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Social Exclusion and Unemployment in the European Union

Current and Future Trends



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Sammendrag: Rapporten analyserer utviklingstrekk for indikatorer knyttet til sosial utestenghet i EUs medlemsland. Med utgangspunkt hovedsakelig i tall for arbeidsledighet og fattigdomsmål analyseres sammenhenger mellom ulike indikatorer for økonomisk utvikling i landene. Videre pekes det på geografiske særtrekk og langtidstrender. Med bakgrunn i observerte trender etableres tre alternative scenarier for fremtidig utvikling for sosial utestenghet fram mot 2050.

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Abstract: This report analyses trends for the development of social exclusion in member states of the European Union. Relationships between indicators for economic development and social exclusion are examined with reference to observed unemployment and various measures of poverty. Geographical characteristics and long-term trends are pointed out. The observed trends are used to establish three alternative scenarios for the future development of social exclusion in Europe towards 2050.

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1 Introduction

The interrelated problems of unemployment and social exclusion continue to pose serious challenges to the European Union (EU) and its Member States. The statistics present a harsh reality: the overall trend in unemployment in the EU15¹ has risen almost fourfold since the early 1970s, and despite rising economic growth over this period, the number suffering from poverty remains persistently high, with estimates ranging from one in ten to as much as a third of the EU15 population depending on which definition is used (Mayes et al. 2001:1; Muffels and Fourage 2000; European Commission 2003a:30).

The process of European integration introduces a new dimension to these issues. As the combined forces of enlargement and European Monetary Union serve to reduce the barriers between countries, the resulting structural adjustment generates obstacles and opportunities for different social and economic groups across the region (Mayes 2001:1). Partly in response to these developments, the European Council launched the Lisbon Strategy in March 2000. This ambitious plan not only committed the EU to becoming the world's most competitive and dynamic economy by 2010, but in addition, represented a pledge to bring about economic, social and environmental renewal in Europe. This regeneration is to be founded on an expanding economy, job creation and policies to promote sustainable development and social inclusion.

In line with these objectives, the European Union's Fifth Framework Programme has commissioned a three-year project, "Modelling opportunities and limits for restructuring Europe towards SUSTainability" (MOSUS). Its aims are to integrate three themes of European Union policy within a macroeconomic, multi-sectoral framework representing the interrelation of economic, social and environmental domains. The themes are sustainable development, competitiveness and social exclusion in the knowledge-based society, and globalization and international trade

This report aims at examining possible relationships between economic development and indicators for social exclusion in EU member states with reference to observations over the past decades. A full insight to social exclusion requires data on a wide range of social factors, and may in the end depend on each individual's subjective perception of his or her own social standing. On a country level, we will have to confine ourselves to observable *indicators* for social exclusion. In this report most of the focus is on unemployment and various measures of poverty. The aim is threefold: Firstly to provide an overview of the indicators for the EU member states, secondly to detect possible time-trends and national or regional characteristics, and thirdly to examine possible relationships between unemployment, poverty and economic development.

The observed characteristics are used to establish scenarios for social exclusion towards 2050. These will be used in later parts of the MOSUS project to develop future policies aiming at achievements of *weak* sustainability targets, where current policy initiatives are implemented, and *strong* sustainability targets, where new and more rigorous measures are introduced. weak and strong sustainability targets.

¹ The fifteen original Member States of the EU were: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK. We refer to this group as the 'EU15,' and focus on this cohort because the availability of data for the new Member States is limited (see Section 3.1.4).

2 Definitions, indicators and linkages

Making the assumption that unemployment, social exclusion and poverty are interlinked is perhaps intuitive – unemployment can lead to poverty, poverty can lead to social exclusion, and social exclusion can make it difficult for people to find work. At the same time, some academics have warned against exaggerating the strength of this three-way relationship, advising that they are distinct concepts that should not be confused or equated (Atkinson 1998). People may be unemployed without being poor, they may be poor without being socially excluded, and can be socially excluded without being unemployed. We therefore use this section to take a brief look at the theoretical background in terms of definitions, indicators and the potential linkages between these concepts before examining the empirical reality in Sections 3 and 4.

2.1 Social exclusion and poverty

2.1.1 Introducing concepts

The United Nations Development Programme (UNDP) defines overall or ‘relative’ poverty as a “lack of income necessary to satisfy essential non-food needs – such as for clothing, energy and shelter – as well as food needs” (UNDP 2000). Social exclusion, however, is a broader concept than just monetary poverty. It establishes that poverty is not only about low income, but also about a person’s capabilities (Sen 1998) and their relationship to society. Although the definition of social exclusion remains widely contested (even more so than that of poverty), it has often been used in the literature to describe a situation whereby an individual or group is unable to participate in the basic political, economic and social functions of society (Silver 1994, de Haan 1998, Byrne 1999).

In the EU context, social exclusion has more commonly been interpreted as ‘exclusion from the labour market’ or ‘acute poverty and material deprivation,’ and to a lesser extent, the ‘inability to exercise basic social rights’ (Mayes et al. 2001; Atkinson et al. 2002; Tsakloglou and Papadopoulos 2002). Atkinson (1998) divides the concept into three dimensions; first of all, he states that social exclusion is a relative concept – people are excluded from a particular society at a given place and time; second, it is an issue of agency – people are excluded or exclude themselves; and finally, it is a dynamic term, relating not only to present exclusion, but also to future hopes and expectations. Mayes et al. (2001:34-7) take a similar perspective, identifying social exclusion as having four key characteristics: it (1) is multidimensional, (2) is a dynamic process, (3) is relative to a time and place, and (4) implies entrapment.

2.1.2 Indicators

Given the difficulty in finding a generally acceptable definition of social exclusion, it is even harder to imagine how such a phenomenon might be measured. However, for the purposes of this report it was necessary to use quantitative analysis, firstly, so that comparisons could be made across regions and over time, and secondly, so that these findings could be combined with outputs from the MOSUS scenario predictions to forecast future trends.

The EU Open Method of Coordination established by the Lisbon Strategy offered a good point of departure. In 2001, the European Commission’s Social Protection Committee recommended a set of ‘common indicators’ for monitoring progress towards the ‘common objectives in the fight against social exclusion and poverty’ (European Council 2000). The proposal attempted to capture the multidimensional nature of social exclusion by putting forward a total of eighteen indicators – ten ‘Primary’ and eight ‘Secondary’ – spanning the themes of income, employment, health and education (see Box 1). The concept of relativity pervades the list, for example, poverty is defined in relation to national average earnings (below 60 per cent) and social cohesion is measured in terms of the dispersion of regional

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employment rates. Indeed, income distribution and gaps form the basis of several primary and secondary indicators. Furthermore, a dynamic perspective is touched upon insofar as the indicators take into consideration past experiences (e.g. persistence of low income and long-term unemployment) and future prospects (educational attainment, life expectancy at birth and health status).

Primary Indicators	Secondary indicators
1. At-risk-of-poverty rate after social transfers (below 60 per cent of median income)	11. Dispersion around the 60 per cent median low income threshold
2. Distribution of income (income quintile ratio)	12. Low income rate anchored at a point in time
3. Persistence of low income	13. Low income rate before transfers
4. Relative median at-risk-of-poverty gap	14. Distribution of income (Gini coefficient)
5. Regional cohesion (coefficient of variation of employment rates)	15. Persistence of low income (based on 50 per cent of median income)
6. Long-term unemployment rate	16. Long-term unemployment share
7. People living in jobless households	17. Very long-term unemployment rate
8. Early school leavers not in education or training	18. Persons with low educational attainment
9. Life expectancy at birth	
10. Self-perceived health status	

Box 1: List of Common Indicators for poverty and social exclusion

Source: European Commission, Social Protection Committee 2001

Potential problems

While we consider this list to be a good starting point, it is important to remember that it is far from a definitive inventory. Critics would argue that there are significant omissions (e.g. living conditions, social relations, ethnicity, discrimination, freedom), and that more attention could be given to subjective evaluations.

One should also be mindful that the ability of such statistics to capture a concept as multi-faceted and complex as social exclusion is limited, and that statistics compiled from existing sampling frames can under-represent the most excluded members of society, such as the institutionalised or homeless (Jowell and Lessof 2001). Finally, one should exercise caution when making comparisons between countries based on only a few measures, especially when the variables chosen are essentially context-specific (Jowell and Lessof 2001).

Despite these shortcomings, we believe that the EU Common Indicators provide a helpful point of departure for our analysis. As the limited scope of this paper restricts our ability to consider the full list, we focus on a handful of key indicators relating specifically to poverty and unemployment, and supplement these with wider social exclusion indicators found in the literature. In Sections 3 and 4 we use these factors as a basis for tracking recent trends, and for cross-analysing these indicators with demographic characteristics in order to identify the most vulnerable groups. The rationale behind our decision to concentrate on poverty and unemployment is that these variables are most easily combined with the MOSUS baseline scenario outputs, which we use in Section 4 to help draw conclusions about future trends.

2.2 Linkages between unemployment, social exclusion and poverty

While we are unable to examine the relationships between unemployment, social exclusion and poverty in subsequent chapters, we use the remainder of this section to take a brief glance at some perspectives on the potential links between unemployment and social exclusion (Section 2.2.1), and unemployment and poverty (Section 2.2.2). This serves as a useful backdrop to later discussions.

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2.2.1 Unemployment and social exclusion

According to the European Council, “employment is the best safeguard against social exclusion” (European Council 2000, 2002:5). This assertion is confirmed by Tsaklogou and Papadopoulos, who use European Community Household Panel data to conclude that “in almost all countries [though to varying degrees] it was observed that the looser the links of the individual or the household with the labour market...the higher the risk of social exclusion in comparison with the rest of the population” (2001:32).

Atkinson (1998:14-17) qualifies this relationship, arguing that the extent to which a fall in unemployment generates social exclusion depends on the reason for the unemployment in the first place. He suggests that job creation will only reduce social exclusion if employment restores a sense of control, provides acceptable relative status and offers prospects for the future. This viewpoint is reinforced by research that has shown that key determinants of job quality are variety of tasks (i.e. a diversity of sub-tasks rather than highly repetitive labour), ability to learn, and opportunity to take part in decision-making (Gallie and Paugam 2002:80). In the absence of these key components, employees are more likely to have a negative experience of their work and non-work environments (Gallie and Paugam 2002:80).

2.2.2 Unemployment and poverty

The empirical evidence does not seem to show a consistent relationship between poverty and unemployment across Europe. Eurobarometer results indicate that between 1993 and 2001 a decline in ‘the proportion of people experiencing financial difficulty’ coincided with falling unemployment rates (Gallie and Paugam 2002:80). Atkinson, however, takes a longer perspective, and points out that while unemployment has risen sharply since the 1960s, this has not been accompanied by a corresponding increase in poverty (1998:11). He uses Figure 1 to illustrate this point, comparing the changes in poverty rates with changes in unemployment from the late 1970s to the early 1990s. He finds that Germany showed the closest relationship between the two variables in Europe. There was little change in poverty rates in France, Denmark, Italy and Finland, but in contrast, the UK demonstrated much larger increases in poverty than unemployment over this period. These results are largely confirmed by Smeeding (1997).

