

CHAPTER 2: Wages, employment, social policies, and the crises of distribution and social reproduction

As analysed in previous Euromemoranda, the contractionary macroeconomic policies and stagnation of the EU economy, outlined in the previous chapter, come at the end of a long period of labour market deregulation, wage compression and austerity, fuelling further income inequalities and social insecurity. The crisis in health systems and the cost-of-living crisis, analysed in the 2023 Euromemorandum, were the latest in a chain of crises, revealing a general crisis of distribution, social reproduction and care. There has been some progress in the development of EU social policies, mostly in line with the 2017 European Pillar of Social Rights. However, the return of austerity is incompatible with EU social targets. Current EU social policies are too weak to meet current economic, social, democratic and environmental challenges. In the context of the 2024 European Parliament elections, this is a major political problem given the central importance of a progressive inclusionary agenda for countering the rise of far-right parties.

2.1. A crisis of distribution and social reproduction

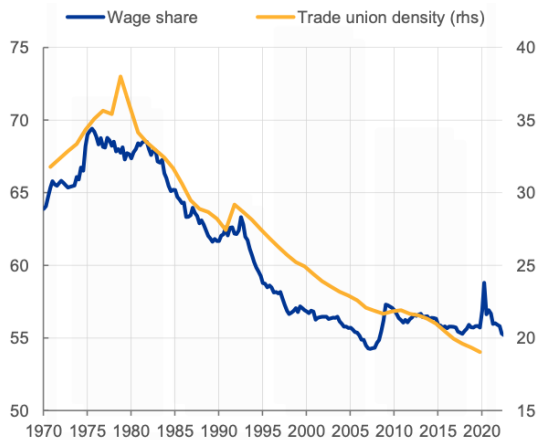
From 1975 to 2005, reflecting the weakness of workers in capital-labour relations, there has been a sharp decline of both trade union density and the wage share, as well as a corresponding increase in the profit-share (Figure 2.1, and with an increase of the profit share, Figure 2.2)¹. In addition, in-work poverty has increased in many EU countries since 2007.²

In 2017, about 10% of all workers were “working poor”, indicating that minimum wages and income support are not sufficient to protect working people against poverty or material deprivation. Low-skilled, part-time, and short-term employees as well as microentrepreneurs are particularly exposed. As outlined in chapter 1, about 6% of the active population were unemployed in 2023 and 22% of the EU population were at risk of poverty or social exclusion.

¹ Schnabel, I. (2022, September 30). *Monetary policy in a cost-of-living crisis*. European Central Bank, Remarks at a panel on the ‘Fight against inflation’ at the IV Edition Foro La Toja. Available at: https://www.ecb.europa.eu/press/key/date/2022/html/ecb.sp220930_annex~b1ca1312f6.en.pdf

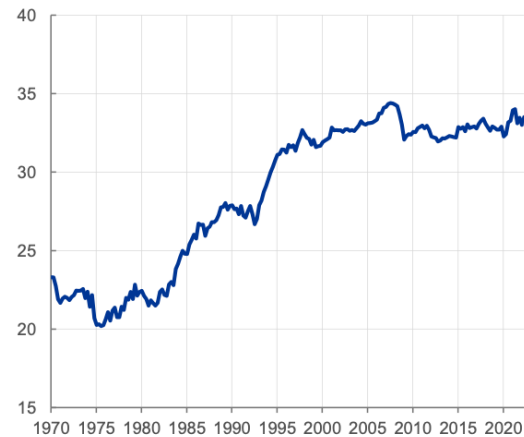
² About 10 % of EU workers were classified as ‘working poor’ in 2017. See Ahrend, D., Sandor, E., Revello, A., Jungblut, J.-M., Anderson, R. (2017). *In-work poverty in the EU, Research report*, Eurofound. Available at: <https://www.eurofound.europa.eu/en/publications/2017/work-poverty-eu>

Figure 2.1 Wage share and trade union density (left-hand side: share of GDP, percentage; right-hand side: share of employment, percentage)



Source: Eurostat, Area-Wide model, OECD, and ECB calculations. Note: The trade union density for the euro area is a GDP-weighted average of data for Austria, Belgium, France, Germany, Italy, the Netherlands, Portugal and Spain. Latest observation: 2022Q2 for wage share; 2019 for trade union density.

