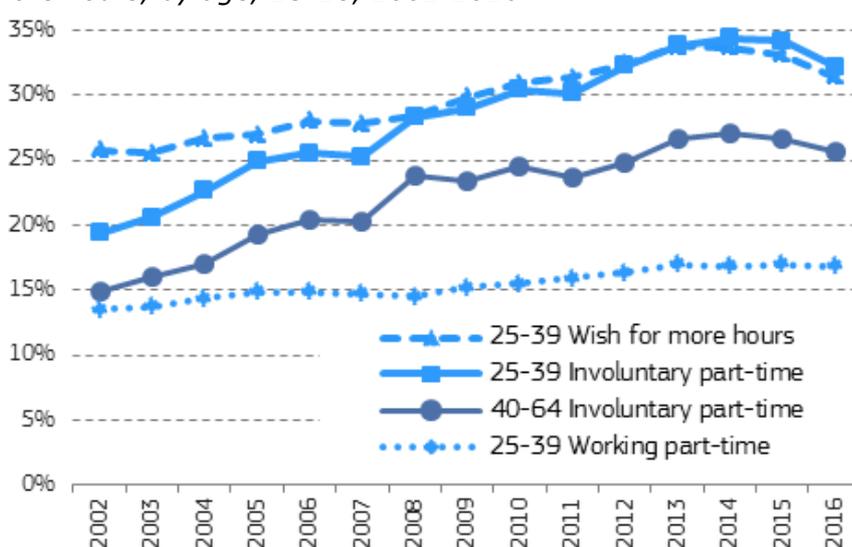
Chart 5: More temporary jobs, especially for the younger workers



Note: Share of employees employed on a temporary contract by age and gender, 1995-2001 (EU-15) and 2002-2016 (EU-28).

Source: Directorate General Employment & Social Affairs calculations based on EU-LFS.

Chart 6-1: Part-time workers, involuntary part-time workers and part-time workers wishing to work more hours, by age, EU-28, 2002-2016



Note: People classified as working part-time involuntarily are those who said that they work part-time because they could not find full-time employment. People classified as wishing for more hours are people working part-time who said that they would prefer to work more hours if possible.

Source: Directorate General Employment & Social Affairs calculations based on EU-LFS.

What are the social implications of the challenges young people are facing?

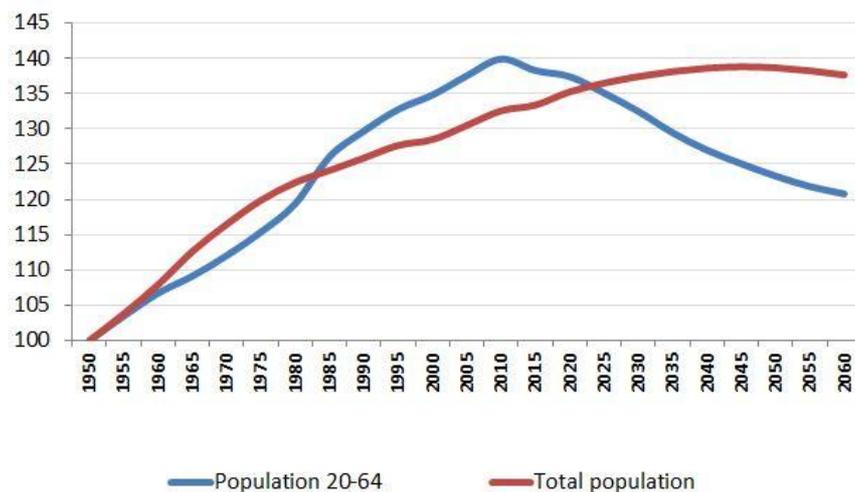
Despite being increasingly vulnerable on the labour market and less protected by the welfare state systems due to lower benefit coverage, younger people are not at higher risk-of poverty than prime-age and older people. However, the above-mentioned challenges in the EU labour market may have an important impact on household decisions across generations. Poor employment prospects for younger people after the economic crisis appear to have had a negative impact on their economic independence and capacity to establish independent households.

Postponing household formation, home ownership and parenthood may in turn have inter-generationally adverse consequences on fertility rates and, consequently, also on the sustainability of pension systems.

What are the implications of population ageing for economic growth?

In addition to continuously increasing longevity, fertility was on the decline in the EU from the end of the 1960s until the beginning of the 2000s, and recovered only very slightly afterwards. As a result, the EU's working-age population (those aged 20 - 64) peaked in 2009 and is projected to decline significantly over the next decades (see Chart 6).

Chart 6-2: Projections for total population and working age population, EU-28



Source: Eurostat 2015 population projections and UN 2015 World Population Prospects

With total population further increasing, counting more elderly and fewer younger people in all Member States, it will be more difficult to distribute societal income fairly among generations.

An ageing Europe may thus face new challenges to all generations' welfare, but there are policy responses that could mitigate and prepare for these evolutions, among which:

- The impact of a shrinking working-age population on economic growth is cushioned by helping a higher percentage of potential workers into employment and extending the length of working lives;
- Increased net immigration and higher fertility help sustain population growth
- Enhance productivity of people in employment.

The rising scarcities resulting from population ageing thus put even stronger emphasis on the need to invest in all generations' employability. Also productivity needs to rise to uphold economic growth.

How does demographic change affect intergenerational fairness?

The current demographic change implies a growing number of older people dependent on pension systems combined with a shrinking working age population generating society's income. In other words, dependency ratios are set to increase which will put a strain on pension systems.

Today's young workers and future generations face a double burden that stems from demographic change. On the one hand, they are likely to be confronted with rising contribution rates that will be necessary to fund future spending on the increasing number of pensioners. On the other hand, compared with today's pensioners they are likely to face lower pensions, relative to wages. This is

because cost-containing measures in the pension systems seem inevitable in response to population ageing.

Due to past reform efforts, progress has already been made in improving pension systems' long-term sustainability but many reforms are phased in over a long period. That is, many of these reforms affect future contributors and future pensioners, not today's pensioners. Further efforts may be needed to improve adequacy and intergenerational fairness, and secure a positive perspective for younger generations.

What is the role of social partners in promoting intergenerational fairness?

Social partners have an important role to play in this context. Including by promoting synergies between older and younger workers and following a lifecycle approach, social partners have successfully addressed a number of issues which are of relevance to intergenerational fairness. They have promoted lifelong learning, are active in the provision of social protection benefits and may also play a role in the design and implementation of employment protection legislation and active labour market policies. Workers and employers' representatives have reached agreements on working conditions, to promote occupational health and safety, or a better work-life balance. Examples of social partners contributing to intergenerational fairness can be found at European and national, cross-industry as well as sectoral and firm level.

This being said, there are some challenges such as low union membership and collective bargaining coverage among younger age groups and the existence of controversial issues such as age-specific wages.

For More Information

[Press release: 2017 Employment and Social Developments in Europe review highlights need to ensure equality between generations](#)

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