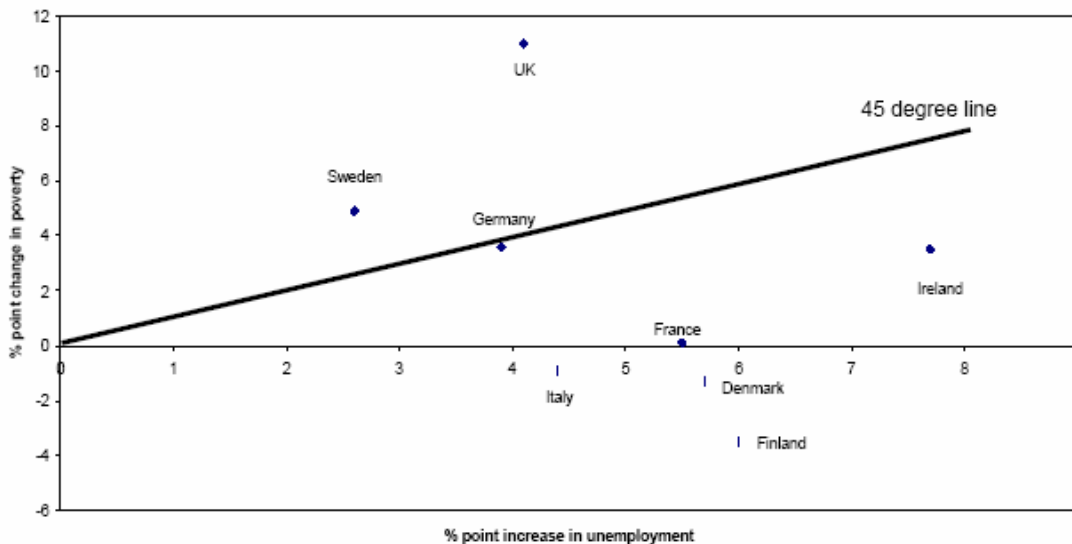


Figure 1: Changes in poverty and increases in unemployment in Europe in the period between 1974-9 and 1990-3

Source: Atkinson 1998

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Given the uncertain links between unemployment and social exclusion and poverty, we treat the first two factors as independent variables for the remainder of our report. We limit our definition of poverty to financial disadvantage, which is our primary focus, and make references to the wider concept of social exclusion where data and space is permitting. We begin with an outline of the current trends in EU poverty and social exclusion in Section 3 and unemployment in Section 4.

3 Current trends: Poverty and social exclusion in the EU

Introduction

As already mentioned, the EU’s Lisbon Strategy presents poverty as a relative concept. Those ‘at risk of poverty’ are defined as “the percentage of individuals living in households where the total equivalised household income is below 60 per cent of the national equivalised median income” after social transfers (European Commission 2001:6). By this definition, 15 per cent of EU15 citizens and 14 per cent of the new Member States’ population were at risk of poverty in 1999 (Eurostat 2004a). This represents approximately 56 million people in the EU15 region alone (European Commission 2003a:30).

Much research has been directed towards identifying the characteristics that determine vulnerability to poverty and social exclusion. For example, Tentschert et al. (2000) find that citizenship, employment status and age all play a significant role in determining poverty risk (see Figure 3.1), which is consistent with the findings of other studies (Tsakloglou and Papadopoulos 2002; Mejer 2000). We proceed by taking a look at the overall picture in the EU before investigating whether regional variations exist and the extent to which age, education, citizenship and health status affect susceptibility to poverty and social exclusion. We then take a brief glance at suicide rates and the influence of social policy, before going on to consider the subject of unemployment in Section 4.

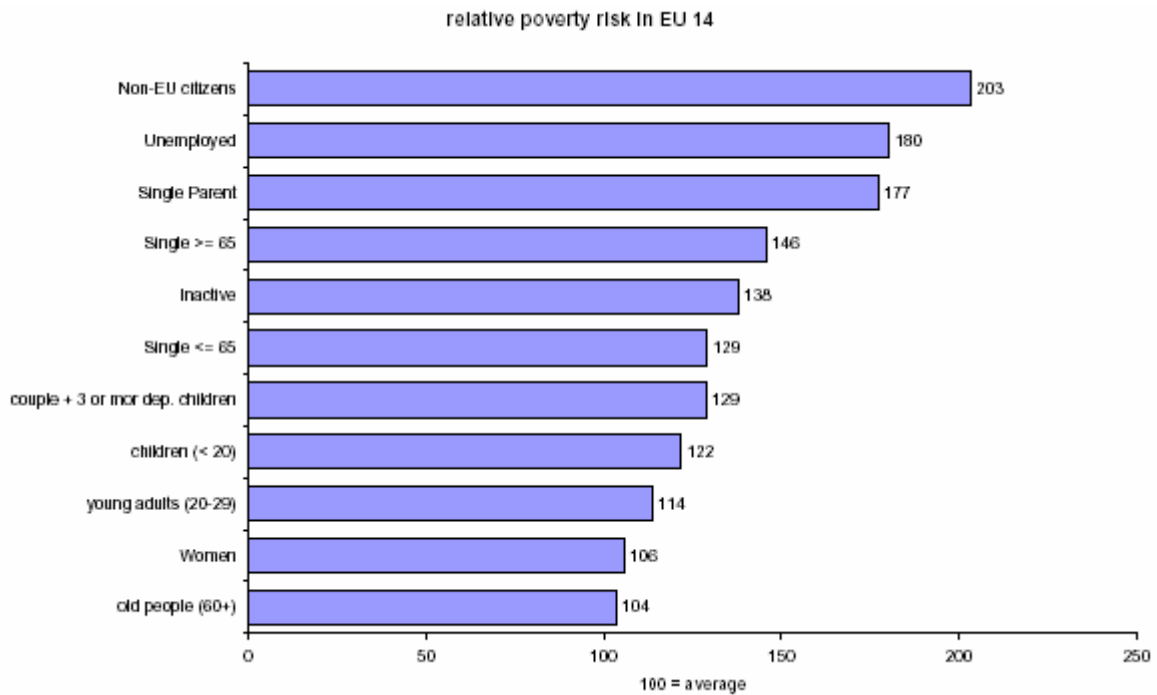


Figure 3.1 People with above average risk of poverty in the EU14² in 2000

Source: Tentschert et. al 2000:19

² Excluding Sweden

3.1 The EU context: A North-South divide

National poverty rates diverge from the EU15 average to varying degrees. The number at risk of poverty in the EU15 as a whole in 1999 was approximately one in seven (15 per cent), however this figure rises to one in five in Southern Europe and falls to one in ten in the Nordic countries. Interestingly, if the EU15 average is taken to be the dividing line between the North and South, the UK and Ireland are the only countries that lie on the ‘wrong’ side of the ‘North-South divide,’ displaying as high poverty rates as Spain and Italy respectively (see Figure 3.2).

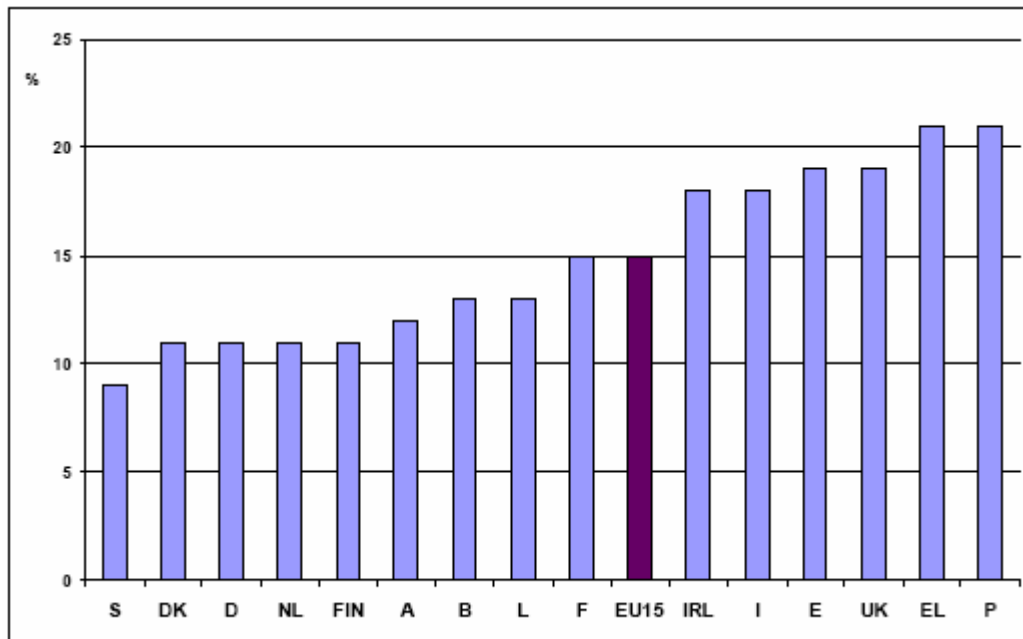


Figure 3.2: At-risk-of-poverty rate for 1999

Source: European Community Household Panel, Dennis and Guio 2003a

This North-South divide appears to prevail irrespective of whether poverty is seen as temporary or persistent, objective or subjective, or whether income distribution rather than poverty rates are examined. We address each of these in turn.

3.1.1 Persistent poverty

The extent to which people face poverty for extended periods in the EU is measured by the ‘persistent risk of poverty’ indicator. This is defined as “the share of persons with an income below the risk-of-poverty threshold in the current year and in at least two of the preceding three years” (Dennis and Guio 2003a). In 1999, 9 per cent of the EU15 population fell into this category, with national positions falling very much in line with ‘at risk of poverty’ rankings. In Northern Europe it is most common for poverty to be experienced for a duration of two to three years, whereas in Southern countries the majority are affected by poverty for a staggering fourteen or fifteen years (Gallie and Paugam 2002).

3.1.2 Subjective poverty

There are striking differences between the percentage who consider themselves to be poor and the number defined as such by the ‘at-risk-of-poverty’ indicator. The subjective measure yields a poverty rate up to three times higher than the objective one, yet it is worthy of note that country rankings remain largely the same (Gallie and Paugam 2002:11), with Southern populations rating themselves as poor in higher proportions than their Northern counterparts.

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3.1.3 Income distribution

Rather than concentrating solely on the poorest groups in society, it can be useful to examine the status of this cohort relative to the richest. This can be done using the S80/S20 ratio, which compares the total (equivalised) income of the richest 20 per cent with the earnings of the poorest 20 per cent. The EU15 average was 4.6, which means that the richest fifth of the population received almost five times more income than the poorest fifth.

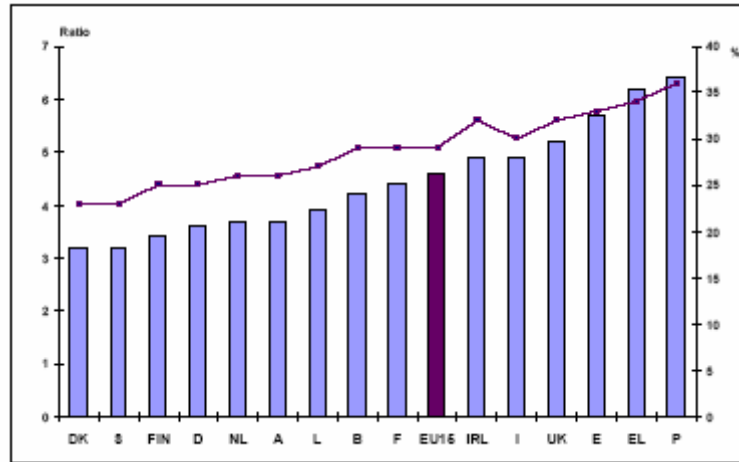


Figure 3.3: Income share ratio (left) and Gini coefficient (right), 1999
 Source: European Community Household Panel, Dennis and Guio 2003a

The Gini coefficient allows us to take one step further still by giving an indication of the full distribution of income. With zero representing total equality, the coefficient for the EU15 was 29 per cent, ranging from 23 per cent in Denmark and Sweden to 36 per cent in Portugal. Though the rankings of countries according to the S80/S20 ratio and the Gini coefficient give very similar results, it is clear that the North-South divide continues to dominate, with the UK and Ireland continuing to fit more closely with the Southern than the Northern profile (see Figure 3.3).