Figure 2.2 Profit share (share of GDP, percentage)



Source: Eurostat, Area-Wide model, and ECB calculations. Latest observation: 2022Q2.

The surge in inflation has intensified the distributional conflict between capital and labour. In nearly all EU countries, it provoked a sudden cost-of-living crisis that particularly hit those households at the bottom of the income distribution. It was for some part the result of a long-standing crisis of social distribution. In 2022, EU workers who had already faced years of wage compression experienced a drop in their purchasing power.³ The magnitude of this drop varied across EU countries (see Chapter 3).

In 2023, the deceleration of inflation did not put an end to the cost-of-living crisis. As indicated in chapter 1, real wages continued to decline by -0.4% in the EU and -0.3% in the Eurozone, but with major differences across countries. Since the beginning of the Covid-19-related public health crisis, the profit share has increased by 4% while

³ Countouris, N., Jagodzinski, R., Bérastégui, P., De Spiegelaere, S., Degryse, C., Franklin, P., ... & Zwysen, W. (2020). Benchmarking Working Europe 2020, p.177.

'dividend payments to shareholders [were] rising up to 13 times faster than pay across the EU'.⁴

Inflation also exacerbated the ongoing crisis of social reproduction and care⁵, which has been brought to the fore by the Covid-19 pandemic. The everyday life struggle refers not only to difficulties in paying grocery bills, energy, or loans, etc., but also in accessing essential social services, such as healthcare, childcare, long-term care or education. It is a crisis of care in its broader sense, that concerns *'everything we do to maintain, continue and repair our world so that we can live in it as well as possible'*.⁶

The crisis of care affects the wellbeing of the population. Among the expressions of this crisis are the widening disparities in access to care (within and across countries), the development of unmet care needs in times of health and migration crises, the expansion of care gaps in ageing societies, the diminishing ability of people to care, and the erosion of caring norms.⁷

The crisis of care and social reproduction is highly gendered. Women have been in the frontline of the pandemic and the cost-of-living crisis, since they are over-represented in essential and low-paid care occupations and assume most of the unpaid care and everyday struggle for making ends meet.⁸

2.2. Policy developments: EU social advances facing fiscal headwinds

EU welfare state policy developments are ambivalent. On the one hand, important advances are taking place following the adoption of the Action Plan of the European Pillar of Social Rights. These changes relate to wage regulations (Directives on Adequate Minimum Wages and on Pay Transparency), to the regulation of minimum income schemes and to the European Care Strategy. On the other hand, the return of fiscal austerity as outlined in Chapter 1 contradicts the Commission's objective to promote *'sustainable and inclusive growth'* and severely limits the capacity of member states to implement the EU's progressive social policy orientations.

⁴ European Trade Union Confederation (2023, November 15). *Real wages falling despite inflation-busting profits*, [Press release]. Available at: <https://etuc.org/en/pressrelease/real-wages-falling-despite-inflation-busting-profits>.

⁵ Fraser, N. (2016). Contradictions of capital and care, in *New Left Review*, 100: 99-117. July/Aug.

⁶ Tronto, J. C. (2013). *Caring democracy: Markets, equality, and justice*. New York University Press, p. 228.

