Employment in the European Monetary Union

Employment in the European Monetary Union:

Trends, Prospects, Policies

By

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Cambridge
Scholars
Publishing

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This book first published 2026

Cambridge Scholars Publishing

Lady Stephenson Library, Newcastle upon Tyne, NE6 2PA, UK

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-0364-6978-8
ISBN (Ebook): 978-1-0364-6979-5

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INTRODUCTION

This book discusses the issue of employment in the European Monetary Union (EMU, henceforth). This issue is a central topic for this Institution, whose discussion involves referring not only to its articulation, but also to the policies implemented by member countries and the central bodies of the Institution, i.e., the European Central Bank (ECB), the European System of Central Banks (ESCB), the Economic and Financial Committee, the Eurogroup, the Economic and Financial Affairs Council (Ecofin) and others.

The effects of these policies added to those of the institutions per se, lead to the asymmetries and the imbalances that arise in a currency area lacking many policy instruments typical of a country. The central issue is that the EMU institutions were based on theoretical roots, those prevailing in the Seventies, predicating the virtues of the market and tight monetary policy for ensuring monetary stability and full employment that are now outdated. To these theoretical roots the practical interests of the countries and the politicians prevailing at the time of its constitution must be added. The ideas at the root of the European institution have now been largely abandoned and new lines of intervention at the level both of each country and the central level have to be searched for. There is in fact the need to rediscover economic policy for the European institution.

This book is articulated into 10 chapters and, in addition, the Conclusion.

The first chapter analyses the trends in the EMU labour market, dealing with the employment and unemployment trends and the current labour market structure. An important role for employment is played by education and, from this point of view, one has to note the failure of education with reference to the existence of the NEET, who are young people not in education, employment or training, to be considered as a failure from the point of view of education. Thus, unfortunately, the multitude of unemployed people includes these youth who have given up schooling together not searching for a job. The duration of unemployment is an important aspect of the possibility of eventually finding a job.

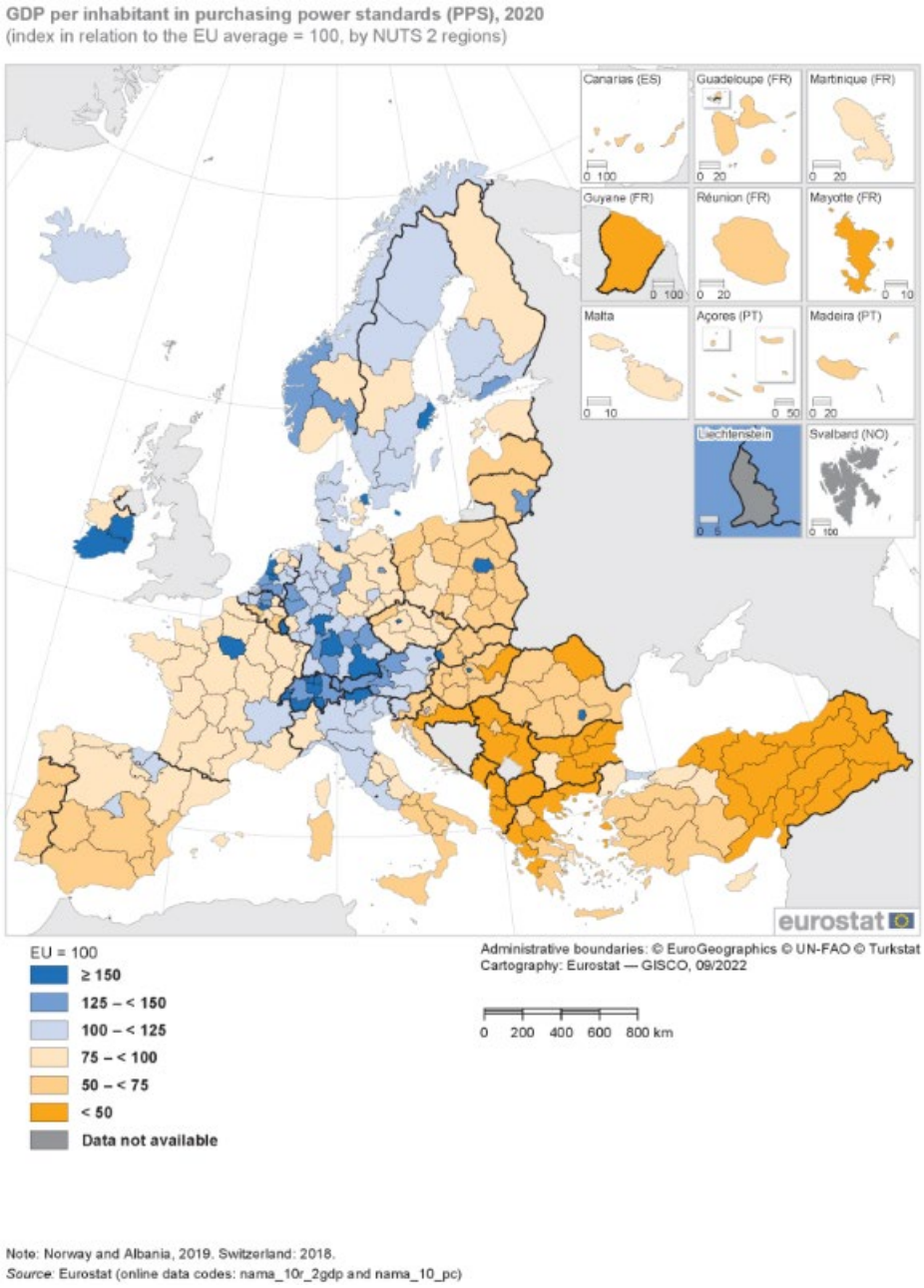
Employment and the level of wages are important determinants of the primary income per inhabitant. Figure 1 shows that the countries with the highest net primary income per inhabitant are those of Central Europe (Luxembourg, the Netherlands, the Czech Republic).

Wages usually come out of a process of negotiation not between a single worker and a firm, but between representatives of both, i. e., trade unions and associations of employers, whose densities varies in different countries, where also different methods of negotiation are used, covering in each case different aspects of the labour relations.

In period of crisis and at the time of the pandemic various measures – such as job retention schemes - have been introduced in the various countries to support the income of unemployed.

Chapter 2 deals with demographic trends and the factors influencing them, i.e., new births and life expectancy, on the side of natural factors, and migration, on the side of economic and social factors. As to the former, new births have reduced practically everywhere in the EMU, while life expectancy has risen. A net reduction in the number of citizens has ensued, which has not been compensated by net immigration. In fact, some of the Eastern countries have faced an outward migration, and inflows of immigrants from outside the EMU have been low, at least up to the most recent years.

Figure 1. GDP per inhabitant, 2020 (Source: Eurostat)



Note: Norway and Albania, 2019. Switzerland: 2018.
Source: Eurostat (online data codes: nama_10r_2gdp and nama_10_pc)

The following two tables show the number of immigrants arrived to Germany and Italy, in 2015. These show the huge number of immigrants coming from countries being part of the Soviet bloc.

Table 1. European country of birth of EU migrants to Germany, 2015 (Source: Pew Research Center, 2017)

Country of birth	EU migrants
Poland	1,930,000
Romania	590,000
Czech Rep.	540,000
Italy	410,000
Austria	260,000
Greece	220,000
Croatia	210,000
Hungary	170,000
France	150,000
Netherlands	140,000
Bulgaria	110,000
UK	100,000
Spain	100,000
Portugal	100,000
Lithuania	50,000
Slovakia	40,000
Slovenia	40,000
Latvia	30,000
Denmark	30,000
Belgium	30,000
Sweden	20,000
Luxembourg	20,000
Finland	20,000
Estonia	10,000
Ireland	10,000
Cyprus	<10,000
Malta	<1,000

Table 2. European countries of birth of people migrated to Italy, 2015 (Source: Pew Research Center, 2017)

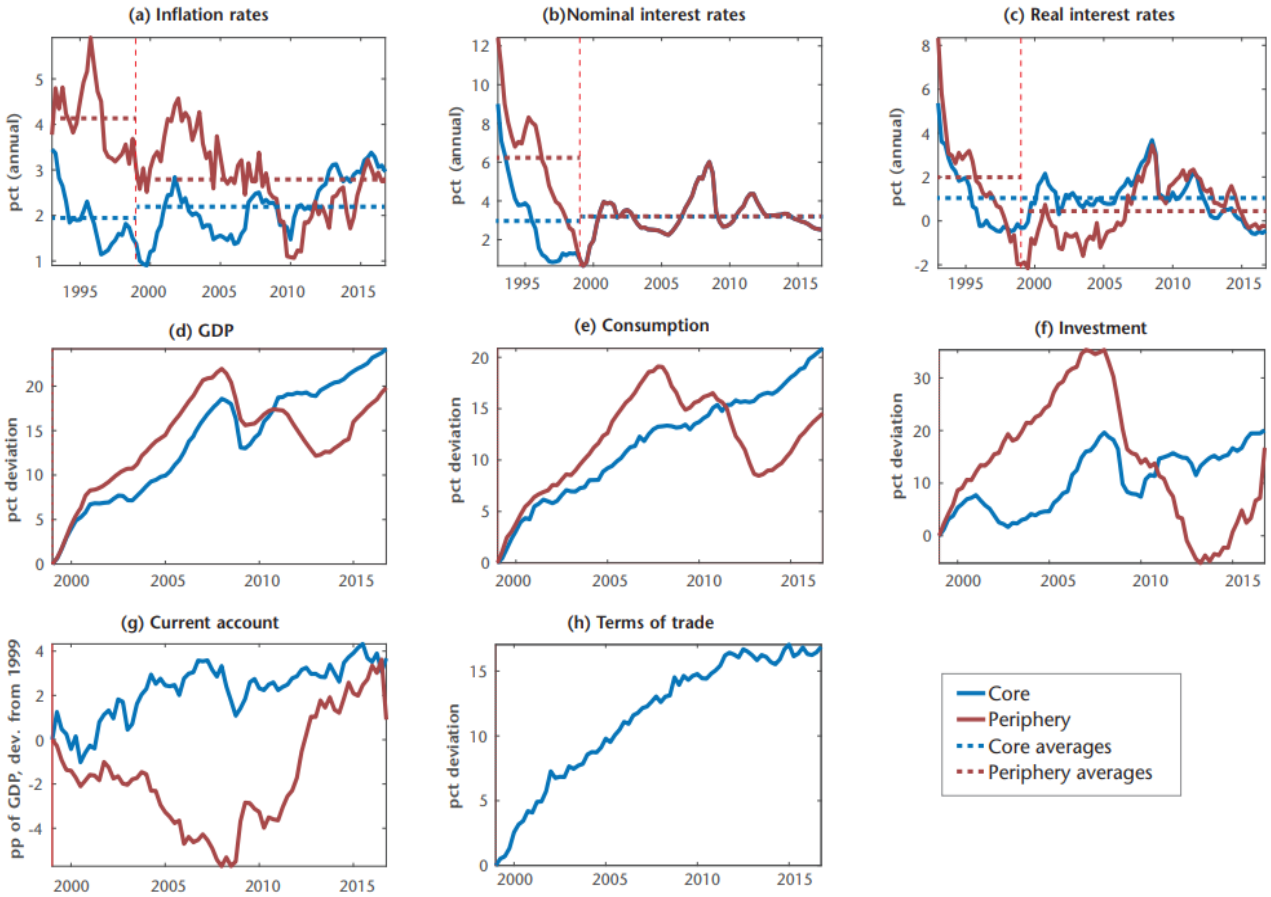
Country of birth	EU migrants
Romania	1,020,000
Germany	220,000
France	130,000
Poland	120,000
UK	60,000
Bulgaria	60,000
Belgium	50,000
Spain	30,000
Greece	20,000
Austria	20,000
Croatia	20,000
Hungary	10,000
Netherlands	10,000
Czech Rep.	10,000
Slovakia	10,000
Estonia	<10,000
Sweden	<10,000
Latvia	<10,000
Lithuania	<10,000
Denmark	<10,000
Ireland	<10,000
Portugal	<10,000
Luxembourg	<10,000
Slovenia	<10,000
Malta	<10,000
Finland	<10,000
Cyprus	<1,000

