POLICY BRIEF

Eurofound

Monitoring EU convergence

Progress on convergence in employment

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The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social, employment and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75 to contribute to the planning and design of better living and working conditions in Europe.

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Introduction

The convergence of Member States both economically and socially is paramount for the EU because it reinforces the promise of shared economic prosperity, which is the basis of the European project and was fundamental to the creation of the euro. The heavy social costs inflicted by the economic crisis of 2008 underlined that economic convergence is not sufficient and that social convergence must be given equal weight within policymaking.

The goal is upward convergence in social outcomes – improving the performance of Member States in employment, working conditions and living conditions, while lessening the disparities between them. It is within this context that Eurofound has undertaken to monitor trends in convergence in the EU. This policy brief looks specifically at convergence in employment. Member States converged in their employment outcomes over the last two decades, but the economic crisis halted this trend. Nevertheless, with the economic recovery came a resumption of upward convergence in most labour market indicators.

The aim of this policy brief is to provide evidence contributing to the debate around the policy options for enhancing the convergence of Member States in respect of employment and in preventing asymmetries in performance.

It provides a detailed and updated picture of convergence in employment, based on indicators representing different dimensions:

- labour market participation: the activity and employment rates
- labour market exclusion: the unemployment and the long-term unemployment rates
- labour market dynamics: the involuntary temporary employment rate

These findings are taken from the Eurofound report *Progress in monitoring convergence in employment and the socioeconomic area*, due for publication in 2019.

The brief discusses one possible policy option to enhance EU convergence in employment: a European unemployment insurance scheme.

Policy context

The EU is committed to balanced and sustainable economic growth and to social and territorial cohesion. In the aftermath of the economic crisis, well-established patterns of Member State convergence in economic and social outcomes slowed, and in some cases reversed. Since 2013, however, upward convergence trends have been restored in the main economic and social indicators. Notwithstanding this recovery, diverging performance among Member States continues to be a concern among European and national policymakers. Persistent economic divergence among Member States may erode the promise of shared economic prosperity. Social divergence and increasing disparities within Member States weaken progress towards the ultimate goal of the European project to improve living and working conditions within the single market.

The gravity and long-term effects of the crisis have focused policymakers on the need to address social and employment asymmetries alongside disparities in economic indicators such as gross domestic product (GDP). While the social dimension of European integration had been neglected until recently, current policy thinking at EU level recognises that economic and social convergence should go hand in hand. This implies avoiding excessive reliance on fiscal discipline and budgetary austerity, which could exacerbate socioeconomic inequalities, particularly in more fragile countries and regions already lagging behind.

The Commission's 2017 *Reflection paper on the social dimension of Europe* is indicative of the increased attention given to social Europe, describing the differing interpretations of the concept, as well as the current social conditions across the EU and trends up to 2025. It also sets out the implications for the social dimension of the five potential scenarios for the EU presented in the *White Paper on the future of Europe*. It proceeds to outline three possible pathways for a social Europe, ranging from focusing exclusively on the free movement of workers, to developing a multispeed Europe, to deepening the social dimension across the Member States.

The Rome Declaration of 2017 included a renewed commitment to social Europe. This was followed by the European Pillar of Social Rights, which was launched with the explicit aim to guide Member States towards upward convergence. The Pillar aims to ensure better working and living conditions across Europe and better access to social rights, including education and training, social protection, and healthcare, in order to fight social exclusion. It gathers all EU action in the employment and social policy fields under a common framework comprising three dimensions:

- equal opportunities and access to the labour market;
- fair working conditions;
- social protection and inclusion.

There is ongoing policy debate around initiatives and policy options to equip Member States with the tools that might increase their resilience to withstand economic shocks and prevent diverging trends in employment performance. The inclusion of employment and social coordination mechanisms in the framework of the European Semester has increased the attention given by EU institutions to a wide range of social and employment policy issues. In addition, new employment and social indicators have been integrated into the macroeconomic surveillance mechanism to monitor the evolution of employment and social issues (IRS, 2015).

Several proposals for reform of the Economic and Monetary Union (EMU), including the so-called Four Presidents' and Five Presidents' reports, consider the introduction of automatic stabilisers to act as transnational fiscal shock absorbers (Bordo et al, 2013; Farhi and Werning, 2014). One option that has received some prominence is a European unemployment insurance scheme: 'an unemployment-based, supranational, automatic stabilisation mechanism that can take different forms' (Beblavý and Lenaerts, 2017, p. 84). Although in the current debate social convergence is not the primary objective of such a scheme, there is a strong argument around whether it would help to smooth the business cycles and reduce the impact of recessions on European citizens.

The idea for a European unemployment insurance scheme was first proposed in 1975 by the Marjolin Report as a tool for fiscal policy, macroeconomic stabilisation and redistribution (European Commission, 1975). Over the years, several proposals for such a scheme have been discussed in policy and academic debates. More recently, the Commission's 2017 *Reflection paper on the deepening of the Economic and Monetary Union* considers the introduction of a European unemployment reinsurance scheme, which would act as a reinsurance fund for national unemployment schemes, to provide 'more breathing space for national public finances and help to emerge from the crisis faster and stronger' (p. 26). This approach (also known as an 'equivalent' scheme) envisages the EU receiving from and paying out to national governments. By contrast, under a 'genuine' insurance scheme, the EU would pay beneficiaries directly.