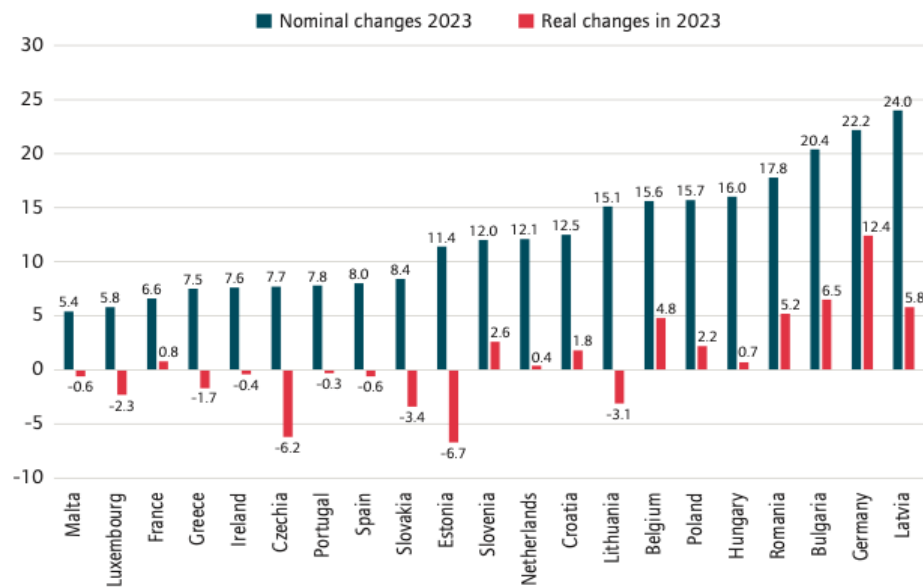
⁷ Ilkcaracan, I. (2023). *The crisis of social reproduction in the EU. Emerging policy perspectives from feminist economic debates on care*, Communication to the Euromemo conference, 27-28 September, University of Parthenope, Napoli. Available at: https://euromemo.eu/wp-content/uploads/2023/10/Euromemorandum.Ilkcaracan.FINAL_.pdf

⁸ Social Europe Dossier (2021). *Women and the coronavirus crisis*. Friedrich Ebert Stiftung, Hans Böckler Stiftung, Social Europe Publishing, Berlin, p. 50. Available at: <https://socialeurope.eu/wp-content/uploads/2021/09/Women-and-the-Coronavirus-Crisis-final.pdf>

The release in March 2021 of an Action Plan for the implementation of the 2017 European Pillar of Social Rights and the adoption in October 2022 of the Directive on adequate minimum wages are important milestones that can bring crucial changes for low-wage workers and reduce existing gender wage-gaps.⁹ However, the Directive has remained too weak to cope with the cost-of-living crisis, notably because it allowed member states a two-year ratification-deadline, and provided no strict indexation mechanisms.

From January 2022 to January 2023, statutory minimum wages increased in nominal terms, but not so as to ensure the maintenance of the purchasing power of minimum-wage earners in the cost-of-living crisis (Figure 2.3).¹⁰

Figure 2.3 Development of hourly nominal and real minimum wages (% , 1 January 2022-1 January 2023)¹¹



Source: WSI Minimum Wage Database (WSI 2023), in Müller T. (2023)

In nearly half of the member states with a statutory minimum wage, real hourly minimum wages decreased. They fell by more than 6 % In Estonia and Czechia, more

⁹ Grünberger, K., Narazani, E., Filauro, S., & Kiss, Á. (2021). Social and fiscal impacts of statutory minimum wages in EU countries: a microsimulation analysis with EUROMOD. *IZA Journal of Labor Policy*, 12(1), p. 46.

¹⁰ Müller, T. (2023). Minimum Wage Developments in 2022: Fighting the Cost-Of-Living Crisis. *ETUI Research Paper-Policy Brief 02*, European Economic, Employment and Social Policy, available at: https://www.etui.org/sites/default/files/2023-03/Minimum%20wage%20developments%20in%202022-fighting%20the%20cost-of-living%20crisis_2023.pdf

¹¹ Calculation based on national currencies. The development of real minimum wages refers to the development of nominal minimum wages deflated by the HICP annual average changes. Since real minimum wages represent the purchasing power of minimum wages; i.e. the ratio of nominal minimum wages to prices, real minimum wages have been calculated according to the following formula: Nominal minimum wage index X 100 divided by consumer price index (for more details see WSI Tarifarchiv 2023). Source: WSI Minimum Wage Database (WSI 2023), in Müller T. (2023)

than 3% in Slovakia and Lithuania, by more than 1.5% in Luxembourg and Greece, and by less than 1% in Malta, Spain, Ireland, Portugal.

In the Netherlands, Hungary and France, the statutory real hourly minimum wage increased by less than 1% (+0.4%, +0.7% and +0.8% respectively). By contrast, the increase was much more substantial in Germany (+12.4%), following the government's decision in June 2020 to gradually raise the minimum hourly wage rate to €12 by October 2022. The case of Belgium well illustrates the efficacy of strict indexation mechanisms: the nominal hourly minimum wage automatically adjusts to the development of prices as soon as the consumer price index rises by more than 2% since the last increase. As a consequence, there have been six minimum wage increases in 2022, while the real hourly minimum wage increased by +4.8%.