In addition to migration to – or from – foreign countries, there has been also an important migration internal to various countries, as it was – e. g. – for Italy from the South to the Center and the North and Germany, from the former East Germany to West Germany.

Chapter 3 deals first with the asymmetries that pre-existed between the different countries - as some of them were burdened by negative public accounts and inefficiencies - together with the absence of proper macroeconomic and microeconomic policies at the EMU level, which led to a number of imbalances between the various countries, say the peripheral countries (those of the South Europe and those previously belonging to the Soviet bloc) and the core countries (i.e., the others, mainly those of Central and Northern Europe). These imbalances were, first, of a microeconomic kind, referring, e. g., to the different total factor productivity, which grew at very different rates in the various countries and deriving from many factors, in particular R&D expenditures. In addition, there were government's fiscal imbalances and external imbalances. The former derived from an excess of expenditures over taxes; the latter were mainly due to current account imbalances deriving from an excess of imports over exports attributable to the existence of the microeconomic imbalances indicated above. These imbalances could have been avoided, if, once the imbalances manifested themselves, EMU policymakers had not adopted a position of benign neglect to remove their roots.

A synthesis of the trends in some microeconomic and macroeconomic indicators is offered by the following figure 2.

Figure 2. Inflation rates, GDP, current accounts and other indicators, core and peripheral countries, 1993-2017 (Source: Auray, Eyquem, 2021)



Notes. 1. The curves for inflation rates, GDP, consumption and investment relative to the periphery start higher than those for the core and later go below them. 2. The one for nominal interest rates for the periphery also starts higher and then merges with the other. 3. Real interest rates for the periphery are higher up to 1999, are then lower until 2009 and then practically are indistinguishable from the others. 4. Current accounts of the periphery are practically always lower the those for the core.

Chapter 4 is about the conception of the EMU as an external tie for removing the asymmetries existing between countries. Really, there was almost a vacuum of policies designed for removing the asymmetries, as most of the burden for integration was delegated to private institutions (markets), and very few common institutions were established, such as the common currency and specific limitations to national action in the fiscal field deriving from the Stability and Growth Pact (SGP). According to many experts and laymen, this institutional architecture was able to impose a strong network of ties in particular on the conduct of the agents in the countries with higher inefficiencies, which should – almost naturally – have compelled them to change their conduct and implement the needed reforms.

Before admission to EMU there were incentives for both public and private agents, as admission was tied to an efficient behaviour. The prospect of a 'prize' certainly affected the conduct of some agents, notably the government, big firms, and trade unions, as these institutions were conscious of the strict relation between their conduct and the possibility to earn the 'prize' they expected from admission to the Union, which would at least raise the rating (i.e., the assessment for) of some countries. Small- and medium-size enterprises, had certainly a lower incentive, due to their likely free-rider attitude and lower attitude and limited ability to acquire information. After admission, incentives were certainly lower, as there was no apparent prospect of a future prize tied to restructuring and eliminating inefficiencies: reducing inefficiencies would in many cases have a high cost in the short run, while being beneficial in the longer run only. In addition, when the EMU began to operate, current account imbalances and the associated capital inflows to higher-inflation countries from abroad created bubbles in peripheral countries. These bubbles generated in the peripheral countries by capital inflows gave the impression that everything was right there, which can at least partially explain why policymakers in these countries did not implement long-term policies for addressing imbalances. In addition, after accession, relaxation of the external constraint made the important signals of the balance of payments and the exchange rate to be forgotten, as the ability of private and public agents to perceive the right market information and signals can be debated. Finally, the decision of the European Council not to sanction France and Germany for their violation of the SGP created moral hazard for other countries.

Chapters 5 and 6 discuss, respectively, the countries of the ‘periphery’ and those of the ‘core’. As to the first, one of the most important issues is the pression of growing population over scarce resources after WWII and up to the Fifties-Sixties, when the issue of unemployment was largely solved, due to intense growth, on the one side, and migration, on the other. Migration, however, involved mostly young people, thus leading to a higher average age. Only recently, immigration has to some extent led to a reversal of some of the previous demographic trends. Education and healthcare were other important policy issues, which were tackled to a large extent by governments.

Overall, these changes have led to a gap with the economic and social conditions of the countries of the ‘centre’, due also to historical roots that have not overcome. In these countries active labour market policies - supporting or incentivising people to earn incomes independently from the welfare state through gainful employment - have played a large role and have had a positive and long-lasting effect on employment in the long run.

Chapter 7 deals with the theoretical roots and practical interests behind the EMU institutions. As to the former, these have been built having in mind the virtues of markets. Existence of a currency union has tended to emphasise their role. In other terms, the basic idea of the European construction was that benefits could be derived from implementation of free markets, not only of goods, but also of capital in order to ensure efficiency and proper policy action, thus disregarding the many static and dynamic failures plaguing these markets. And addition of a single money to a unitary market could solve most problems deriving from the (possibly) diverging conduct of private agents in each sub-market, keeping also undisciplined public agents in line, in particular with the introduction of constraints on their conduct. Delegation of monetary policy to a conservative central banker, i.e. to a banker assigning employment a lower weight than the society’s or the government’s, was thought to be able to attain a lower level of inflation without reducing employment. In addition, the tendency of discretionary fiscal action towards accumulation of public deficit and debt - together with the ineffectiveness of this action due to supposedly low values of multipliers and the high value of debt - offered a justification for constraints imposed on it. These justifications of the articulation of public policies were based on economic theories fashionable in the Seventies, but have largely been rebutted in the more recent decades.

The recent progresses can justify a new design for the EMU institutions and the use of a common European growth strategy instead of competitive countries’ strategies. A democratic EMU not prone to country or sectional interests could now be built.

In chapter 8 the interventions of EMU institutions to face the negative effects of the pandemic are discussed. Apart from the monetary and macroprudential policies, new credit measures have been implemented at the European Union level. The European Stability Mechanism (ESM) made ten-years financing conditional to the object of expenditure (medical and health care). In addition, the EU Commission can authorize a number of policies, ranging in particular from state support for direct subsidies and tax breaks for urgent liquidity needs to state guarantees on bank loans, deferral or suspension of taxes and income support for employees. In addition, the European Investment Bank (EIB) has created guarantee funds for bank loans to companies. In July 2020, the 'Next Generation EU' fund was created, by which the European Commission raised up to 750-800 billion on the market and decided a (temporary) increase in the European budget 2021-2027, for long-term funds as collateral made available by up to 1.8% of the EU GDP from new direct contribution (such as the Emissions Trading Scheme and new resources like a new tax on multinationals that can exploit digitalisation to have access to tax havens, etc.) and greater guarantees from member countries.

Part of the funds – up to €338 billion – are being provided to Member States in the form of grants. Another part – up to €385.8 billion – is for funding loans to individual Members in line with their national Recovery and Resilience plans. Central to this fund is the Recovery and Resilience Facility - offering grants and loans to support reforms and investments in the EU Member States up to €723.8 billion at current prices.

Thus, the pandemic seems to have been a game-changer in the EMU institutions and policies. The problem now is whether the response to the pandemic will change the characterisation of the EMU as inspired by neoliberalism and ordoliberalism.

Chapter 9 is about the macroeconomic and microeconomic policies needed for the EMU.

As to macroeconomic policies, the first intervention should be a reform of monetary policy, by admitting the ECB financing of governments in some circumstances, followed by a reform of the ECB, in particular by adding other targets to the anti-inflationary one. Considering the limits of monetary policy, the need that arises for strengthening other policies, such as financial regulation and supervision, by making macroprudential policies necessary also for each member state.

With reference to fiscal policy, it is necessary to put an end to the austerity imposed in the EMU, by softening the Stability and Growth Pact and the fiscal compact under exceptional circumstances and moving towards a fiscal union, since a federal design can have a number of advantages. Also, policies for debt should aim at lowering the risk of default of governments that derives from excessive public debt and enhancing its capacity to deal with large economic shocks. This can be done by various policies, trying to avoid debt increases or lower its extant level, e. g., by reducing the amount of debt possessed by banks.

As to wage policy, rules and interventions must aim not only at prescribing wage moderation in peripheral countries – which, alone, has certainly reduced inflation but increased unemployment – but also requiring the EMU core countries to correct their excessive wage moderation, considering that real wage cuts or freeze and further deregulation of labour markets would not ensure the conditions for a viable economic recovery, but are likely to be a recipe for prolonged stagnation of output and productivity growth.

Coordination of macroeconomic-policy is necessary in particular with respect to: a) coordination of monetary and macroprudential policy; b) coordination of monetary and wage policy; c) coordination between monetary and fiscal policy; d) international coordination with countries outside the EMU.