3.1.4 Ten new members

We have so far confined our attention to poverty and social exclusion in the EU15, and not yet explored the trends in new Member States.³ Our justification for giving less comprehensive treatment to new entrants is the lack of data reliability and comparability. Despite attempts to harmonise methodologies used to calculate Common Indicators, Eurostat warns that statistics for Candidate and new Member States are not fully comparable – either with EU indicators or across entrant and applicant countries (Dennis and Guio 2003c:1). This is due to inconsistencies in: underlying data sources, income reference periods and the timing of surveys. We therefore exercise caution in interpreting these figures and draw only tentative conclusions.

Table 3.4 summarises the performances of new and old members on the basis of six key social exclusion indicators. Figure 3.5 on the other hand gives an idea of the differences in the at-risk-of-poverty rate in selected new entrants and Candidate countries. At first glance, the results appear counter-intuitive in so far as they suggest that fewer are at risk of poverty among new members and applicants than in the EU15. Indeed, in most of these countries the at-risk-of-poverty rate is lower than or roughly equal to the EU15 average. This is in spite of the use of a relative measure for poverty that takes into account the fact that the at-risk-of-poverty threshold is over 50 per cent lower in new Members States than in the EU15.

³ The ten new entrants as of May 1st 2004 are: the Czech Republic, the Slovak Republic, Slovenia, Hungary, Poland, Latvia, Lithuania, Estonia, Greek Cyprus and Malta.

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Analysts attempt to explain this surprising finding by pointing to Eurostat figures that compare median income levels across the EU25. Results show that only Cyprus, Malta and Slovenia have higher median incomes than the lowest performing EU15 member (Portugal), and that income levels are less than half the EU average in many new Member States (Stanton 2004:47).

Table 3.4: Performance on poverty and social exclusion in 1999: EU15 versus New Members

EU Indicator	EU15	New Members
At-risk-of-poverty threshold (PPS)	7,263	3,252
At-risk-of-poverty rate	15%	14%
At persistent risk of poverty rate	9%	Not available
Relative at-risk-of-poverty gap	22%	19% (CZ 13%, EE 25%)
Inequality: Gini coefficient	0.29	0.28 (SI 0.22, EE 0.36)
Inequality: S80/S20 quintile share ratio	4.6	4.2 (SI 3.2, EE 6.3)

Source: Eurostat 2004a

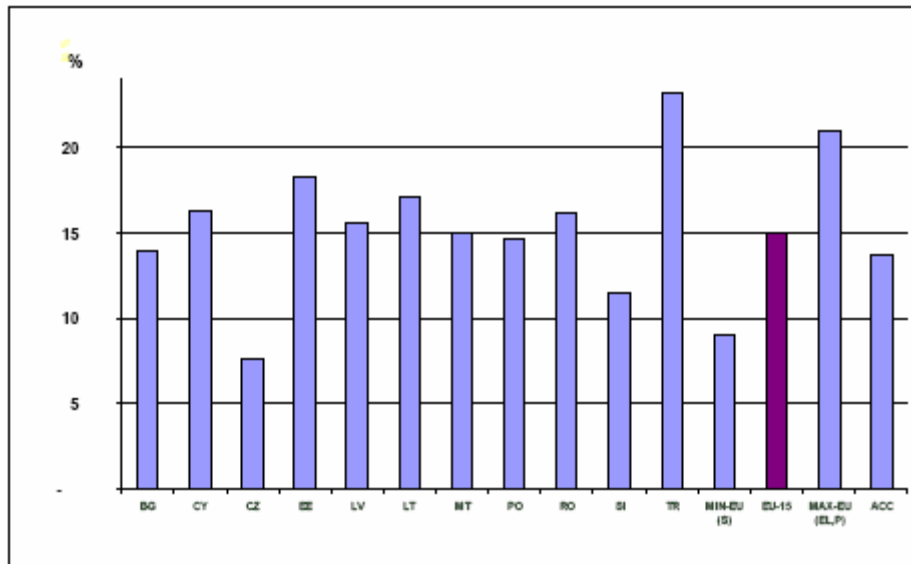


Figure 3.5: At-risk-of-poverty rate for 1999⁴

Source: Dennis and Guio 2003c

Turning to income distribution, it seems that financial inequalities are less marked in the new EU Members than in the original fifteen. Eurostat give the following explanation for this:

[The relatively narrow distribution of income] can almost certainly be explained by historical circumstances (income distribution policies in socialist economies and the different evolutions following liberalisation), by difficulties in capturing information about income from the hidden economy; and by the fact that extreme incomes (very poor or very rich) are often misrepresented in the surveys (Dennis and Guio 2003c:2).

Again, this highlights the danger of placing too much weight on these data, and indicates the importance of using a variety of indicators to provide an overview of the performance of countries on poverty and social exclusion, rather than relying on any one particular indicator.

⁴ Key: Bulgaria (BG), Cyprus (CY), the Czech Republic (CZ), Estonia (EE), Latvia (LV), Lithuania (LT), Malta (MT), Poland (PO), Romania (RO), Slovenia (SI), Turkey (TR).

Figures for Turkey apply to 1994, the Czech Republic: 1996, Cyprus: 1997, Estonia and Malta: 2000

3.2 An urban-rural divide

There are also difficulties associated with making cross-country comparisons of urban and rural poverty in the EU. Methodological issues once again limit the scope for comparability, but nevertheless it is widely believed that social isolation is greater in cities and large towns (Gallie and Paugam 2002). Although the EU’s most affluent regions are urban, they are “characterised by significant internal disparities” (Delbos 2002:4). Moreover, an EU study found that almost one in four of the urban population earns half the national average income, and a higher proportion is dependant on social security than the national average (European Commission, 2000b). This is significant as a polarised community is potentially more susceptible to social exclusion than a homogeneous one.

Interestingly, it has been proposed that the extent to which a country suffers from urban and rural poverty depends to some degree on the nation’s stage of economic development. Research has found that urban poverty rises and rural poverty falls with economic growth, however, rural poverty is thought to start rising once the economy has expanded to a certain level (Brandolini and Cipollone 2002).

3.3 Age

While those of ‘productive age’ (25-64) enjoy relative financial security, children (under 16), youths (16-24), and the elderly (65+) are at particular risk of poverty. The at-risk-of-poverty-rate in 1995 was considerably higher for these groups than for the wider EU15 population (37, 28 and 16 per cent higher respectively) (Mejer 2000:4).

The relationship between age and ‘risk of poverty’ extends to long-term poverty. Mejer and Linden (2000:3) find, once again, that the under 24s and over 65s show an above average risk of experiencing persistent poverty (see Figure 3.6).

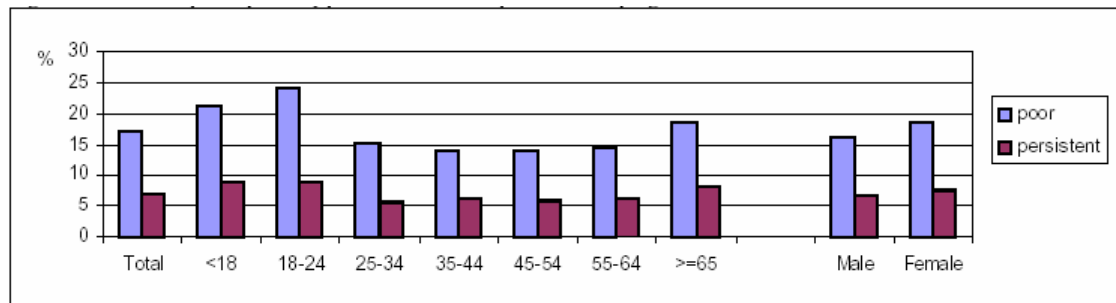


Figure 3.6: Persistent poverty rate in the EU by age and sex, 1996

Source: Mejer and Linden 2000

This overall trend is largely mirrored at the national level, although the degree to which these groups are likely to be disadvantaged varies noticeably from country to country. Figure 3.7 breaks down vulnerability to social exclusion by age.⁵ Greece and Ireland appear to be outliers – the former represents the country with the best social inclusion prospects for children and the worst for the elderly, the latter demonstrates the opposite. By this definition of social exclusion, the elderly were at above-average risk of social exclusion in only two countries – Greece and Portugal. In almost all countries, however, children face a higher than average risk of social exclusion than the rest of the population, which is largely driven by the high risk situation of children in lone-parent households (Tsaklogou and Papadopoulos 2001:32).

⁵ The authors define social exclusion as “chronic cumulative disadvantage” (Tsaklogou and Papadopoulos 2001:2-3)

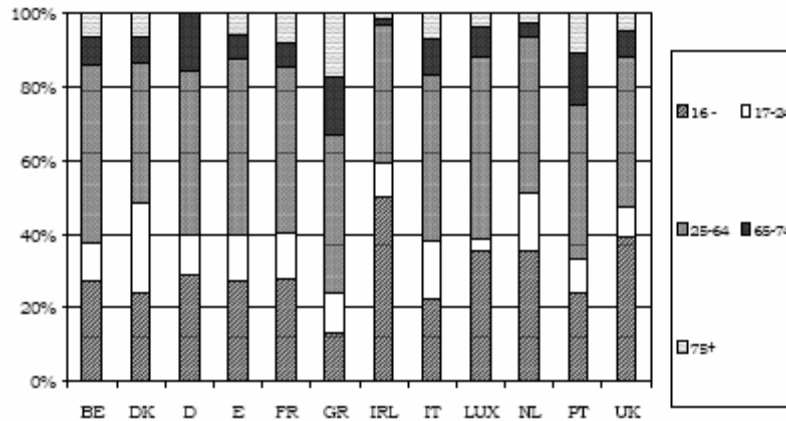


Figure 3.7: Risk of social exclusion by age⁶
Tsaklogou and Papadopoulos 2001

3.4 Education

Education appears to provide some protection against social exclusion. According to Mejer and Linden (2000:3-4), one in nine people from households with low-level education were at risk of persistent poverty in 1996, however, this number was halved to one in twenty for middle-level education households, and halved again to one in forty for households with tertiary education.

At the EU level, there are three noticeable patterns with regards to educational attainment. First of all, Northern Europeans are educated to a higher level than Southern Europeans. For example, people from Austria, the Nordic countries and Germany are twice as likely to progress beyond compulsory education as those from Portugal, Spain, Italy and Greece (Pilos 2001). Second, on average, citizens of the new Member States leave education earlier than those of the EU15, and are almost twice as likely to have a low educational attainment (Eurostat 2004a). Third, there is a higher concentration of well-educated people in and around capital cities than other areas (Pilos 2001). This may be due to the fact that these urban areas tend to house tertiary education institutions and research facilities, which encourages the well-qualified to migrate to the region, and attracts students to study there and stay on once their studies have been completed.

The effectiveness of education to offer a defence against severe poverty appears to be higher when national education levels are lower. For example, people with tertiary education are at lowest risk of long-term poverty in countries where having higher education is less widespread – such as in Portugal, Italy, Spain and Ireland – and highest where it is more common – such as in Denmark (Austria, Finland and Sweden were not included in the Mejer and Linden 2000 study).

3.5 Citizenship and immigration

Studies in the US and Canada have attributed much of the rise in poverty in North America to the growth of income poverty among immigrants (Camaroto 1999; Hou and Picot 2002). They cite the increased disparity between immigrant and ‘native’ poverty rates during the 1980s and 90s, which they believe can only partly be explained by shifts in the composition of recent migrants (Hou and Picot 2002:26).

⁶ 65+ for Germany

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A similar pattern appears to be emerging in Europe even though immigrants comprise a much smaller proportion of the region (4 per cent in 2000, compared to 9 per cent in the US and 18 per cent in Canada in 1996). Research indicates that non-EU nationals are at significantly higher risk of poverty than residents with EU citizenship (Tentschert et al. 2000:19). As Figure 3.1 illustrated, ‘foreigners without citizenship of an EU country’ were more than twice as likely be vulnerable to poverty than the average EU citizen in 2000. This is reinforced by Tsakloglou and Papadopoulos (2002:218,221), who report that in nine out of the ten EU Member States in their study, people with non-EU citizenship had a higher probability of social exclusion than EU citizens. This was most marked in Denmark and Luxembourg, and least marked in Spain, Portugal and the UK.