The Directive on Pay Transparency (EU 2023/970) of 10 May 2023 (Box 2.1) aims at enforcing the principle of equal pay between men and women. It does so by helping address structural gender pay inequalities which are multifaceted. These inequalities relate to labour market (occupational and sector) segregation, and to gender stereotypes or discrimination. Women are especially overrepresented in sectors or occupations, such as care, social work or cleaning, where their work is undervalued. Since women and men are generally not employed in the same sectors or occupations, comparing their work is not always possible. The lack of information on the criteria that determine pay levels makes it harder to identify the source of the undervaluation of women's work. Pay transparency is thus crucial to tackle the gender pay gap.¹²

Box 2.1. The Directive on Pay Transparency

The Pay Transparency Directive of 10 May 2023 aims to reinforce the application of the principle of equal pay between men and women. It states that *'Member states shall take the necessary measures to ensure that employers have pay structures ensuring equal pay for equal work or work of equal value'* (Art 4.1). It provides workers with a right to information on pay, and stipulates that employers should inform them about the criteria that are used to determine pay levels and pay progression. In addition, the directive demands that employers report periodically on pay gaps between women and men and cooperate with worker's representatives to conduct a joint pay-assessment, aimed at identifying and filling existing gaps *'which are not justified on the basis of objective, gender-neutral criteria'* (Art 10.2). According to the Directive, member states have the responsibility to support employers with less than 250 workers, to promote the role of social partners and to defend the rights of *'all workers who consider themselves wronged by a failure to apply the principle of equal pay'* (Art 14). Member states have to implement the Directive by June 2026.

The Pay Transparency Directive promotes a gender-neutral job assessment and makes it possible to establish a *'hypothetical comparator'* in situations where women workers

¹² Arabadjieva, K. (2021). Time to Close the Gender Pay Gap: The Need for an EU Directive on Pay Transparency. *ETUI Research Paper-Policy Brief, 2*. Available at: <https://www.etui.org/sites/default/files/2021-01/Time%20to%20close%20the%20gender%20pay%20gap%20The%20need%20for%20an%20EU%20Directive%20on%20pay%20transparency.pdf>

cannot compare with male counterparts – which are particularly the case in female-dominated occupations. Relying on the good practice of unions using cross-sectoral comparisons – for instance, a study of the CFTD in France that helped reveal the undervaluation of jobs in health and social care occupations- Jane Pillinger (2023) claims that the Directive *‘should enable unions to be proactive in making the case for gender-based pay inequalities to be addressed more effectively in gender-segregated sectors and professions, especially in female-dominated sectors such as care.’*¹³

In line with the European Pillar of Social Rights providing for a right to an adequate minimum income in 2017 (Principle 14), on January 30 2023 the Council adopted a Recommendation *‘on adequate minimum income ensuring active inclusion’*.¹⁴ It aims to promote ‘a life in dignity at all stages of life’ and to combat poverty and social exclusion. To this end, Minimum Incomes Schemes (MIS) should not only provide adequate income support and effective access to enabling services, but also favour the labour market integration of those who are able to work.

The recommendation encourages member states to *‘set the level of income support through a transparent and robust methodology defined in the legislation and involving social partners’*. It also encourages them to implement an adequate level of the minimum income, which should be equivalent to the national at-risk-of-poverty threshold, or to the value of essential goods and services, by the end of the year 2030. The recommendation also suggests that member states should promote a wide coverage (concerning ‘all persons lacking sufficient resources’) and a full take-up of the minimum income. Interestingly, it advocates that member states *‘ensure a possibility to request the income support to be provided to individual members of the households’* in order to promote gender equality and the economic independence of women, young adults and disabled people.

The Regulation of the European Adequate Minimum Income however pertains to soft law – it is a Recommendation and not a Directive, as the European Parliament had called for.¹⁵ Moreover, as underlined by the European Anti-Poverty Network (EAPN), it does not provide for an automatic indexation of income guarantees to the cost-of-living and inflation, nor does it refer to an ‘explicit rights-based approach’ and to *‘a common EU-*

¹³ Pillinger, J. (2023). The Pay Transparency Directive: The role of hypothetical comparators in determining equal pay for work of equal value. *ETUI Research Paper-Policy Brief*.