Also microeconomic instruments - from credit regulation to industrial policies, environmental policies and public services - should be part of the common strategy.

Chapter 10 is about the need of rediscovering economic policy in Europe. It starts from the consideration that the 'core' of this discipline to some extent autonomous from economic analysis emerged in the United Kingdom, Poland, Scandinavian countries and the Netherlands in the Fourties and Fifties. This core is articulated in its two 'pillars', respectively, the 'logic' and the 'theory' of economic policy to be applied to real situations of specific countries or regions according to their historical and institutional backgrounds.

In particular, the theory of economic policy had been apparently dismantled – even before the final statement of the discipline - by a number of critiques, starting with Arrow's theorem stating the impossibility of taking people's preferences as a reference for public action, which seemed to make it impossible for the theory of economic policy to serve as a basis for democratic interventions by governments. A few decades later, after the first critiques by Phelps and Friedman, Lucas stated the ineffectiveness of economic policy when people have 'rational' expectations, which seemed to be a well-founded assumption for rational agents. The revaluation of the discipline first started with the critique of Arrow's impossibility theorem, since Arrow's axioms normally reflect more or less acceptable value judgements. The critique to the second pillar of the core, i. e., the theory of economic policy, derived from the demonstration of equivalence of the rational expectations assumed by Lucas to a strategic game and the possibility in this game to reach policy targets under feasible conditions, when a player has a number of instruments at least equal to that of his or her targets.

These results allow for a radical change in the EMU institutions. In other terms, the construction of a democratic EMU not prone to country or sectional interests is feasible and can be done if European citizens are made aware of the considerations we have just made.

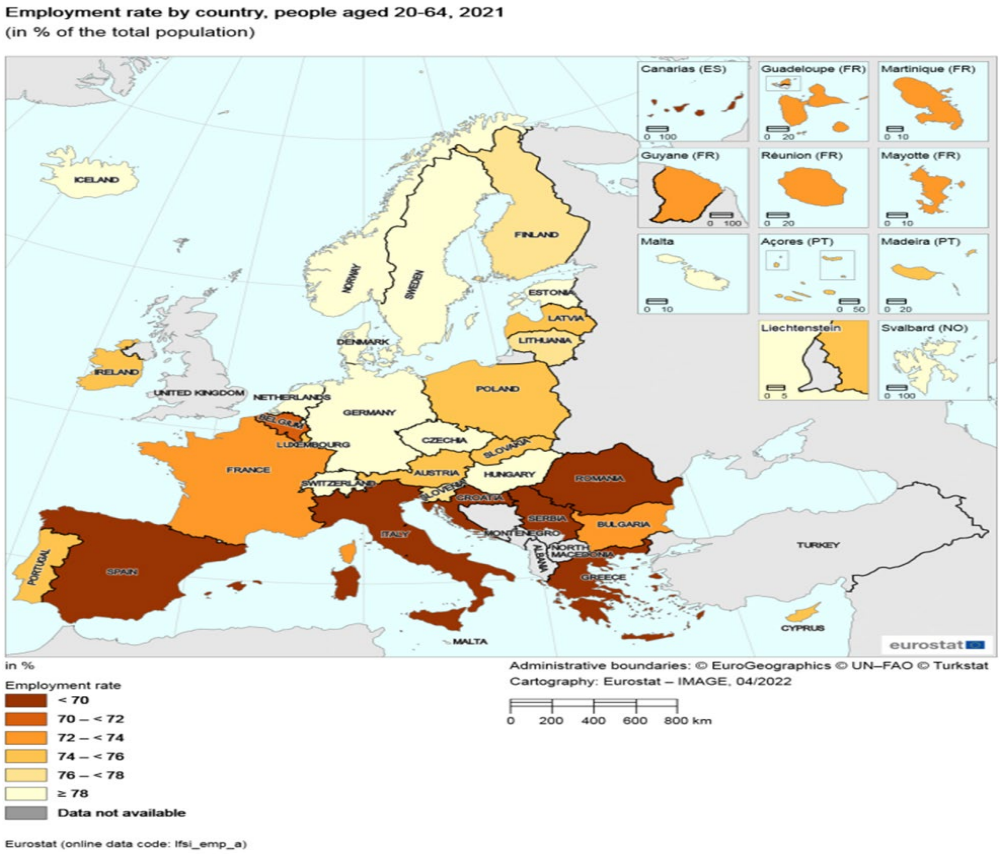
CHAPTER 1

TRENDS IN THE EMU LABOUR MARKET

1.1. Employment and employment structure

In 2017 the European Commission, the European Parliament and the Council launched the European Pillar of Social Rights Action Plan expressing principles and rights for fair and well-functioning labour markets and welfare systems in Europe. One of the three targets set for 2030 was reaching a 78% employment rate in the EU. In 2021, this rate was very different from one country to another: the average share of employed people in the total population was only 73.1%, with only 10 countries having a rate higher than the target, 11 countries with a rate between 74% and 78% and the remaining 6 countries having a rate below 74%.

Figure 1.1. Employment rate by country, people aged 20-64, 2021 (% of total population), European countries, Source: Eurostat

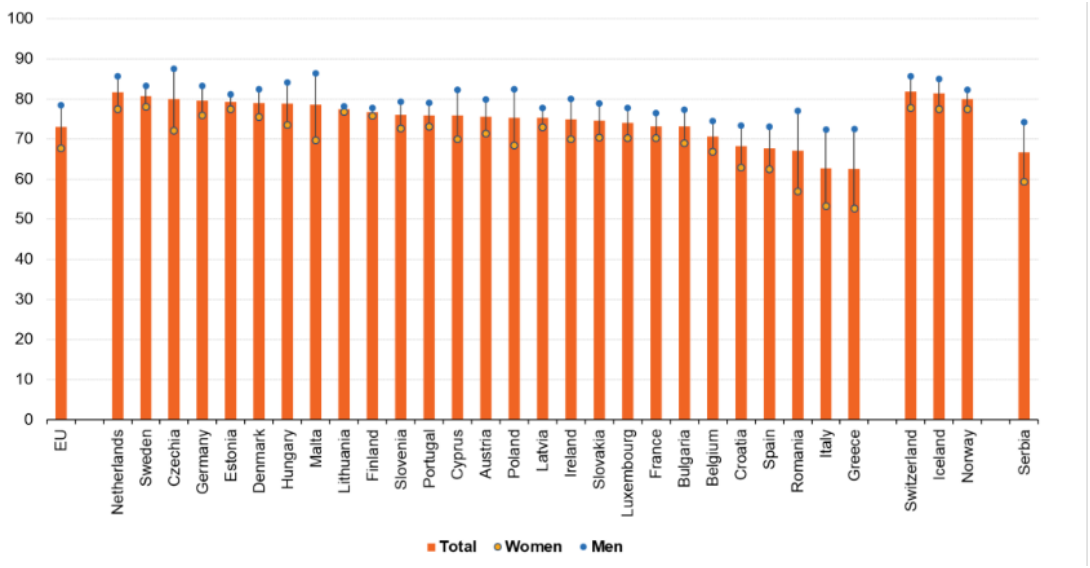


As can be seen from Figure 1.1., in general, Mediterranean countries, such as Greece, Italy and Spain, together with Croatia, Romania and Serbia had the lowest employment rate, while Croatia, Czechia, Denmark, Estonia, Germany, Hungary, Malta, Netherlands, Norway and Sweden had the highest one[1]. Obviously, within each of these countries the situation differed from one region to another. This was the case, e.g., of the 'Mezzogiorno' in Italy or regions like Andalucia, Extremadura and Murcia in Spain, but the differences of income and employment between different regions of the same country were rather common in most European countries (see, e.g., the data on 'disposable income of private households by NUTS 2 regions' collected by Eurostat).

[1] The highest employment rates in the EU are those of the Netherlands (81.7%), Sweden (80.7%) and Czechia (80.0%).

In addition to these differences, there was a gender employment gap, which narrowed from 13.4 p.p. in 2009 to 10.8 p.p. in 2021; it was higher in Romania, Greece, Italy, Malta and Czechia and lower than 5 p.p. in Lithuania, Finland, Estonia and Latvia, as can be seen in figure 1.2.

Figure 1.2. Employment rate by sex and country (in % of the total population aged 20-64), 2021 (Source: Eurostat)



An even clearer representation of the gender employment gap (together with the relative wage gap), set in a wider (that of the OECD) context is offered by figures 1.3 and 1.4.

Figure 1.3. Gender employment gap in labour markets, OECD, %, Source: OECD (2023)