Social exclusion of minorities and immigrant groups is thought to manifest itself through “labor market discrimination, laws and policies restricting residence and business opportunities, limits on political participation, restrictions on access to public services such as education, and others” (Gradstein and Schiff 2004:1). The entry of ten new members to the EU will potentially reduce the risk of social exclusion for nationals from these states currently residing in the EU15, as their recent acquisition of European citizenship will now entitle them to the same rights as EU15 citizens enjoy.

3.6 Health and disability

Health status

There are two linkages between poor health and poverty. Bad health can lead to exclusion from the labour market, which can in turn cause poverty, and conversely, poverty can cause bad health due to poor living conditions or access to healthcare. Tsakloglou and Papadopoulos (2002:221) found that in almost all of the European countries in their study, people with ‘poor health’ faced an increased risk of social exclusion.⁷

Disability

According to Eurostat figures, around 12 per cent of the EU15 population is disabled, with figures ranging from 9 per cent in Greece to 15 per cent in Spain (Eurostat 2001). Disabled citizens are less likely to complete university education and the probability of them being employed is negatively related to the severity of their disability.

The European Disability Forum (EDF 2001) claims that the disabled are particularly vulnerable to poverty and social exclusion. Not only do they face additional financial, opportunity and personal costs related to disability, but they are also confronted with barriers to social and economic participation, such as attitudinal and environmental barriers, and barriers to education, employment, vocational training and life-long learning. The EDF identify disabled children, female carers, and the elderly with degenerative conditions as groups at very high risk of exclusion. They also emphasise the positive correlation between the severity of a disabled person’s condition and the degree to which they are at risk of poverty and social exclusion. Furthermore, they suggest that the general average income of a family is likely to be lower if a household member has a disability due to the dual effects of low income and inadequate social protection.

⁷ The study defines ‘poor health’ based on a self-assessment by respondents, combined with information on their ability to carry out daily tasks. Social exclusion is defined as “chronic cumulative disadvantage” (Tsakloglou and Papadopoulos 2002:212)

Suicide

As outlined in 2.2.1, Atkinson (1998) identifies 'agency' as one of the three central dimensions of social exclusion, i.e. he states that people are excluded from society or exclude themselves. Taking this perspective, the act of suicide can be seen as the ultimate act of social exclusion.

The World Health Organisation (WHO) claims that "suicide is currently one of the most important causes of death in Europe among young and middle-aged people, especially men" (WHO 2002:1). It is only outranked by deaths from transport and other accidents. In 1996, over 150,000 died from suicide in the 38 countries comprising the WHO's European Region, with ten times as many attempted suicides being carried out as completed acts. Figure 3.8 presents the suicide rates for 23 of the 25 EU members (plus others) in the mid-late 1990s. It demonstrates that suicide was most prevalent in the Baltic region and least common in Southern Europe, with Central and Northern Europe falling largely in between. Statistics range from 5 to 10 suicides per 100,000 in Malta, Greece, Portugal, Spain and Italy, but this number rises to around 40 deaths per 100,000 in Estonia and Latvia. Lithuania meanwhile suffered over 50 suicides per 100,000 people; the socio-economic upheaval following the country's independence in 1990 is thought to have had a considerable psychological impact on the population (Alyanak 2000). Of even greater concern is that while suicide rates are falling in Northern and Southern European countries, they continue to rise in the Baltic region – for both men and women, with male suicides in Lithuania reaching a staggering 75.6 in 100,000 among men in 2000, compared to 16.1 for women (WHO 2003)

Global trends demonstrate that men are significantly more vulnerable to suicide than women, and that the risk of suicide increases with age. European statistics follow this pattern in terms of gender, but trends are less clear cut with regard to age. Those most vulnerable in Northern and Southern Member States are generally men over the age of 75, with the exception of Finland, the UK, Ireland and Malta where young and middle-aged men are at highest risk. There is considerable variation among the new members, with middle-aged men at greatest risk in Lithuania, and over 75s most vulnerable in most of the remaining nations.

Although there is no doubt that suicide results from the culmination of many combined determinants, it is interesting to note the findings of an article that reports that high literacy rates significantly predict high suicide rates in Europe, even when GDP and age distribution are controlled for (Marusic et al. 2002).

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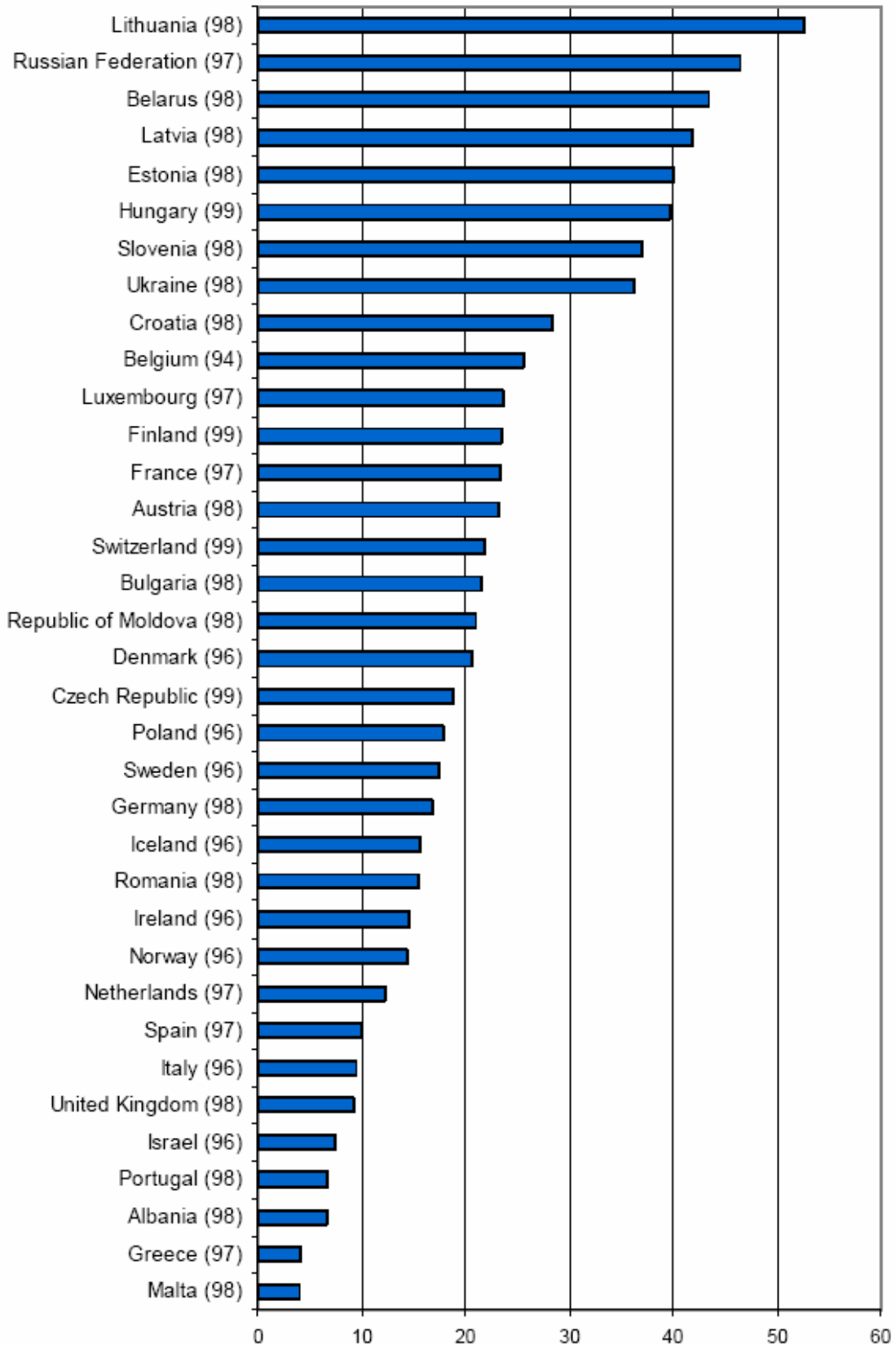


Figure 3.8: Total suicide rates per 100,000 among those aged 15 years and over in European Countries (latest available year)

Source: World Health Organisation 2002

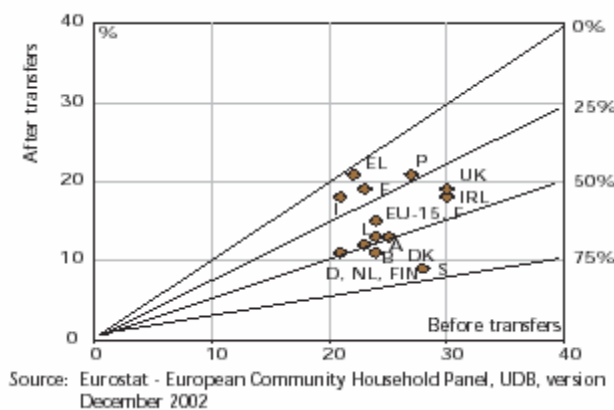
3.7 Social policy

It is widely acknowledged that social policy has a crucial role in combating poverty and social exclusion (European Commission and Council 2004; Mayes et. al 2001; Atkinson 1998).

However, the at-risk-of-poverty rate is affected by social transfers to varying degrees in different countries. Figure 3.9a below demonstrates that the extent to which social financial support reduces the proportion of the population at risk of poverty ranges from 5 per cent in Greece to almost 70 per cent in Sweden. It also shows that there is a clear clustering of countries where benefits have a low impact on poverty, namely, in southern European regions (Greece, Spain, Italy and Portugal), while in the Nordic countries social security has a stronger poverty-reducing effect (Sweden, Denmark and Finland).

Figure 3.9a: At-risk-of-poverty rate after and before social transfers in 1999

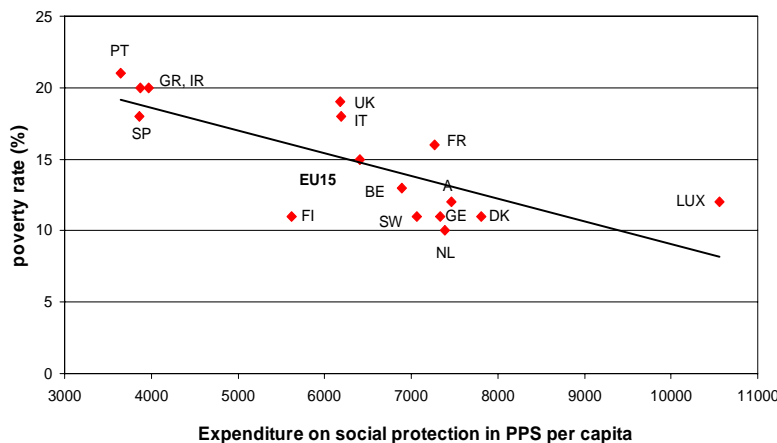
Source: European Commission 2003



These disparities no doubt to some degree reflect the different total national expenditures on social transfers. Figure 3.9b illustrates that there is an inverse relationship between social spending and poverty rates. At the same time, there are differences in poverty rates between countries that expenditure on transfers alone is unable to explain. For example, in the Netherlands, France, Austria and Germany a similar sum was spent per capita on social protection, and yet their poverty rates varied considerably – France’s was 50 per cent higher than the Netherlands’. Factors that may contribute to explaining these variations are: the way the tax and benefit systems are structured, the extent to which welfare provision is targeted,

Figure 3.9b: At-risk-of-poverty and social protection expenditure in 2001

Source: Eurostat; Abramovici 2003



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the efficiency of service delivery, the age structure of the population, the business cycle, and the general patterns of income distribution and economic prosperity (Economic Commission and Council 2004:50).