¹⁴ European Commission (2022). *Council Recommendation on adequate minimum income insuring active inclusion*. Available at: <https://ec.europa.eu/social/main.jsp?langId=en&catId=89&furtherNews=yes&newsId=10504>

¹⁵ Konle-Seidl, R. A. (2021, March). Strengthening minimum income protection in the EU. *Briefing for the EMPL Committee of the European Parliament*. Available at: [https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/662900/IPOL_BRI\(2021\)662900_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/662900/IPOL_BRI(2021)662900_EN.pdf)

wide framework and methodology on reference budgets'.¹⁶ The right to an adequate minimum income thus remains a weak one, especially in times of austerity.

Following the publication of the Commission's European Care Strategy in September 2022, two Council Recommendations were adopted in December 2022, one raising the Barcelona targets on early childhood and care, and the other inviting member States to draft and implement Action Plans so as to improve the access of the elderly and disabled people to affordable and high-quality long-term care.¹⁷ The EU Care Strategy, inspired by feminist proposals, endorses the expansion of care services to cover unmet needs and promote gender equality; it also calls for the improvement of pay and working conditions in the female-dominated care sector, where migrants are also over-represented. However, the recommendation on long-term care does not include targets that would put pressure on member States to expand services. Moreover, the EU care strategy still pertains to soft law; public investments needed to meet the new care targets are incompatible with restrictive fiscal policies.¹⁸

2.3. Alternative proposals for employment, wage and social policies

The EuroMemo 2024 proposes the following:

- *Pay rises, progressive labour market regulations and social dialogue*: To address the crisis of distribution, social reproduction, and care, it is crucial to ensure the security of low-wage workers and poorer households.

After decades of wage compression in the name of economic competitiveness, resulting in a declining wage share, rising inequalities, persistent unemployment, job precariousness and poverty, raising wage-levels is essential for sustainable (wage-led) economic growth in the EU.¹⁹

¹⁶ Góis H. S., Rabahi K. (2023). Minimum Income Council Recommendation: Not Enough to fight poverty?, *EAPN Position Paper*, 02/2023. Available at: https://www.eapn.eu/wp-content/uploads/2023/02/eapn-EAPN-2022_Minimum-Income-Council-Recommendation-5646.pdf

¹⁷ European Council (2022, December 8). *EU ministers adopt recommendations on early childhood and long-term care*, [Press release]. Available at: <https://www.consilium.europa.eu/en/press/press-releases/2022/12/08/eu-ministers-adopt-recommendations-on-early-childhood-and-long-term-care/>.

¹⁸ Karamessini, M. (2023). From work-life balance policy to the European Care Strategy: mainstreaming care and gender in the EU policy agenda, *Document de travail n° 213*, Centre d'Études de l'Emploi et du Travail.

¹⁹ Onaran, Ö., Obst, T. (2016). Wage-led growth in the EU15 member-states: the effects of income distribution on growth, investment, trade balance and inflation, *Cambridge Journal of Economics*, 40; Onaran Ö., Stockhammer E. (2016), Policies for wage-led growth in Europe, Foundation for European Progressives Studies, *FEPS Policy report*.

The decline in real wages should be tackled by a comprehensive set of measures for a 'fair deal for workers'.²⁰ Member states should not allow the purchasing power of workers erode further. Immediately needed measures are increases in minimum wages, the general raising of real wages, stricter wage-indexation mechanisms, taxation and redistribution of excess profits and wealth. Specific attention is to be dedicated to female-dominated sectors, especially to the care sector where professional competencies should be better recognized and valued.