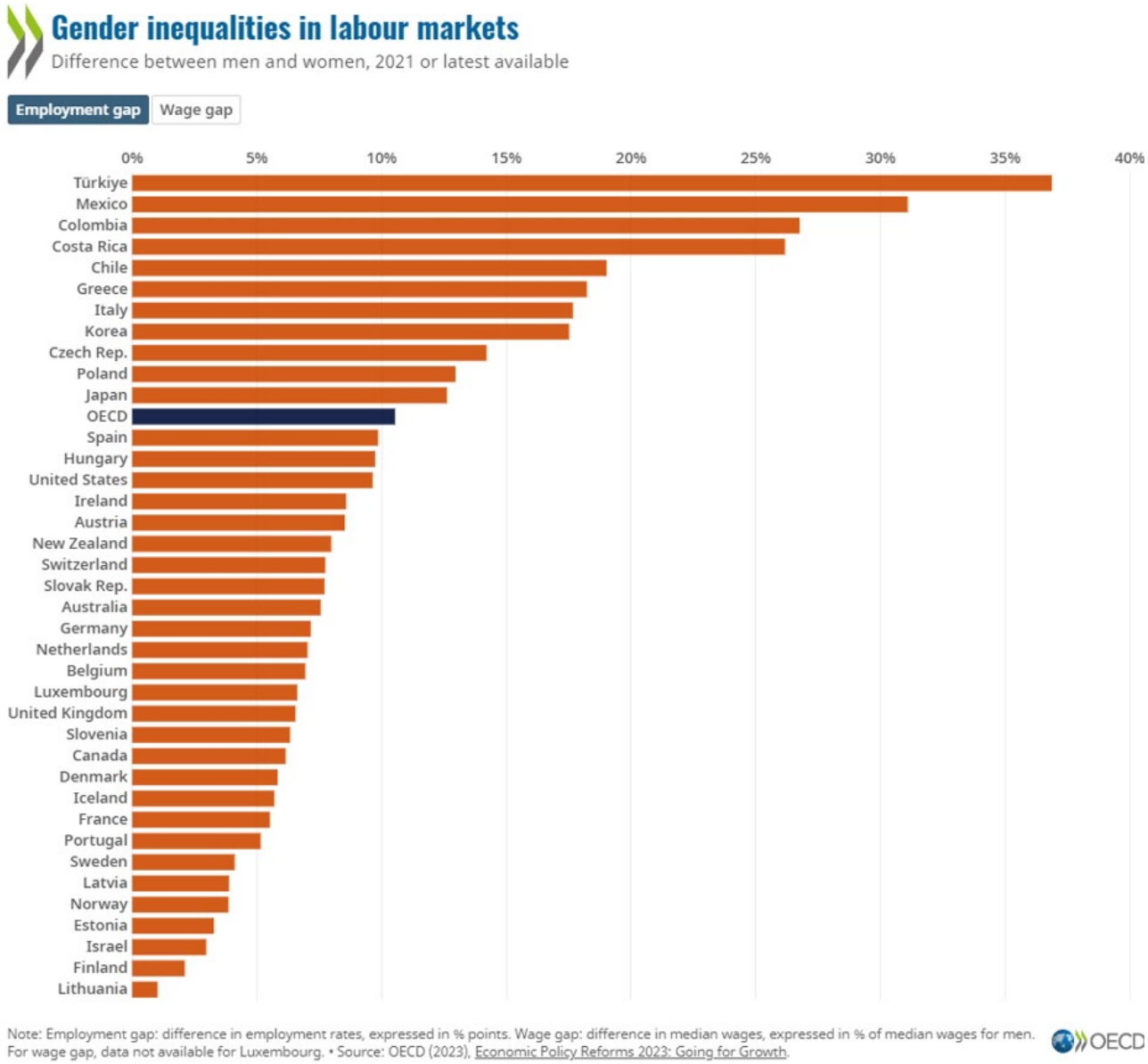
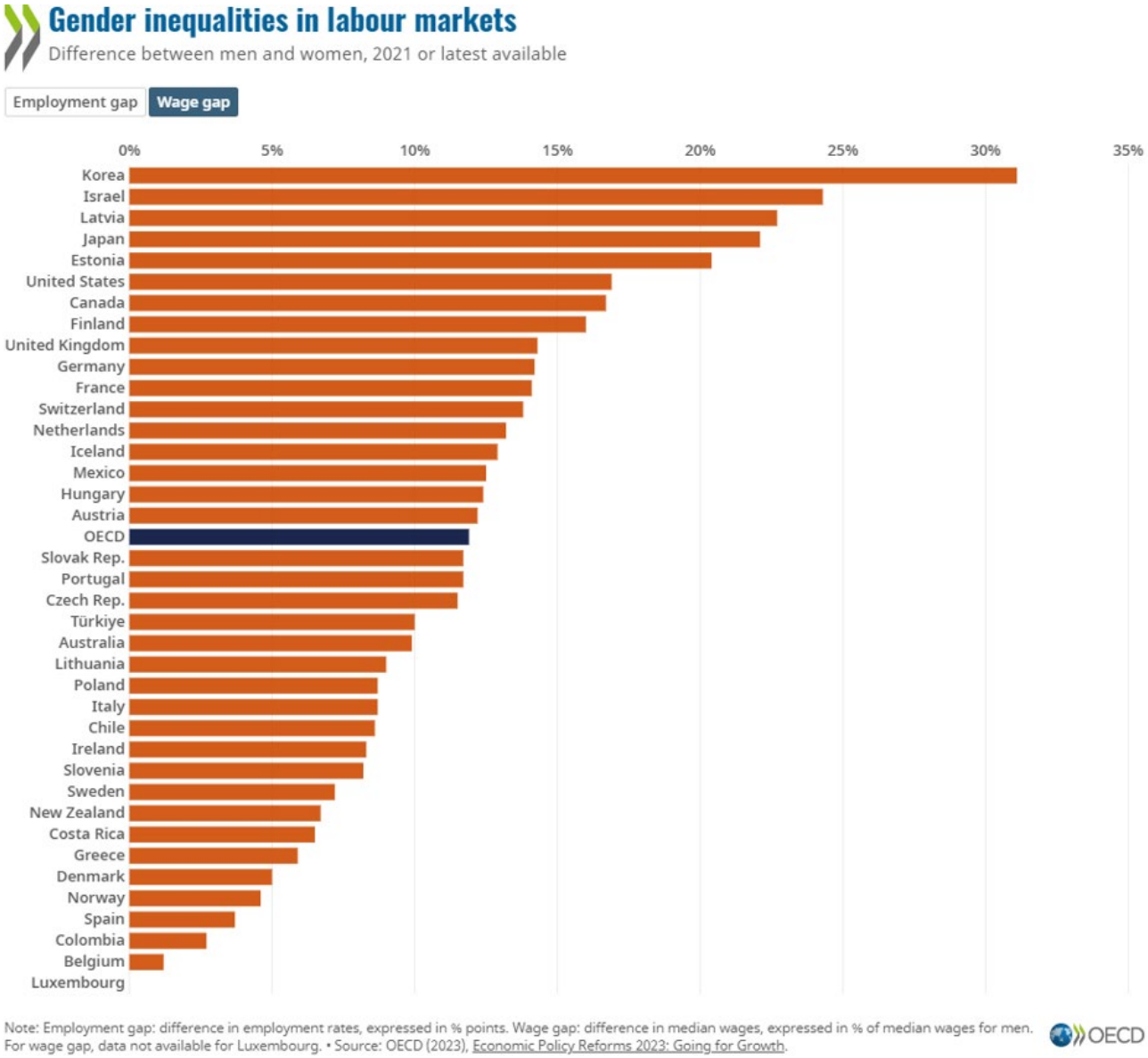
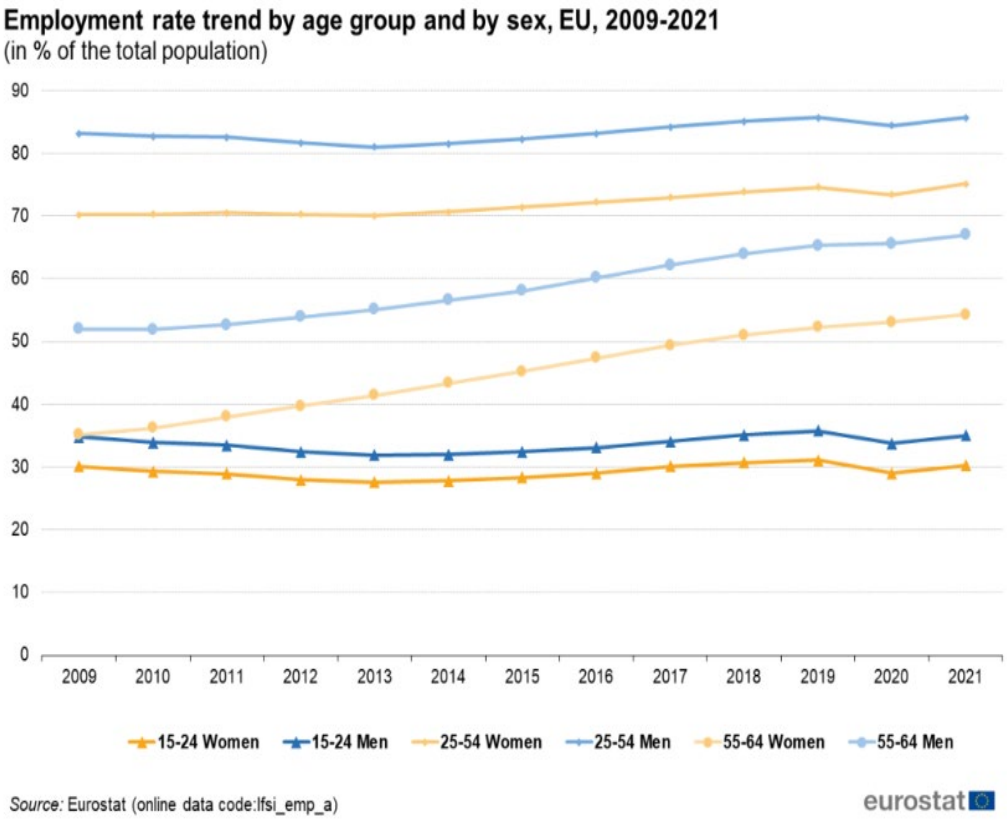


Figure 1.4. Gender wage gap in labour markets, OECD, %, Source: OECD (2023)



Also differences according to the age must be recognised. The employment rates trend by age group and sex are different, being higher for older people and lower for females. In fact, as shown by figure 1.5, employed people aged 55-64 had a higher share, accounting for 12.5% of total, whereas people aged 15-24 had a share of only 9.2%.

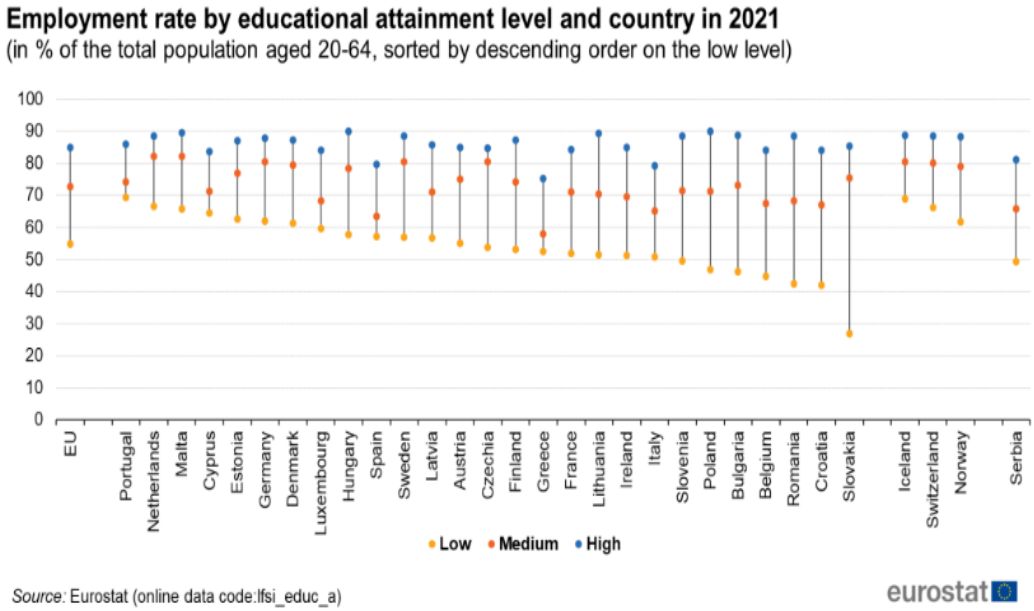
Figure 1.5. Employment rate trend by age group and sex, EU, 2009-2021 (in % of the total population), *Source:* Eurostat (lfsi_emp_a)



The long-term trend shows that the employment of people aged 55-64 records an upward trend globally in the EU and fluctuates less than for younger people, even when the COVID-19 pandemic has hit also the labour market in 2020. Over the 12-year period from 2009 to 2021, the employment rate of women aged 25-54 recorded a sharp increase of 19.1 p.p. The increase was also substantial for men aged 25-64 (+15.0 p.p.). The employment rate went up by 4.9 p.p. for women and by 2.5 p.p. for men aged 25-54. The smallest increases in the employment rate were recorded by younger men and women (+0.2 p.p. for both sexes). In the two last years the rate had a setback.