Turning to social exclusion, Tsaklogou and Papadopoulos (2002) identify a significant relationship between a country's welfare regime and the risk of social exclusion its population faces, even after controlling for the impact of personal characteristics. They find that vulnerability to social exclusion is highest in 'Liberal' welfare state regimes (UK and Ireland), followed by Southern European systems (Portugal, Greece, Spain and Italy). Social-democratic regimes, on the other hand, offer the best protecting against social exclusion (Denmark and Netherlands), with 'Continental-corporatist' models following behind (Belgium, France, Germany and Luxembourg).

4 Current trends: Unemployment in the EU

Introduction

Employment is an important factor for economic growth, social participation and personal development (European Commission and Council 2004:22). Although Atkinson (1998) warns against overstating the relationship between unemployment and social exclusion, the unemployed faced nearly double the risk of poverty than the average person in 2000 (see Figure 3.1 in the previous section). Furthermore, Figure 4.1 demonstrates that having a job does provide some protection against poverty, with 7 per cent of the employed living below the at-risk-of-poverty line, compared to 38 per cent of the unemployed in 2002. In Ireland, Italy and the UK, approximately one in two jobless people are at risk of poverty.

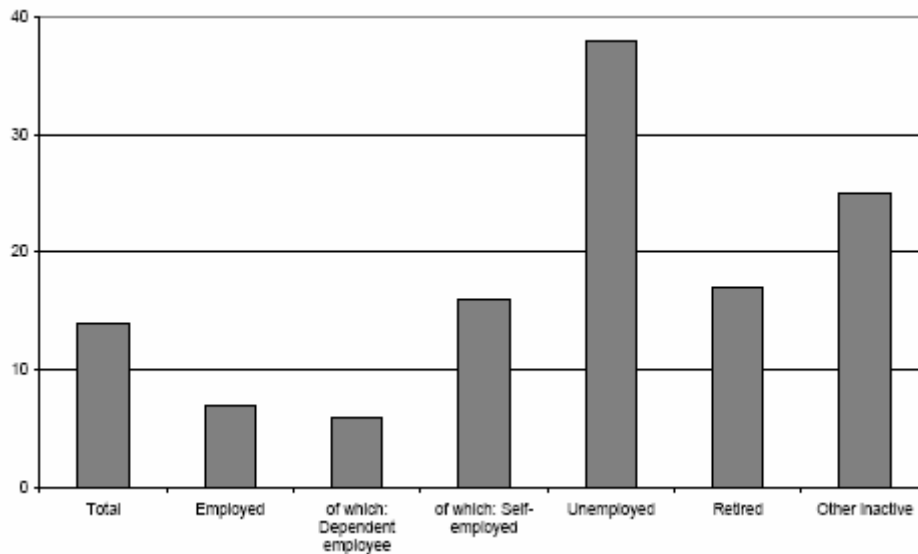


Figure 4.1: Risk-of-poverty rate by most frequent activity status in the EU, 2001

Source: European Commission and Council 2004

4.1 The EU context

4.1.1 Long-term trend: increasing and converging unemployment rates

Since the 1970s, the average unemployment rate for the EU15 has grown from around 2 to 8 per cent (see Figure 4.2). Although there has been considerable variation around this trend at the national level, there is some evidence of convergence over the last decade (Arestis and Sawyer 1999). This can partly be explained by the imposition of the Maastricht convergence criteria in 1992 (Soukiazis and Castro 2003).

There does not appear to be a clear north-south divide with respect to unemployment, although the best national performers over the thirty-year period have been northern Member States and the worst has been a Southern partner. Unemployment rates in Luxembourg, Sweden and Austria have consistently been well below the EU15 average of 8 per cent⁸ – at approximately 2, 3 and 4 per cent respectively. Spain, on the other hand, has been the hardest hit, experiencing an average unemployment rate of 15 per cent, and peaking at a high of 25 per cent in the mid-1990s. The four largest EU nations demonstrated rates more closely aligned with the EU average than most other members.

⁸ 1975-2001

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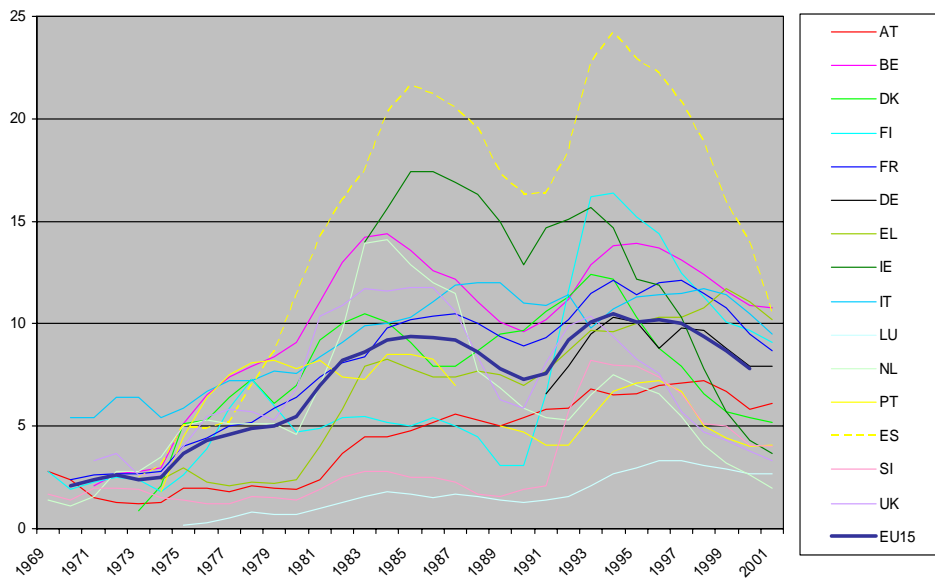


Figure 4.2: EU15 unemployment rates (%), 1969-2001

Source: ILO and Eurostat

4.1.2 The current situation: unemployment higher among new entrants

The first unemployment statistics for the new enlarged EU were published in May 2004 (see Figure 4.3). The EU25 unemployment rate for March was 9 per cent, which is 1 per cent higher than the EU15 average, and well above the corresponding rates for the US and Japan (5.7 and 4.7 per cent respectively).

There appears to be a disparity between the unemployment rates of the original EU15 nations and the ten new Member States. The lowest unemployment rates (around 4 per cent)

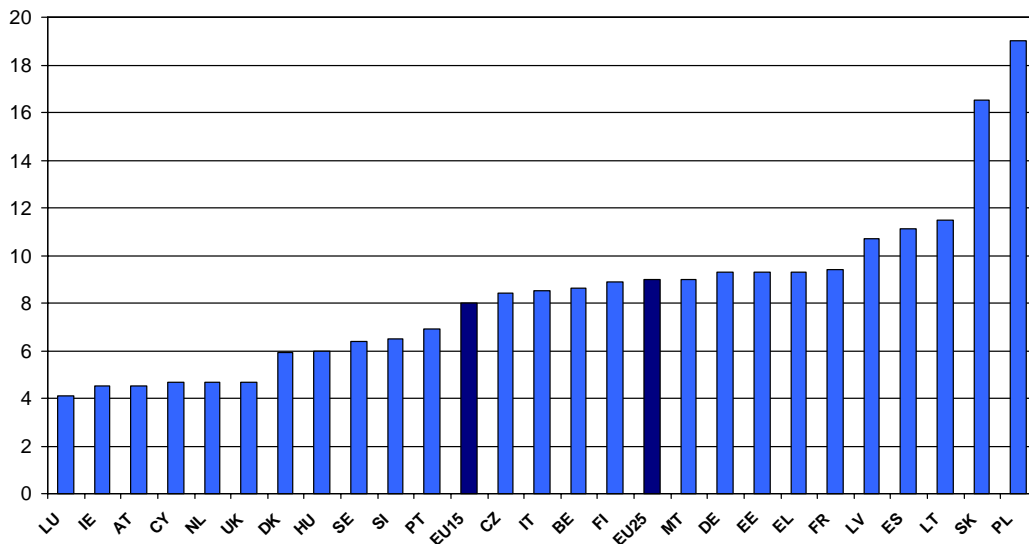


Figure 4.3: Unemployment rate (%) in the EU25, 2004⁹

Source: Eurostat 2004b

⁹EU25: Austria (AT), Belgium (BE), Cyprus (CY), the Czech Republic (CZ), Denmark (DK), Estonia (EE), Finland (FI), France (FR), Germany (DE), Greece (EL), Hungary (HU), Ireland (IE), Italy (IT), Latvia (LV), Lithuania (LT), Luxembourg (LU), Malta (MT), the Netherlands (NL), Poland (PL), Portugal (PT), Slovakia (SK), Slovenia (SI), Spain (ES), Sweden (SE) and the United Kingdom (UK).

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were registered by three original members – Luxembourg, Ireland and Austria, while the highest rates were reported in three new Member States: Poland (19 per cent), Slovakia (16.5 per cent) and Lithuania (11.5 per cent) (Eurostat 2004b). Moreover, only three new members had rates below the EU15 average (Cyprus, Hungary and Slovenia), and just four EU15 countries had rates above the EU25 average (Germany, Greece, France and Spain).

4.1.3 Long-term unemployment

Long-term unemployment is closely associated with social distress (European Commission and Council 2004: 22). The unemployed are significantly more likely to be unhappy with their social and family lives than those belonging to other employment statuses (Gallie and Paugam 2002), and lack of contact with the workplace can lead to social isolation, depression and even family breakdown. Social problems generally connected with unemployment are often felt more acutely among those who have been out of work for prolonged periods. This can lead to loss of skills and self-esteem, which are important for regaining entry into the labour market.

The long-term unemployment rate is defined as the percentage of the total active population that has been unemployed for 12 months or more. In 2003, the figure for the EU25 stood at 4 per cent, though it was closer to 3 per cent for the EU15 (see Figure 4.4). This means that just under half of unemployed people were jobless for at least a year. While the rate has fallen in recent years, it remains strikingly high in many eastern and southern Member States – most notably in Slovakia and Poland, where rates exceed 10 per cent.

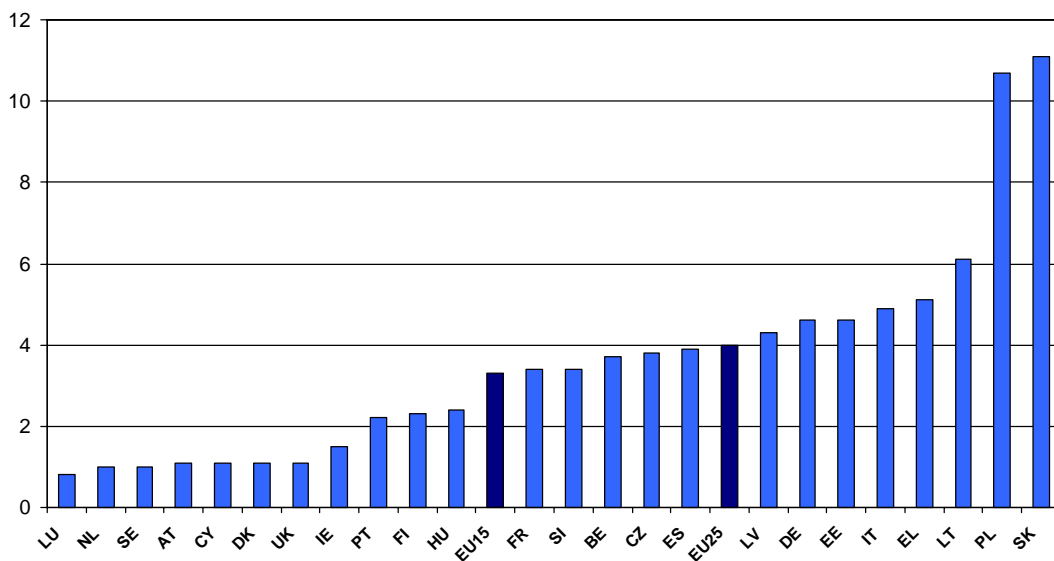


Figure 4.4: Long-term unemployment rate (%) in the EU25, 2003

Source: Eurostat¹⁰

¹⁰http://europa.eu.int/comm/eurostat/newcronos/queen/display.do?screen=detail&language=en&product=LT&root=LT_copy_1031680375681/strind_copy_817397594099/socohe_copy_88803726593/sc061_copy_740372842004. Data for Malta is not available.