Regarding the post-Covid rise of labour shortages, EU employment policies tend to focus on training, mobility or migration to meet the needs for skills. However, labour shortages are most marked in precarious or low-paid jobs with poor working conditions. Therefore, employment re-regulation, job quality and better working conditions should be on top of the policy agenda. The failure of the December 2023 EU Council to approve the Platform Work Directive, intended to reinforce the protection of self-employed platform workers, was a missed opportunity.²¹

There is a need to reverse the declining influence of trade unions and to better support workers' rights to fair pay, adequate minimum wages, social security, decent jobs and sustainable working conditions. Reinforcing collective bargaining is essential to enhance pay rises, to reduce pay inequalities and to fill the gender pay gap. Negotiations are also essential to improve job quality and employment regulations.²²

The maintained reference to fiscal austerity and to the neoliberal reforms of European labour markets is inadequate and liable to impede the achievement of EU social commitments. The EU has to develop another kind of fiscal discipline favouring workers and the poorest (instead of profit and the richest) in order to adapt to pressing social and environmental needs.

- *Adequate income and employment guarantees*: Minimum income support activation policies, which aim to provide incentives to work and to accept a (low-paid) job have weakened the adequacy of income guarantees - whose generosity was suspected of discouraging work. Income guarantees thus remain below the poverty line. As underlined by the European Anti-Poverty Network, a rights-based approach to adequate minimum income is necessary to avoid '*negative and punitive*

²⁰ European Trade Union Confederation (2023). *Delivering a fair deal for workers. Manifesto for the 2024 European Parliament Elections*, European Trade Union Confederation, [Pamphlet].

²¹ On 22 December 2023, 12 Member states did not agree on the text based on a triilogue negotiation. See <https://www.euractiv.com/section/economy-jobs/news/member-states-deal-heavy-blow-to-platform-work-deal/>

²² Zwysen, W. (2023). Labour shortages—turning away from bad jobs. *ETUI Research Paper-Policy Brief 02*.

conditionalities' restraining access to MIS.²³ Defining the adequacy of income guarantees necessitates consideration of national 'at-risk-of-poverty' thresholds, of household budgets and of data concerning the expenditure patterns of low-income households. Income guarantees must also be strictly indexed to the rise in the cost of living.

Instead of activation measures focused on employees' 'duties', a rights-based approach would enhance the autonomy of income support recipients and strengthen their right to employment. Investing in a job guarantee would facilitate the combination of a rights-based approach with investment in public services and infrastructure as a vehicle for fostering a socio-ecological transformation.²⁴

- *Fostering a care economy*: Access to essential public services and infrastructures should be part of a rights-based approach to ensure that the needs of the population are effectively covered.

After decades of fiscal austerity in the aftermath of the pandemic, public care services have been severely weakened. Hospitals lack beds, doctors, nurses, carers; schools lack teachers; employment and social services lack resources, etc. The scarcity of care services reinforces the barriers of access to essential care services in the EU: financial barriers due to out-of-pocket expenditure, geographical barriers related to the distance or to the lack of transportation services, time barriers due to waiting lists in saturated health services. Similarly, the access to affordable public infrastructures for the collective provision of essential goods and services such as energy remains too limited.

Fostering a 'care economy' as promoted by feminist economists would allow societies to solve the current care crisis and help to reduce inequalities (Box 2.2).

Box 2.2 – The care economy²⁵

Policies promoting a care economy are supportive of care in a comprehensive way. They guarantee a universal right of access to quality care, a universal right to be cared for, and a right to care. They define care in a broad sense, as referring not only to childcare, elderly care or care for disabled people, but to everyone who needs care.

The care economy recognizes the essential character of care: it values the production of care, whether paid or unpaid, and appropriately rewards paid care work, secures care jobs in terms of status and career opportunities. The care economy also supports an adequate representation of care workers. As far as gender equality is concerned, the care economy promotes an equal sharing of paid and unpaid care work; it ensures that care is a real choice rather than subject to compulsion.

²³ European Anti-Poverty Network (2023). Toolkit for the EAPN members on advocacy towards adequate minimum income schemes, *European Anti-Poverty Network*.

²⁴ Tcherneva, P. R. (2020). *The case for a job guarantee*. John Wiley & Sons.

²⁵ Illkaracan, I. (2018). Promoting women's economic empowerment: Recognizing and investing in the care economy. *Issue Paper, UN Women, New York*.

Investing in a 'care economy' would thus be part of the solution to the current polycrisis of neoliberal capitalism.²⁶

²⁶ Karamessini, M. (2023). From work-life balance policy to the European care strategy: Mainstreaming care and gender in the EU policy agenda, *Document de travail du Centre d'études de l'emploi*, n° 213.