The employment rate significantly differed also by the level of education (see Figure 1.4). The employment rate of people aged 20-64 who had completed a high level of education was 85.0 % for the EU in 2021. This was much higher than the rate for those who had only attained a low education level, which was 54.9 % for the EU. It is worth noting that a high level of educational attainment refers to short-cycle tertiary, bachelor's, master's or doctoral levels (or, equivalents, ISCED levels 5-8), while a low level refers to primary or lower secondary education (ISCED levels 0-2). The EU employment rate of people who had completed their education to a medium level, i.e. an upper secondary or post-secondary non-tertiary education (ISCED levels 3-4), was between the two previous rates in 2021, at 72.8 %. Consequently, the higher the educational attainment level, the higher the employment rate. All EU Member States followed this pattern in 2021, albeit to a different extent, as shown in Figure 1.6.

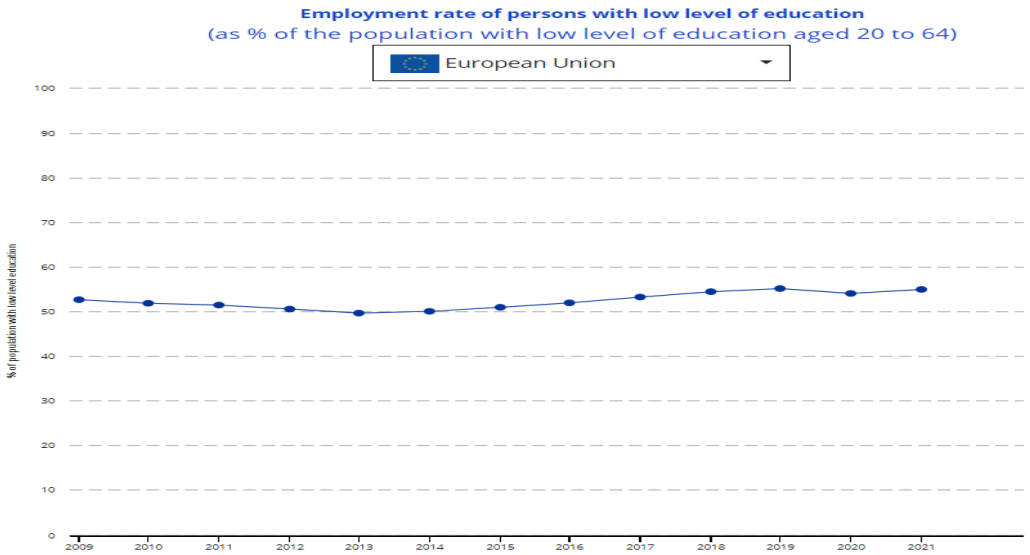
Figure 1.6. Employment rate by educational attainment level and country in 2021 (in % of the total population aged 20-64, sorted by descending order on the low level), Source: Eurostat (lfsi_emp_a)



As well as being the least likely to get a job (among the 3 education level groups), people with a low educational attainment level record the slowest employment rate increase between 2009 and 2021 (+2.3 p.p.). The corresponding increases over the same period for those with a medium or high level of educational attainment were +3.7 p.p. and +2.5 p.p., respectively.

The employment rate in 2021 was still below its pre-pandemic level (in 2019) for people with a low level (-0.1 p.p.) and for those with a medium level (-0.2 p.p.), but was above its pre-pandemic level for those with a high level of educational attainment (+0.2 p.p.) (see figure 1.7).

Figure 1.7. Employment rate by level of education, 2009-2021, (% of the population with low/medium/high level of education aged 20-64), Source: Eurostat



A second point worth raising is the gender employment gap by education level (see Figure 1.8). The lower the educational attainment level, the wider the employment gap between men and women. In 2021, among people with a high level of educational attainment, the gender employment gap was 5.3 p.p. It was 12.0 p.p. for people with a medium level and reached 22.0 p.p. for those with a low level of educational attainment.

Figure 1.8. Employment rate by educational attainment level and sex, EU, 2021, (in % of the total population aged 20-64), Source: Eurostat (lfsi_educ_a)

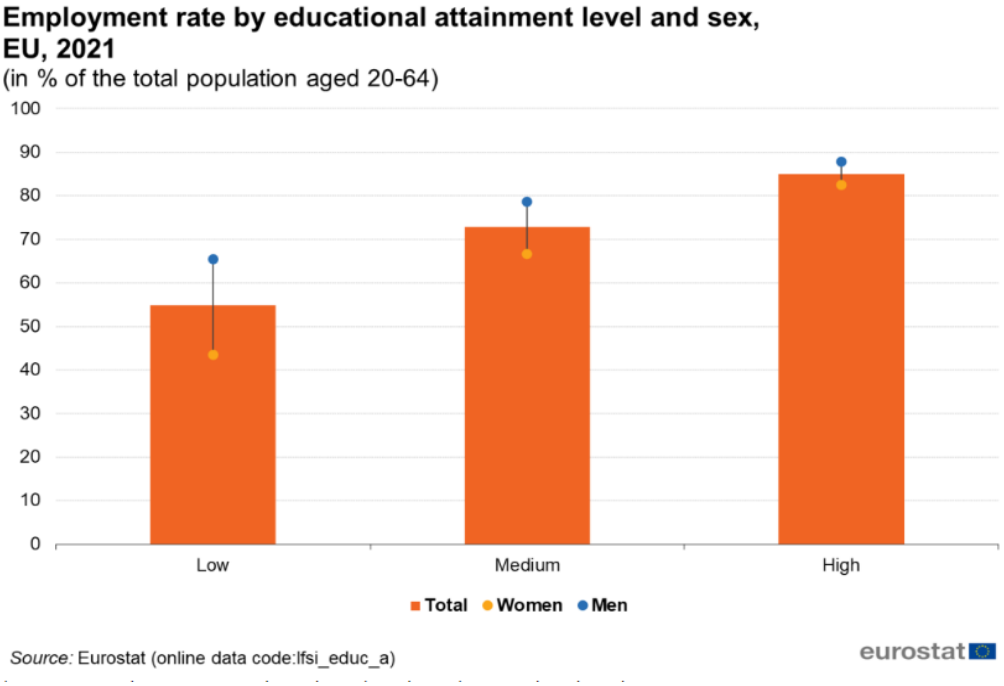
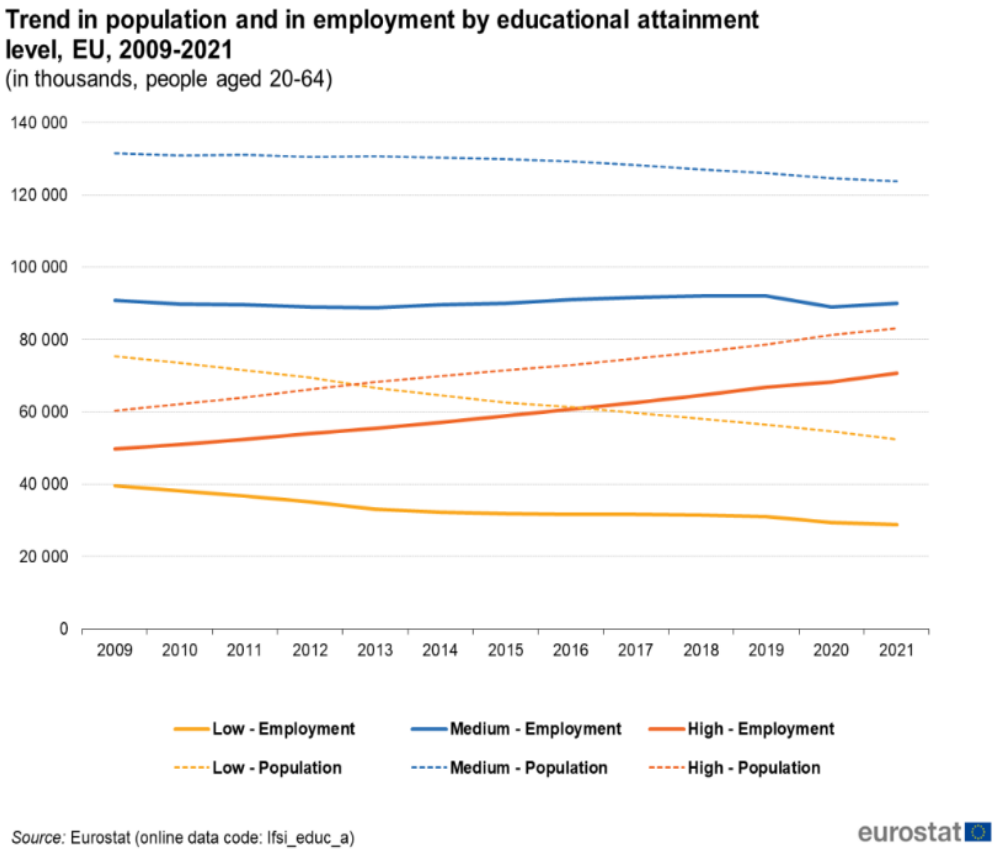