4.2 Regional unemployment

In 2002, regional unemployment in the EU25 ranged from 2 to 29 per cent (in Tirol in Austria, and Réunion in France, respectively) (Mladý 2003a, b). Regions with relatively low unemployment rates¹¹ were concentrated in Austria, the Netherlands, the UK, Cyprus and the Czech Republic, and those with high unemployment¹² were found in Poland, Germany, Italy, Slovakia, Spain and France (all Overseas Departments).

There are even more marked regional disparities in the unemployment rate for under-25s than for the active population as a whole – ranging from 3 per cent (Tirol, Austria) to 60 per cent (Campania, Italy). Of the 251 NUTS2 regions comprising the EU25 area, youth unemployment was above 50 per cent in nine, in 2002 (Eurostat 2003).

4.2.1 Regional cohesion

The EU social exclusion indicator for regional cohesion is measured by the dispersion (coefficient of variation) of regional employment rates within countries.¹³ This represents a departure from reliance on national data, and acknowledges that differences at the sub-national level are also important. Figure 4.5 demonstrates that Italy is the country where social cohesion is by far the weakest, followed some way behind by Hungary and Spain, which show a distribution that is more closely aligned with the remaining EU countries. Regional cohesion is strongest in the Netherlands, Portugal and Austria (data is not applicable for smaller Member States as these countries comprise only one or two NUTS level 2 regions).

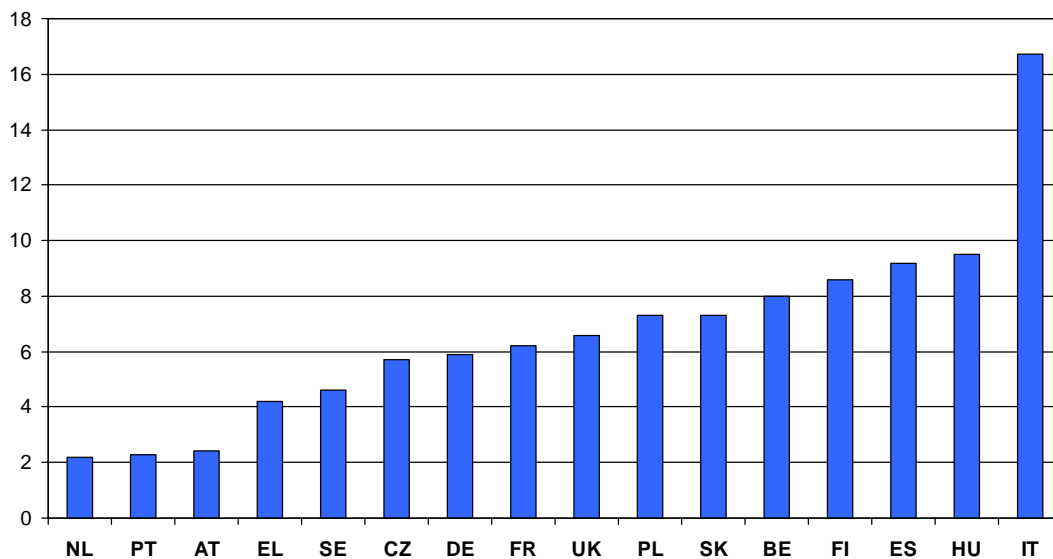


Figure 4.5: Dispersion of regional employment, 2002

Source: Eurostat¹⁴

¹¹ Classified as below 3.9 percent, which is half the EU average (7.8 per cent).

¹² Defined as at least 15.6 per cent, which is double the EU average.

¹³ Regional unemployment rates apply at NUTS 2 level. For further details about the statistical regions of Europe, see: http://europa.eu.int/comm/eurostat/ramon/nuts/home_regions_en.html.

¹⁴ http://europa.eu.int/comm/eurostat/newcronos/queen/display.do?screen=detail&language=en&product=LT&root=LT_copy_1031680375681/strind_copy_817397594099/socohe_copy_88803726593/sc041_copy_623729038009.

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4.2.2 Urban unemployment

Three quarters of the EU15 population live in urban areas, and the UN predicts that this figure will rise to 80 per cent by 2005 (UN 2003). With the exception of the Balkans, all Member States are expected to see an increase in urban population by 2020 (Dietz 2003), which is likely to have implications for urban and rural employment rates in the coming decades.

The methodological difficulties associated with making cross-country comparisons of urban and rural poverty in the EU also apply to unemployment. In the absence of a standard definition of urban and rural areas, inconsistencies between national definitions can arise. The European Commission’s Urban Audit attempted to overcome this obstacle by presenting its own categorisation of 58 of the EU15’s urban areas (European Commission 2000a: 16). The study found that unemployment levels in medium-sized cities, southern cities, and capitals exceeded the national average (European Commission 2000a: 23). In almost two-thirds of cases, unemployment rates were higher at the city than the national level, and in three quarters of cities, the rate had increased over the last 20 years (European Commission 2000a: 23). In some cases, disparities *within* cities were also considerable, for example, in Glasgow, Edinburgh, Hamburg, Toulouse, Naples and Genoa, unemployment rates were ten times higher in the hardest-hit areas than in the least-affected ones (European Commission, 2000b). Interestingly, the study found that urban unemployment rates for under-25s were lower than the national average in capital cities, and in 80 per cent of cities overall (European Commission 2000a: 23).

4.3 Youth unemployment

While the unemployment rate for the EU15 population was just over 7 per cent in 2001, it was almost twice as high at nearly 15 per cent for 15-24 year-olds. Furthermore, almost half of unemployed youths had been jobless for six months or more (European Commission 2003a: 27).

There are significant differences in unemployment rates between EU Member States, which can partly be explained by the number of people in the age group remaining in education (European Commission 2003a: 27). Figure 4.6 demonstrates that youth unemployment is most prevalent in the eastern and southern parts of the EU. More than one in three youths is out of work in Poland and Slovakia, and around three in ten are unemployed in Italy and Greece. At the other end of the spectrum, the youth jobless rate is below 7 per cent in Austria, Luxembourg, Ireland, the Netherlands and Denmark.

As discussed in Section 4.2, urban areas tend to demonstrate lower unemployment rates for under-25s, and regional variations can deviate considerably from the national mean.

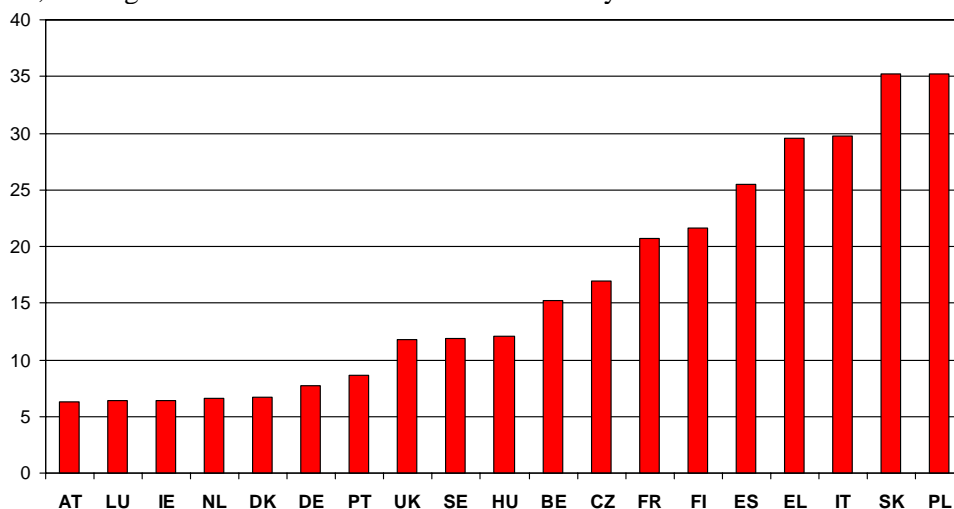


Figure 4.6: Youth unemployment rate (%), 2003

Source: NationMaster.com

4.4 Education

Not only does education to some extent determine both the likelihood of a person being employed and their potential position within the labour market, but like employment, it also has important implications for personal development and participation in society (Dennis and Guio 2003b: 3). Educational *attainment* can be regarded as a proxy for human capital, and *participation* indicates investment in human resource development (Pilos 2001: 1).

Figure 4.7 demonstrates that higher education qualifications can reduce the risk of unemployment. In 2001, the unemployment rate for EU15 citizens with less than upper secondary education was 9 per cent, compared with 6 per cent for those with post-secondary, and 4 per cent for people with tertiary education.

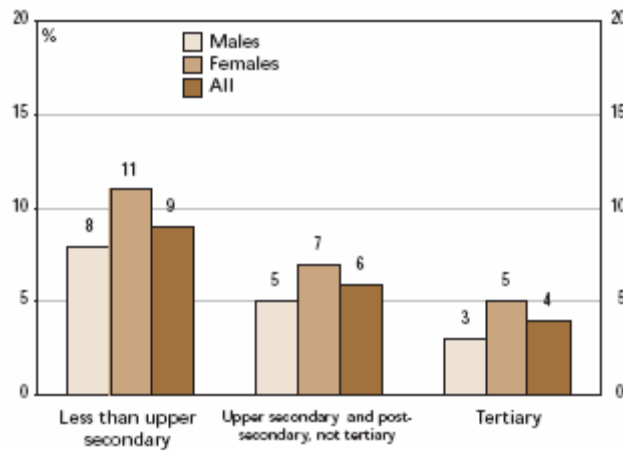


Figure 4.7: Unemployment rates (%) in the EU15 by education level, 2001

Source: European Commission 2003b

Furthermore, a Eurostat study (Kyi 2001) looking at regional imbalances in the EU15 labour market between 1996 and 2000 confirms that poor education undermines employment prospects. It reports that the better educated are more employable and drive employment growth.

4.5 Citizenship and immigration

Given that youths and people with low levels of education are more vulnerable to unemployment than their older and better-educated counterparts, it is not perhaps surprising that immigrants – whose population comprises a disproportionate number of these groups – experience unemployment rates that are well above national figures.

An OECD study (2001) found that foreigners faced higher rates of unemployment than nationals in the vast majority of EU countries in the period 1999-2000.¹⁵ The only exceptions were men in Italy and Hungary, and women in Slovakia, Spain, Hungary and the Czech Republic (see Figure 4.8). In terms of employment prospects, foreigners (men and women) were at the greatest disadvantage compared to nationals in northern Members States – including the Nordic and Benelux countries, Austria, and France – where unemployment rates were two to three times higher for foreigners than for national workers.

¹⁵ EU Member States *not* included in this study were Estonia, Latvia, Lithuania, Malta and Slovenia.