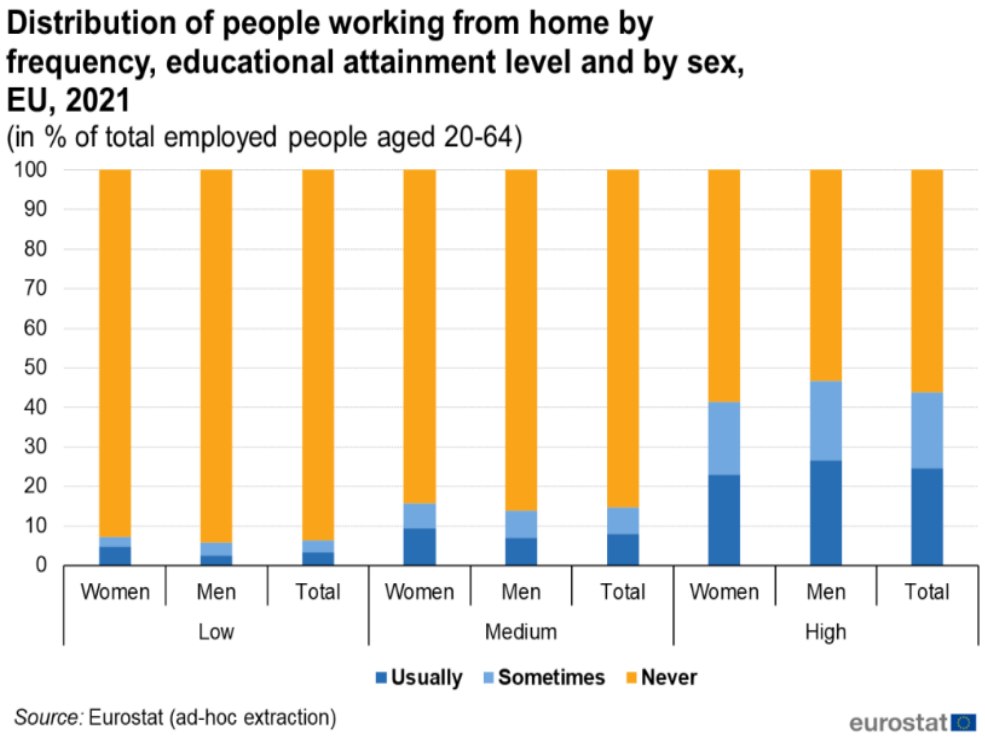
Figure 1.9 shows the trend in the number of people aged 20-64 in the whole EU population and in employment by educational attainment level. The changes over the last decade is clearly visible. From 2009 to 2021, the number of employed people with a low level of education decreased by 27.5%. Over the same period, the number of employed people with a medium level of education decreased by 0.9%. The number of employed people with a high level of education increased from about 50 million to around 70 million, more precisely by 41.7%, which is a little more than the percentage rise of the total increase of people with an education and by far the largest change recorded over this period.

Figure 1.9. Trend in the population and in employment by educational attainment level, EU, 2009-2021 (in thousands, people aged 20-64), Source: Eurostat (lfsi_educ_a)



Working from home has become more common in the last years, especially in the Netherlands, Sweden and Luxembourg, much less in Bulgaria and Romania. The pandemic has accelerated this trend. Among employed people, in 2021 the share of employed people who sometimes or usually worked from home increased with the level of education. It was 43.9%, while the share of employed people with a low (6.4%) or medium level of education (14.7%) were much lower, with an average of 24.4% (see Figure 1.10). However, women with a low or a medium level of education were more likely to work from home than their male counterparts.

Figure 1.10. Distribution of people working from home by frequency, educational attainment level and by sex, EU, 2021 (in % of total employed people aged 20-64), *Source:* Eurostat (ad-hoc extraction)



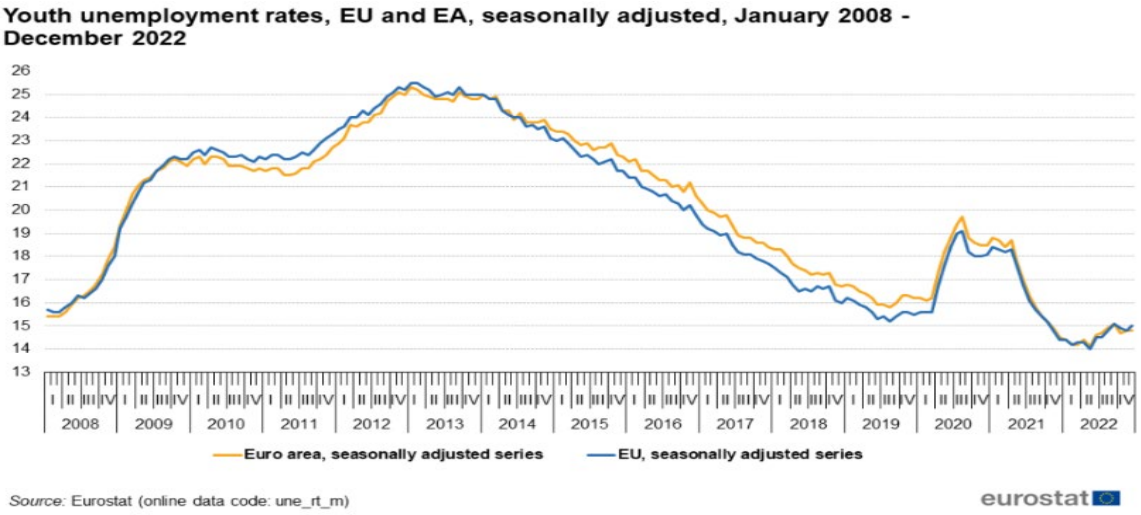
1.2. Unemployment. Education and the NEETs. Underemployment

Unemployment has had a double-hump profile in Europe, with a first high hump as a consequence of the financial crisis and a second, lower, hump due to the pandemic.

In November 2022, 12,950 million men and women in the EU (10,849 million in the EA) were unemployed. Compared with November 2021, unemployment decreased by 875,000 in the EU (or 6.0% of the labour force, down by .5%) and by 846,000 in the EA (or 6.5%, down from 7.1%). The rates for women were 6.4% and 5.7% for men in the EU (7.0% for women and 6.1% for men in the EA).

As to the age, in December 2022 2,862 million young persons (aged under 25) were unemployed in the EU, of whom 2,311 million were in the EA. The youth unemployment rate was 15.0 % in the EU and 14.8 % in the EA. Compared with December 2021, youth unemployment increased by 209,000 in the EU and by 156,000 in the EA. In a longer time interval, youth unemployment peaked twice, in 2012-2013, as a consequence of the financial crisis, and in 2020, due to the pandemic, as shown by figure 1.11.

Figure 1.11. Youth unemployment, 2008-2022, EU and EA (Source: Eurostat)



Here is the distribution of unemployment rates by country in the years 2015-2021 in the EU (see table 1.1).

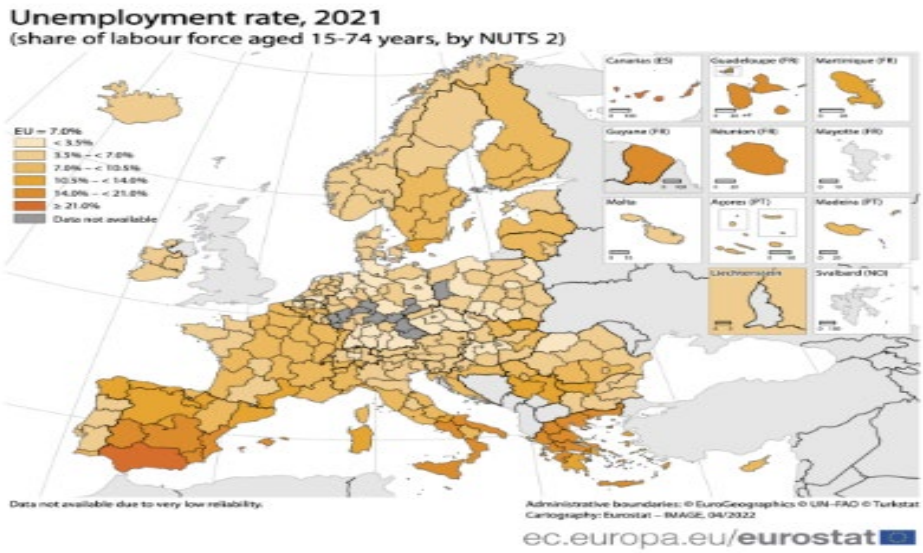
Table 1.1. Unemployment rates by country in the EU, 2015-2021 (Source: Eurostat)

TIME / GEO	2015	2016	2017	2018	2019	2020	2021
European Union - 27 countries (from 2020)	10.2	9.3	8.3	7.4	6.8	7.2	7.0
European Union - 28 countries (2013-2020)	:	:	:	:	:	:	:
Euro area – 20 countries (from 2023)	:	:	:	:	:	:	:
Euro area - 19 countries (2015-2022)	10.9	10.1	9.1	8.2	7.6	8.0	7.7
Belgium	8.7	7.9	7.2 (b)	6.0	5.5	5.8	6.3
Bulgaria	10.1	8.6	7.2	6.2	5.2	6.1	5.3
Czechia	5.1	4.0	2.9	2.2	2.0	2.6	2.8
Denmark	6.3	6.0 (b)	5.8 (b)	5.1	5.0	5.6	5.1
Germany (until 1990 former territory of the FRG)	4.4	3.9	3.6	3.2	3.0	3.7 (b)	3.6
Estonia	6.4	6.8	5.8	5.4	4.5	6.9	6.2
Ireland	9.9	8.4	6.7	5.8	5.0	5.9	6.2
Greece	25.0	23.9	21.8	19.7	17.9	17.6	14.7
Spain	22.1	19.6	17.2	15.3	14.1	15.5	14.8 (d)
France	10.3	10.1	9.4	9.0	8.4	8.0	7.9 (d)
Croatia	16.2	13.1	11.2	8.5	6.6	7.5	7.6
Italy	12.0	11.7	11.3	10.6	9.9	9.3	9.5
Cyprus	15.0	13.0	11.1	8.4	7.1	7.6	7.5
Latvia	9.9	9.7	8.7	7.4	6.3	8.1	7.6
Lithuania	9.1	7.9	7.1	6.2	6.3	8.5	7.1
Luxembourg	6.7 (b)	6.3	5.5	5.6	5.6	6.8	5.3
Hungary	6.6	5.0	4.0	3.6	3.3	4.1	4.1
Malta	5.4	4.7	4.0	3.7	3.6	4.4	3.4
Netherlands	7.9	7.0	5.9	4.9	4.4	4.9	4.2
Austria	6.1	6.5	5.9	5.2	4.8	6.0	6.2
Poland	7.7	6.3	5.0	3.9	3.3	3.2	3.4
Portugal	13.0	11.5	9.2	7.2	6.7	7.0	6.6
Romania	8.4	7.2	6.1	5.3	4.9	6.1	5.6
Slovenia	9.0	8.0	6.6	5.1	4.4	5.0	4.8

From the table it can be seen that the highest rates in 2021 were those of the Mediterranean countries, to which Bulgaria, Croatia and Cyprus must be added.