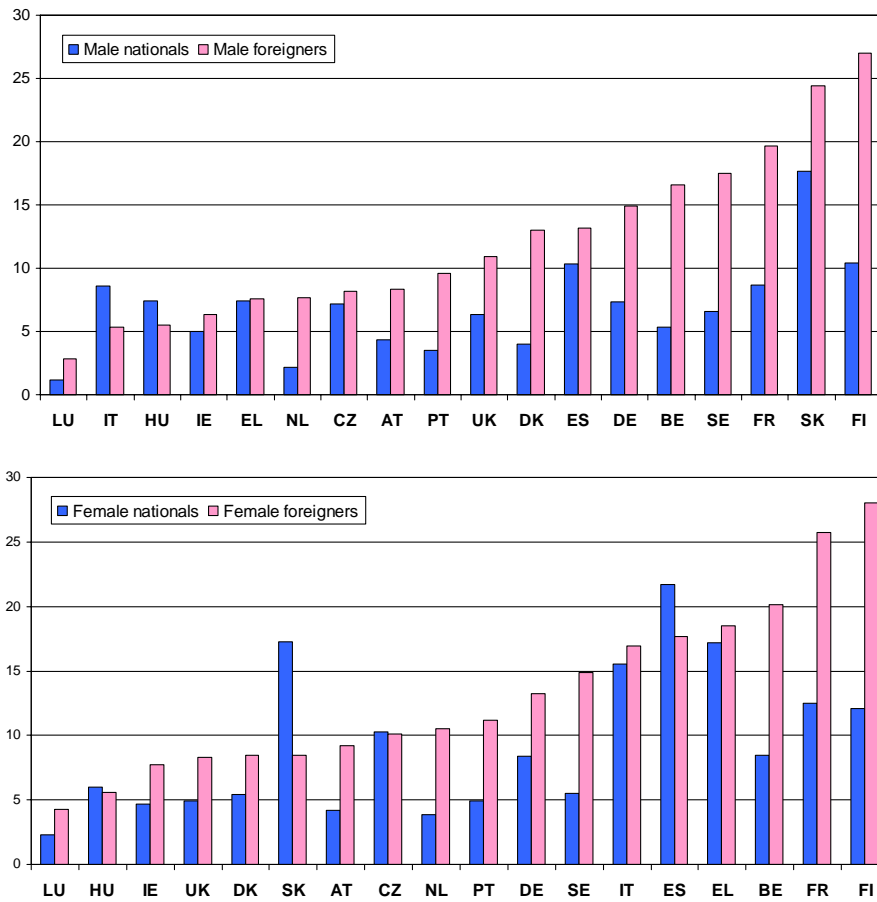


Figure 4.8: Unemployment rate (%) of nationals and foreigners, 1999-2000

Source: OECD 2001

4.6 Health and disability

Health status

There is convincing evidence to suggest that there is a strong statistical relationship between unemployment and poor health. A study published by the European Commission has found that key trends in mortality rates and life expectancy since the Second World War can be traced to economic trends, in particular, unemployment rates and economic growth (Bremmer 2001). This is consistent with a number of recent studies confirming that unemployment levels can lead to physical and psychological deterioration, and increases in mortality.¹⁶

Disability

The European Disability Forum (EDF) states that a considerable body of literature to date highlights the essential role that employment plays in providing the disabled with financial security, status, and the opportunity to participate in society, which together help defend against poverty and social exclusion (EDF 2001:12). Yet, according to the European Community Household Panel Survey data, the EU14¹⁷ employment rate for the severely disabled was only a third of the rate for those without a disability in 2001 (Eurostat 2001).

¹⁶ http://europa.eu.int/comm/employment_social/news/2002/may/unempl_en.html#top

¹⁷ Excluding Sweden.

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Barriers to employment for the disabled include poor accessibility, inadequate public transport, a lack of adapted work places, and insufficient provision of home care (European Commission 2003c: 104).

Figure 4.9 demonstrates that the employment rate is higher among the disabled than among people declaring no disability in every age group, although the difference is greatest in middle age and tails off among the elderly.

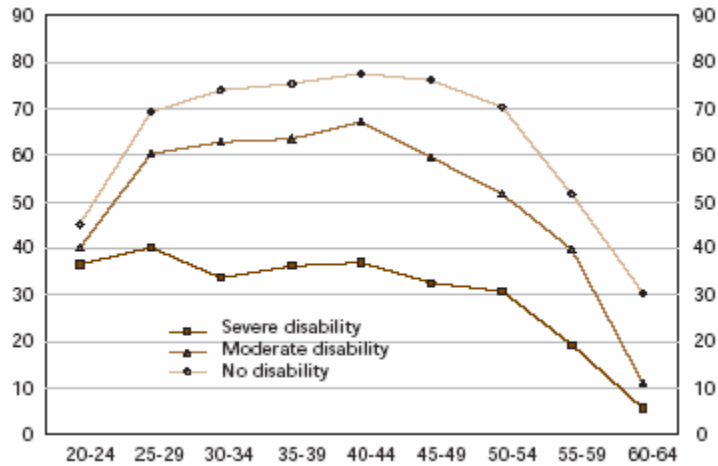


Figure 4.9: Employment rate (%) among disabled in the EU14, 1996

Source: European Commission 2003c

Some countries have proved that it is possible to achieve high levels of employment for the disabled. However these tend to be countries that have reasonably high employment rates in general, such as Austria, Finland and France. Member States with lower national employment levels, such as Greece and Spain, have been somewhat less successful in integrating the disabled into the workforce (European Commission 2003c: 104).

4.7 Labour market policy

Labour market policy is recognised as one of the main channels for combating social exclusion...Employment and social protection policies must work together to diminish exclusion and promote integration through labour market participation (Mayes et al. 2001: xvi).

In 2000, labour market policy spending accounted for over 2 per cent of national income (GDP) in the EU15. Measures that were financed included training, job rotation and sharing, employment incentives, integration of the disabled, direct job creation, start-up incentives, apprenticeship support, early retirement, and out of work maintenance and support. There is no clear north-south divide in public expenditure on these initiatives. The big spenders, dedicating over 3 per cent of GDP to labour market policy, were Denmark and Belgium. The six countries spending the least – between 0.6 and 1.6 per cent of national income – were the UK, Greece, Italy, Portugal, Austria and Ireland.

Figure 4.9 demonstrates that there is a loose correlation between labour market policy expenditure and the employment rate.

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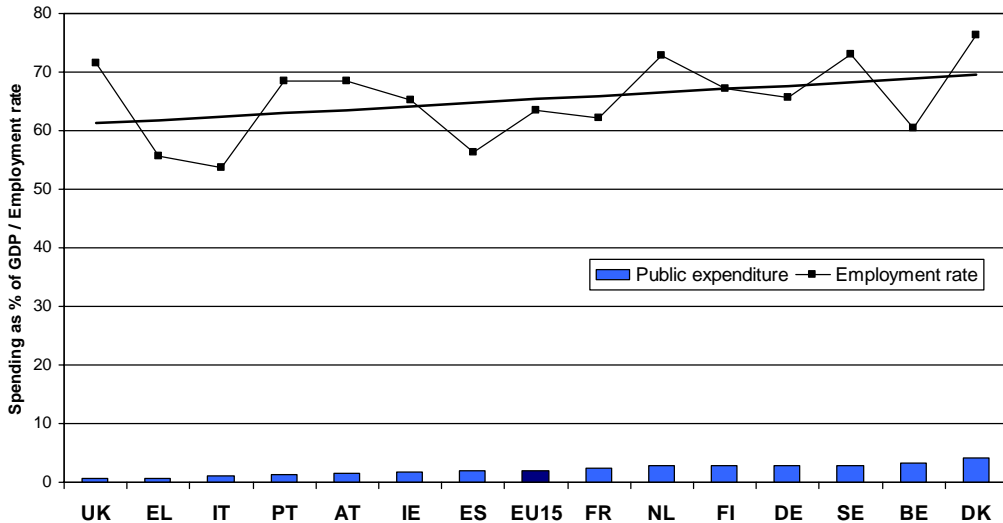


Figure 4.9: Employment rate (%) and expenditure on labour market policy as a percentage of GDP in the EU15, 2000¹⁸

Source: European Commission 2003c and Eurostat¹⁹

4.8 Economic growth

Average economic growth in the EU15, measured in real GDP per capita, has been much more stable than unemployment, rising (largely) steadily by 80 per cent between the early 1970s and 2000. In contrast to unemployment, there has been little evidence of convergence across Member States, and some indication of divergence (see Figure 5).

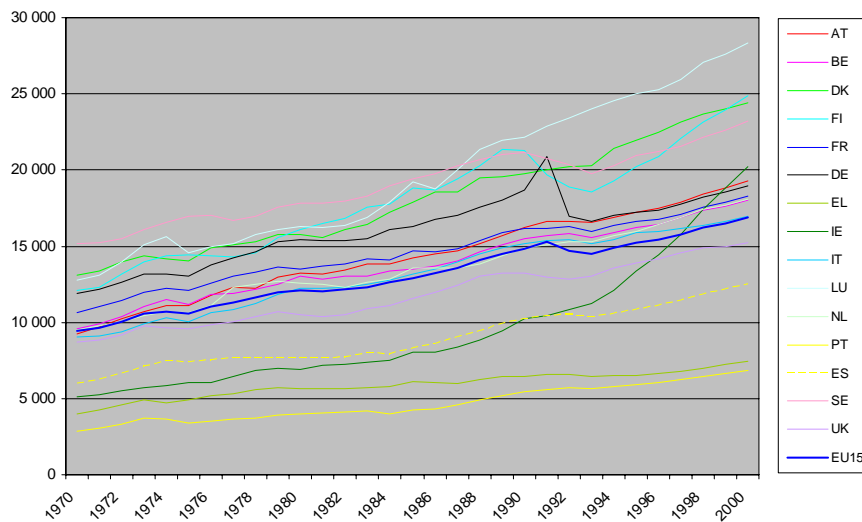


Figure 5: EU15 GDP per capita (ECU per head) 1970-2000

Source: Eurostat and European Commission 2003d

¹⁸ Public spending on labour market policy not available for Luxembourg

¹⁹ http://europa.eu.int/comm/eurostat/newcronos/queen/display.do?screen=detail&language=en&product=LT&root=LT_copy_1031680375681/strind_copy_817397594099/emploi_copy_934568948015/em071_copy_16487242664

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The EU15 can be sub-divided into four categories based on their growth patterns over the past 30 years. The top performers have been the Nordic states, followed by the Benelux countries and Austria. The four largest members saw growth rates gravitate towards the EU average. The southern European nations, meanwhile, have consistently trailed behind the rest of the EU pack, although Ireland began to pull away from Portugal, Greece and Spain in the mid-1990s, to show growth well above the EU average at the close of the decade.

There appears to be a (just) significant negative correlation between average growth and unemployment in the EU15; however, this relationship does not extend to all individual Member States. The link is most apparent when a two year-time lag is applied, confirming the intuitive proposition that unemployment shows a delayed response to recent historic growth levels. The countries where the association is found to be the strongest are concentrated in northern Europe, i.e. Finland, Sweden, Austria, Belgium, France and Ireland.

While growth has some impact on unemployment in selected Member States, it is clear that the relationship is far from definitive and that other factors, such as the interaction of those discussed in the sections above, appear to dominate.

5 Future trends and sustainability scenarios

The Lisbon strategy is relatively specific about the challenges and opportunities for the achievement of sustainable development. For example, encouraging investments in knowledge and strengthening the competitiveness of European enterprises is considered to be a way to promote active ageing (Delivering Lisbon, 2004). The idea that economic, social and environmental development can support and strengthen each other rests on the intuition that economic growth is easier to achieve in a sound environment with content inhabitants than in a deteriorated environment with unhappy people.