Looking at data at a regional level of each EU country can add to our knowledge. As one can see from figure 1.12, unemployment is lowest in some German regions, in Poland, in Czechia, in Hungary, in Belgium and in the Netherlands, Romania and Slovakia and highest mainly in some Italian, Greek, French and Spanish regions. Regional differences are more pronounced in Spain, Italy and France.

Figure 1.12. Unemployment in EU regions, 2021 (Source: Eurostat)



The unemployment rate is an important social and economic indicator. Rising unemployment produces a loss of income for individuals, increased pressure for government spending on social benefits and less tax revenues. In addition, it leads to a bad quality of life, even if there can be a contained reduction in the income, due to social benefits.

Also from this point of view the time profile of unemployment is important. Let us consider only a few EU countries, France, Germany, Greece, Italy and Spain, drawing from Eurostat (see Table 1.2)

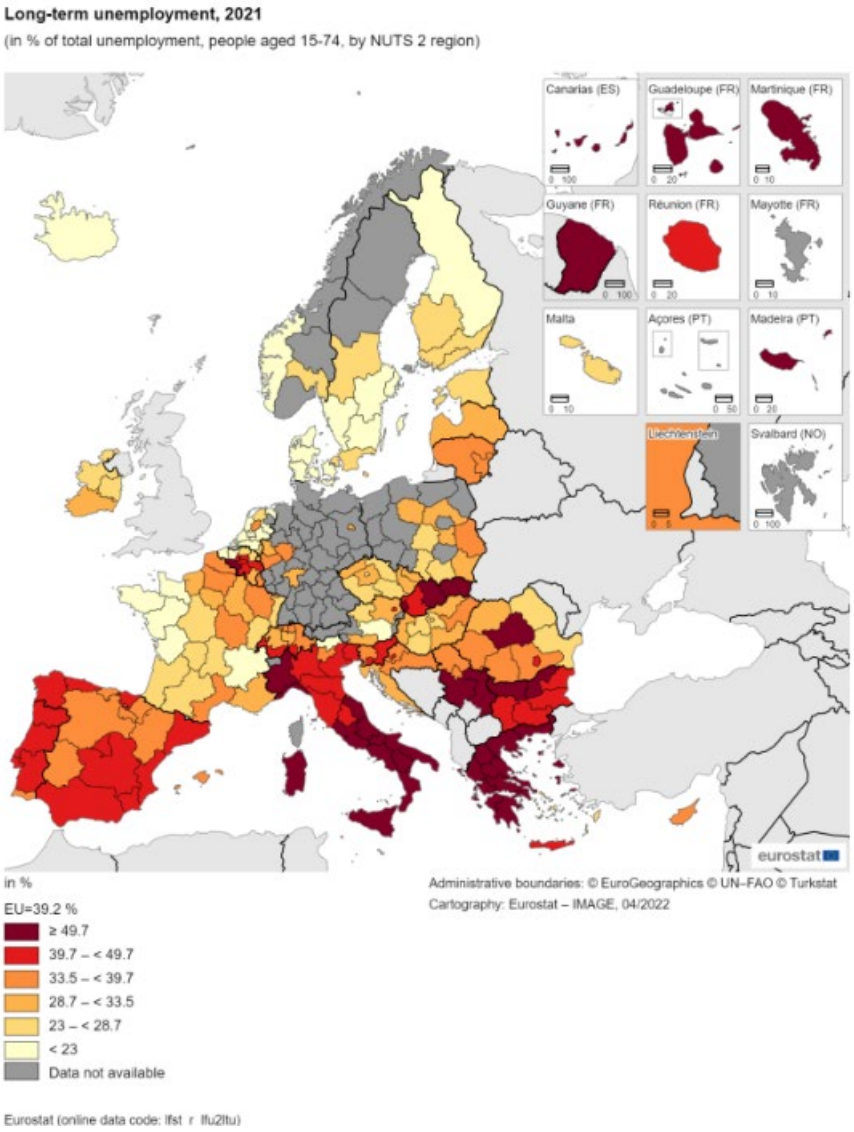
Table 1.2. Unemployment in the 3rd quarter of 2019, 2020 and 2021 data (see https://ec.europa.eu/eurostat/databrowser/view/LFSQ_UGAD__custom_1894003/default/table?lang=en.)

Unemployment for people aged 15-64 (Source: Eurostat)			
	2019 – 3rd quarter	2020 – 3rd quarter	2021 –3rd quarter
France - Total	2427.0	2628.8	2382.2
Less than 1 month	178.5	151.7	527.3
6-11 months	418.1	580.2	338.1
Germany - Total	1345.3	n.a.	1431.4
Less than 1 month	185.4	n.a.	248.4
6-11 months	203.0	n.a.	239.9
Greece - Total	768.4	747.0	608.8
Less than 1 month	15.2	22.8	24.4
6-11 months	115.2	130.9	83.3
Italy - Total	2332.0	2539.5	2197.6
Less than 1 month	97.4	93.9	172.3
6-11 months	306.4	418.7	232.5
Spain - Total	3202.5	3708.0	3397.8
Less than 1 month	411.7	333.8	435.3
6-11 months	484.7	760.7	492.4

As one can see, total unemployment with respect to the population is lowest in Germany, followed by France, Italy, Spain and Greece. In addition, long-term unemployment is also relatively lower in Germany, followed by Spain, France, Italy and Greece.

One can see from figure 1.13, indicating the regional breakdown of the size of long-term unemployment, that this is highest in the South of Italy and in the Piedmont, in some regions of Romania, as well as in a few other countries. A bit less long-term unemployment can be found in the remaining regions of Italy, in many Spanish, Portuguese and Bulgarian regions.

Figure 1.13. Long-term unemployment Europe, 2021 (Source: Eurostat)

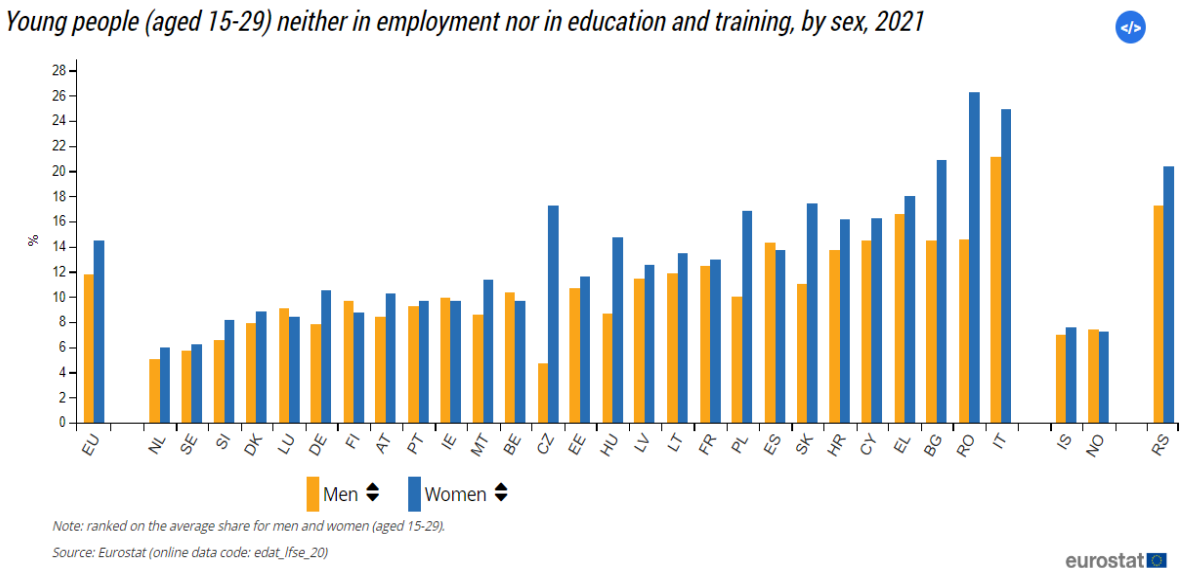


Unemployment may be a misleading – or incomplete – indicator of the real situation of abstention from work. The concepts of employment and unemployment alone do not exhaust the picture of the labour market. In fact, there are cases of people being at the same time unemployed and do not study any longer as well as, in addition, other situations that are close to both employment and unemployment, i.e., underemployment.

Let us begin with the situation described first. A situation similar – or even worse – than unemployment is offered by the NEET (Young people aged 15-29 *neither in employment nor in education and training),* which certainly depends on the existing working prospect and some kind of social capital, i.e. of social habits.

Figure 1.14 shows their distribution by country and sex in 2021. The share for men was highest in Italy (21%), against the average EU share of almost 12%. The share of women was instead highest in Romania (26%), against the average EU share of almost 15%.

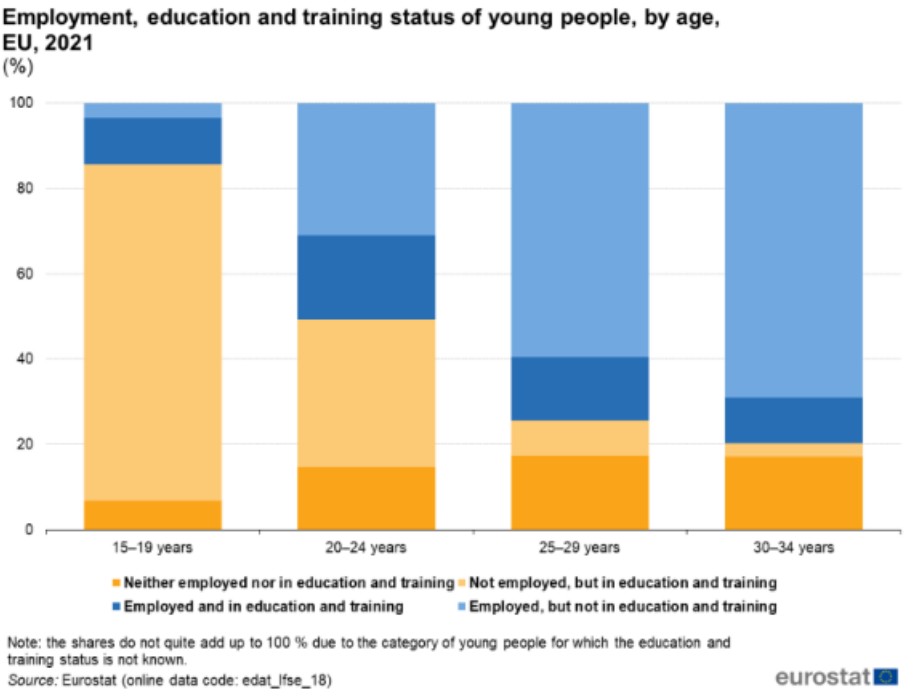
Figure 1.14. NEETS by country and sex, % of total young people aged 15-29, 2021 (Source: Eurostat)



- *Note: ranked on the average share for men and women (aged 15-29).*
- *Source: Eurostat (online data code: edat_lfse_20)*

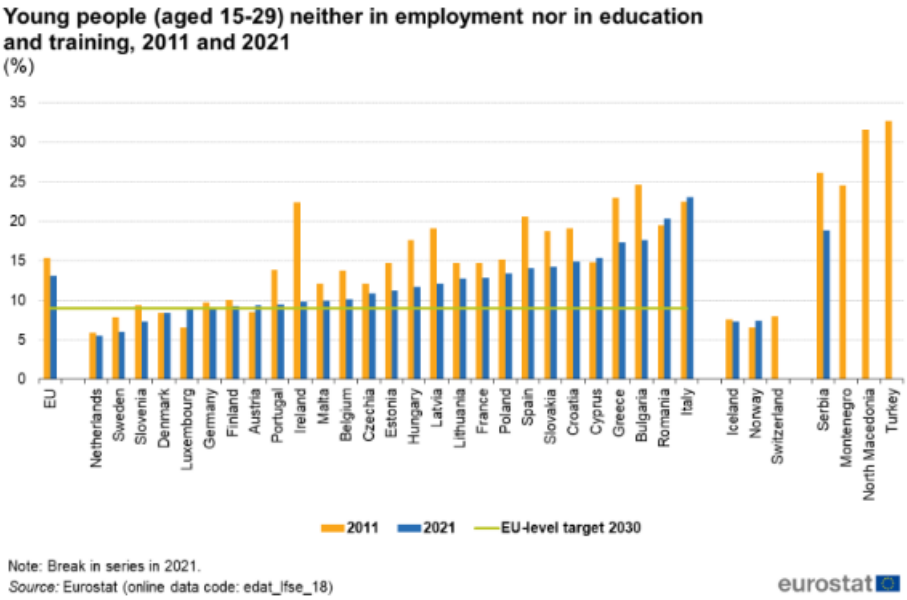
The share of the NEETs lowers with the age, with most of discouraged people in the 15-19 years, as shown by figure 1.15.

Figure 1.15. Young people in education or training, or employed or NEET, % of total people of the same age, Source: Eurostat



The distribution of the share of NEET in 2021, compared with that of 10 years before, is shown by figure 1.16. One can see that in most countries and the EU the share has greatly decreased (the most interesting case being that of Ireland), as a consequence of the better economic conditions, even if these are still under the effects of the pandemic. However, this was not the case of a few countries, such as Luxembourg, Austria, Romania and Italy.

Figure 1.16. NEET in different EU countries, %, 2011 and 2021 (Source: Eurostat)



The NEET rates in 2021 in the EU Member States for people aged 15–29 with a low level of education ranged from 5.0% in the Netherlands and 6.4% in Sweden to about 23% in Italy.

Concerning people aged 15–29 with tertiary education, their NEET rates were in general considerably lower than for the other levels of education. The lowest share was 3.1% in the Netherlands, but a value as high as 26.8 % was reported in Greece.

In 2021, 14.5% of young women aged 15–29 in the EU were NEETs, while the corresponding share among young men was 2.7% age points lower, at 11.8%.

In 2021, the share of young people (aged 15–29) in the EU who were NEETs was lowest in cities (12.2%) and at about the same level in towns, suburbs (13.9%) and rural areas (13.7%). The largest differences of the rates between cities and rural areas in terms of percentage points (p.p.) were recorded in Romania (17.7 p.p.) and in Bulgaria (18.2 p.p.).

Let us refer now to the second case we have mentioned at the beginning of this section as a situation which is halfway between employment and unemployment, i.e. 'underemployment'. This term describes a number of situations: a) first, the case of workers that are employed part-time but would prefer a full-time job; b) the case of workers working fewer hours than they would like, even if part-time employment has voluntarily been chosen; c) situations of workers employed in jobs for which they are overqualified (Heyes, Tomlinson, 2021). Underemployment and well-being are associated, not only from the point of view of the people who are unemployed. In fact, underemployed workers tend to have a lower productivity level.

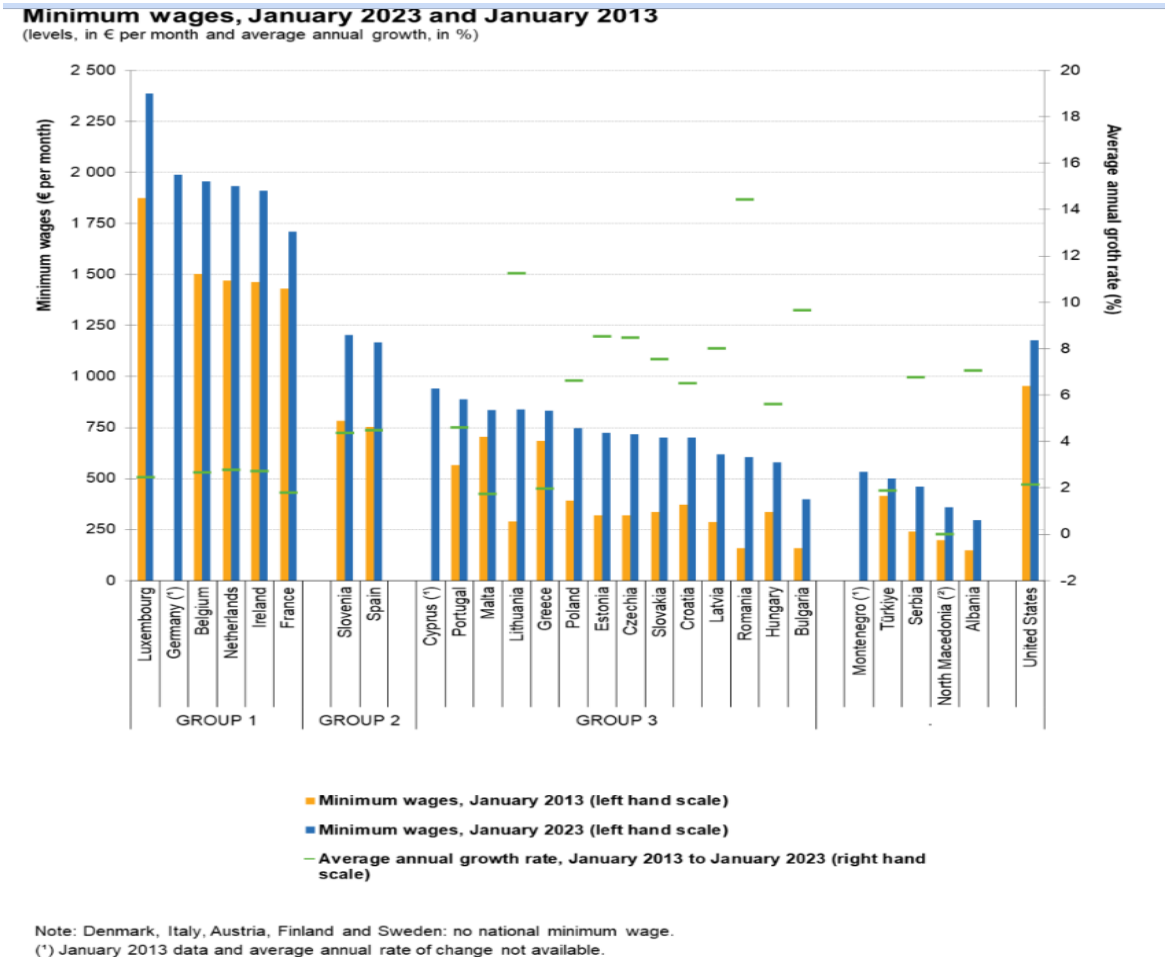
On 1 January 2023, 22 out of the 27 EU Member States had a national minimum wage (see figure 1.17). EU countries without a national minimum wage were: Denmark, Italy, Austria, Finland and Sweden. Monthly minimum wages vary widely according to the country. The highest minimum wage has been set by Luxembourg and Germany, the lowest by Hungary and Bulgaria.

Some people think that unemployment is tied to minimum wage legislation and particularly to a high level of this wage. However, there is very strong evidence to the contrary[2].

The question of whether moderate minimum wage increases have an insignificantly positive or insignificantly negative impact on particular segments of the labour market will continue to be a fruitful work for economists. In the meantime, policy makers should be aware that the facts clearly show that the benefits of such increases outweigh any potential costs.

[2] On this see The Economist, 2021.

Figure 1.17. Minimum wage levels per month in various EU countries, 2013, 2023 (Source: Eurostat)



Note: Denmark, Italy, Austria, Finland and Sweden: no national minimum wage.
(*) January 2013 data and average annual rate of change not available.

1.3. Unemployment and its distribution by age and country. The search for employment and the duration of unemployment

As can be seen from table 1.3, unemployment – as expected – is lowest in Germany, followed by France, and highest in Greece and Spain. Italy's unemployment stays in between the other countries.

Table 1.3. Unemployment data for selected countries and dates, people aged 20-64 (Source: Eurostat)

TIME / GEO	2020-Q3	2021-Q3	2022-Q3
Euro area - 19 countries (2015-2022)	8.6	7.4	6.5
Germany (until 1990 former territory of the FRG)	3.9 (u)	3.3	3.0
Greece	17.5	14.1	12.2
Spain	16.0	14.3 (d)	12.1 (d)
France	8.6	7.5 (d)	6.8 (d)
Italy	11.0	9.5	8.3

If, instead of looking at unemployment rates for all people aged 20-64 we consider those aged 16-29, we have table 1.4, showing that these rates are always higher than those mentioned before. This can be attributed to the higher difficulty of finding a job at that age, and not only to the fact that some of these people study or are NEET. In addition, they confirm that unemployment has been higher when the pandemic has first hit, i.e. in 2020, and has been partly absorbed in the two following years.