The potential conflicts related to these challenges and opportunities are, however, dealt with in less detail, although the difficulties are easy to point out when it comes to the indicators for social exclusion. We have seen that the trends in the indicators for social exclusion are not closely related to income or economic growth. Despite steady growth over the past 25 years, unemployment, including the long-term unemployment, has increased. Poverty has not decreased substantially in any country, but has certainly increased in some countries despite a remarkable economic growth. Although it is widely accepted and stressed in several EU documents, that unemployment is a major factor behind poverty, the correspondence between poverty and income per capita across countries is relatively weak. Thus, there is little evidence for the assumption that social exclusion will be resolved as a result of economic growth alone.

Economic growth can instead be considered a precursor for mitigation of social exclusion, something that, if absent, will complicate the mitigation of social exclusion considerably. But there are potential conflicts, indeed, between means to encourage economic growth and means to mitigate social exclusion. For example, European governments frequently emphasize the need to enhance the efficiency of their economies, both to enhance growth and to improve the environment. This is not easily compatible with more or less traditional measures to prevent social exclusion, such as encouraging employment among elderly workers, minimum wages or high tax burdens to finance social transfers. To achieve sustainability there is a need to carefully balance economic growth, environmental quality and social exclusion, and not to overemphasize one or two of them. This is, in fact, the most challenging issue about sustainable development. Future patterns of social exclusion therefore depend on which indicators are targeted and what measures are chosen to achieve these targets.

The complexities involved in explaining why indicators of social exclusion develop as they do make it difficult to specify long-term targets and to recommend concrete policy measures. As an alternative, policies to prevent social exclusion can be followed up continuously, and adjusted frequently in accordance with the more general targets to take unanticipated events into account. This is probably why the Lisbon strategy is relatively general with respect to targets and measures, and the reason that more concrete recommendations from the EU authorities are found in their responses to the national communications from the member countries about the implementation of policies to prevent social exclusion. These are updated regularly on a relatively short-term basis and give the central EU authorities an opportunity to suggest specific targets and policies in each and every case. Note also that the inclusion of the 10 new member countries introduces additional challenges both with respect to the achievement and the determination of targets to combat social exclusion in the EU in the years to come.

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As for the establishment of long-term scenarios for social exclusion, the lack of concrete long-term targets and specific measures makes it difficult also to distinguish clearly between impacts of policies already implemented (a reference scenario), impacts of adopted commitments (weak sustainability scenario) and impacts of the more ambitious general targets expressed in the Lisbon strategy (strong sustainability), such as *reducing* unemployment and poverty. In the case of social exclusion, we will instead base the scenarios on alternative anticipations about the development of indicators for unemployment and poverty. These indicators are clearly important in the context of social exclusion, but by no means complete. Moreover, targets related to these two variables only may be achieved in different manners with different outcomes for social exclusion in general. The weak and strong sustainability scenarios will therefore be further analyzed ex post, where alternative ways to achieve the same target are examined in the light of a broader set of indicators for social exclusion.

Because of the difficulties in providing relevant data, we need to confine the specification of the different scenarios for social exclusion to the EU15 only. In principle, the same philosophy could apply to the accession countries, but we do not provide figures for these countries. A brief description of the three scenarios follows.

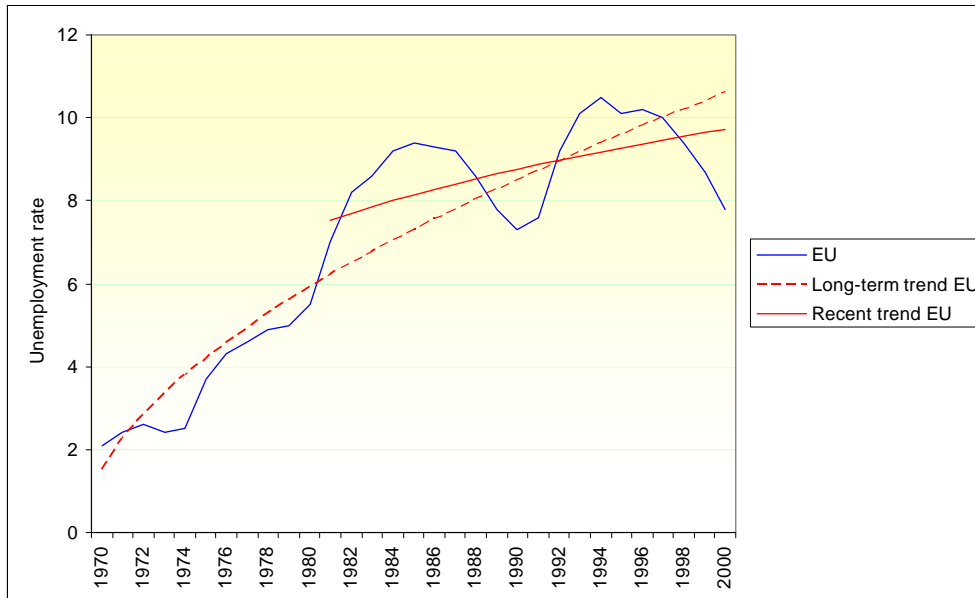


Figure 5.1: Observed, long-term and recent trends for EU average unemployment rates

In the *reference scenario* we assume a continuation of trends in poverty and unemployment for the EU15. As noted earlier, unemployment has increased significantly over that past 30 years in Europe. The increase in the 1970s seems to represent a fundamental shift, but the underlying unemployment rate has also increased since 1980, although at a decreasing rate. Figure 5.1 shows the average unemployment rate for the EU and estimated trends over the past 30 years and over the past 20 years. The reference scenario applies to the estimated level for year 2000 on the ‘recent’ trend 1980-2000 as its base-year ‘observation’ at 9.8 percent. The future rates are found by an extension of this trend, and give an average for EU at 11.4 percent in 2025 and 12.6 percent 2050. On the country level it is assumed that the variations from the EU average are reduced by 1/3 in 2025 and 2/3 in 2050. This is supposed to reflect the underlying converging trend in long-term unemployment across countries. The unemployment rate of each country in the initial year 2000 of the reference scenario has been adjusted to account for economic fluctuations. Thus, the national rate equals the observed

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mean variation in the period 1980-2000 from the “normalized” EU average unemployment rate in 2000 at 9.8 percent.

	Unemployment rates			At-risk-of-poverty (after transfers)		
	2000	2025	2050	2000	2025	2050
Austria	6.4	9.2	11.5	12.0	13.9	15.4
Belgium	13.1	13.7	13.7	13.0	13.4	13.4
Denmark	10.1	11.6	12.7	11.0	12.0	12.8
Finland	9.4	11.2	12.5	11.0	12.2	13.1
France	11.0	12.3	13.0	16.0	16.8	17.4
Germany	9.9	11.5	12.7	10.0	11.1	11.8
Greece	9.2	11.1	12.4	20.0	21.2	22.1
Ireland	14.2	14.4	14.1	20.0	20.1	19.9
Italy	11.6	12.7	13.2	18.0	18.7	19.1
Luxembourg	3.0	6.9	10.4	12.0	14.6	16.9
Netherlands	8.6	10.7	12.2	10.0	11.4	12.4
Portugal	7.4	9.8	11.8	21.0	22.6	24.0
Spain	19.6	18.1	15.9	18.0	16.9	15.5
Sweden	5.0	8.2	11.0	11.0	13.2	15.0
UK	9.5	11.2	12.5	19.0	20.2	21.0
EU15	9.8	11.4	12.6	15.0	16.1	16.9

Table 5.1 The reference scenario for social exclusion

Poverty will be referred to by the “at-risk-of-poverty” rate calculated by the EU. The rates were reported for the first time in 1995 for the EU countries. The EU average rate goes down slightly from 26 to 24 percent (before social transfers) in the EU15 up until 2001, which is the last year reported. A similar reduction is reported for the rate that applies to income after transfers. The lack of a longer time series prevents us from making any conclusions about the trend in this rate. If comparing with the average unemployment rate, the reduction may, however, be explained by the reduction in the EU unemployment in same period, which decreased from 11 to 8 percent. On this, admittedly weak, background, we assume poverty to increase by 2/3 of the increase in the rate of unemployment in the reference scenario.

	Unemployment rates			At-risk-of-poverty (after transfers)		
	2000	2025	2050	2000	2025	2050
Austria	6.4	7.5	8.7	12.0	12.8	13.5
Belgium	13.1	12.0	10.9	13.0	12.3	11.5
Denmark	10.1	10.0	9.9	11.0	10.9	10.9
Finland	9.4	9.5	9.7	11.0	11.1	11.2
France	11.0	10.6	10.2	16.0	15.7	15.5
Germany	9.9	9.9	9.8	10.0	10.0	9.9
Greece	9.2	9.4	9.6	20.0	20.1	20.3
Ireland	14.2	12.7	11.3	20.0	19.0	18.0
Italy	11.6	11.0	10.4	18.0	17.6	17.2
Luxembourg	3.0	5.2	7.5	12.0	13.5	15.0
Netherlands	8.6	9.0	9.4	10.0	10.3	10.5
Portugal	7.4	8.2	9.0	21.0	21.5	22.1
Spain	19.6	16.4	13.1	18.0	15.8	13.6
Sweden	5.0	6.6	8.2	11.0	12.1	13.1
UK	9.5	9.6	9.7	19.0	19.1	19.1
EU15	9.8	9.8	9.8	15.0	15.0	15.0

Table 5.2 Indicators for social exclusion in the weak sustainability scenario

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Weak sustainability scenario implies a constant level of unemployment by country in the future and a constant at-risk-of-poverty rate. Thus, the difference from the reference scenario is that unemployment is no longer increasing, but national differences, adjusted for economic fluctuations in 2000, remain. As for the reference case, we assume that the differences in unemployment rates between countries are reduced by 1/3 in 2025 and 2/3 in 2050. The at-risk-of-poverty rates change in accordance with the national changes in unemployment rates by 2/3 percent per percent change in unemployment. The main indicators for the weak sustainability scenario are shown in Table 5.2

Strong sustainability scenario implies that the unemployment rate is reduced to 7 percent in 2025 and 5 percent in 2050. Five percent may be considered a future so-called natural rate of unemployment, reflecting unemployment due to friction in the labour market. This rate is higher than what most people consider to be the lower bound of unemployment in Europe at present. However, there are reasons to believe that the natural rate of unemployment increases with economic growth because a higher economic activity requires a more flexible labour market where employees move over longer distances when changing jobs. This is partly reflected also by the assumption that the differentiation of unemployment rates across countries is reduced by a similar extent in the strong sustainability scenario as in the two other scenarios.

The at-risk-of-poverty is derived in the same manner as in the weak sustainability scenario. That is, one percent change in the national unemployment rate leads to a 2/3 percent change in the at-risk-of-poverty rate.

	Unemployment rates			At-risk-of-poverty (after transfers)		
	2000	2025	2050	2000	2025	2050
Austria	6.4	4.7	3.9	12.0	10.9	10.3
Belgium	13.1	9.2	6.1	13.0	10.4	8.3
Denmark	10.1	7.2	5.1	11.0	9.1	7.7
Finland	9.4	6.7	4.9	11.0	9.2	8.0
France	11.0	7.8	5.4	16.0	13.9	12.3
Germany	9.9	7.1	5.0	10.0	8.1	6.7
Greece	9.2	6.6	4.8	20.0	18.3	17.1
Ireland	14.2	9.9	6.5	20.0	17.2	14.8
Italy	11.6	8.2	5.6	18.0	15.7	14.0
Luxembourg	3.0	2.4	2.7	12.0	11.7	11.8
Netherlands	8.6	6.2	4.6	10.0	8.4	7.3
Portugal	7.4	5.4	4.2	21.0	19.7	18.9
Spain	19.6	13.6	8.3	18.0	13.9	10.4
Sweden	5.0	3.8	3.4	11.0	10.2	9.9
UK	9.5	6.8	4.9	19.0	17.2	15.9
EU15	9.8	7.0	5.0	15.0	13.1	11.8

Table 5.3 Indicators for social exclusion in the strong sustainability scenario

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