Member States have joined the policy debate. In 2014, the French Ministry for the Economy and Finance published an article supporting the establishment of common basic unemployment insurance within the euro zone. Also in 2014, the Italian Presidency of the Council of the European Union organised debates on the idea at the informal Council of Employment Ministers, calling for a Green Paper on the subject. And in 2018, Germany's Federal Ministry of Finance presented plans for a European unemployment stabilisation fund designed to arm the euro zone against crises, in a response to French President Emmanuel Macron's call for deep reform of the currency union.

In addition, several academic reports have proposed a European unemployment insurance scheme as a way to help restore citizens' trust in the EU and have discussed its use as a European stabilisation mechanism that could take different forms depending on specific policy objectives (Dolls et al, 2016, 2018; Dullien, 2007, 2008, 2013, 2014; Esser et al, 2013).

The input of the social partners has been limited, perhaps because they see the implementation of such a tool as unlikely. BusinessEurope, the EU-level employer organisation, in 2013 stated that it would be politically unfeasible, unacceptable and impractical. The organisation objected to the degree of harmonisation of national unemployment schemes and the fiscal integration required, the loss of some budgetary sovereignty, and the negative economic impacts. BusinessEurope's position has not changed and was stressed again more recently (see BusinessEurope, 2017).

On the other hand, the European Trade Union Confederation (ETUC), the major trade union organisation representing workers at European level, has not set out a clear official position. It has said it would seek clarification on the scheme discussed in the Commission's reflection paper and would then continue to assess the issue with its affiliates (ETUC, 2017).

Key findings

- During the period 2000–2017, there was upward convergence of the Member States in the indicators of labour market participation (activity and employment rates) and labour market exclusion (unemployment and long-term unemployment rates). There was an increase in the average performance of the EU as a whole (but not all Member States) and a reduction of disparities between Member States.
- The upward convergence of Member States in three of these indicators – employment, unemployment and long-term unemployment rates – was temporarily reversed during the years of the economic crisis and replaced by a pattern of downward divergence: a decrease in performance and increase of disparities.
- For the one indicator of labour market dynamics analysed, involuntary temporary employment, a trend of downward divergence throughout 2000–2017 is apparent. The rate of involuntary temporary employment rose in that interval, with increasing disparities among Member States.
- The analysis of convergence of Member States on these indicators in respect of demographic groups shows different patterns in labour market participation and exclusion. For example, there is clear upward convergence among Member States in the activity and employment rates of women and older workers (aged 55–64), and also in the activity and unemployment rates of workers with low educational attainment. By contrast, Member States diverged in relation to the employment rates of young workers (aged 15–24) and individuals with high educational levels.
- Over the entire period, Member States with the poorest labour market performance caught up with the best-performing Member States, although the pace of convergence varies over time and across groups of countries (euro zone and non-euro zone Member States; the EU15 (pre-2004 Member States) and the EU13 (post-2004 Member States)).
- Disparities in labour market indicators are usually larger across EU regions than across EU Member States. Furthermore, in some cases, the convergence patterns of regions differ from those of Member States. For example, there was convergence of Member States in relation to the employment rate over 2004–2016, while divergence was recorded at regional level.
- The pace of convergence among Member States and among regions is usually higher for the EU13 and in those outside the euro zone.

Exploring the evidence

Monitoring convergence in employment

The focus of this policy brief is on the upward convergence of Member States, and regions, in employment outcomes over 2000–2017. Eurofound (2018) has defined upward convergence for a given indicator as an improvement of the EU average level, moving towards a policy target, combined with a reduction of disparities among Member States. If all Member States improve their performance on the indicator while disparities are reduced, it is described as strict upward convergence.

Other patterns are possible:

- downward convergence (a decrease in performance and a reduction of disparities)
- upward divergence (an improvement of performance and an increase of disparities)
- downward divergence (a decrease in performance and an increase of disparities)

Eurofound's monitoring of convergence in employment tracks nine indicators classified into three categories:

- labour market participation: activity rate, employment rate and average weekly hours worked
- labour market exclusion: unemployment rate, long-term unemployment rate and NEET (young people not in employment, education or training) rate
- labour market dynamics: involuntary temporary employment rate, involuntary part-time employment rate and transition rate from temporary to permanent contracts

A summary of the convergence trends in these indicators over 2000–2017 follows.

EU trends, 2000–2017

From 2000 up to the second quarter of 2017, Member States have been moving closer together in terms of the indicators of labour market participation and exclusion, and a pattern of upward convergence is evident in the EU. This trend, however, hides different patterns both over time and across countries.

Up until 2008, there was broad upward convergence in employment and unemployment rates both between Member States and within them (European Commission, 2014, 2016). Comparing the EU13 and the EU15 shows that from 1995, the EU13 have been catching up with the EU15 and that process is still ongoing. Within the EU15, the southern European Member States have been losing ground to their central and northern European counterparts since around 2005, a trend that has become more noticeable since the 2008 crisis. The increasing divergence within the EU15 is particularly evident in the indicators of employment and unemployment (Eurofound, 2018; Huemer and Mahringer, 2018).

Except for the activity rate (which shows a clear upward convergence trend over the whole of 2000–2017), the 2008 recession increased disparities across Member States regarding the labour market indicators, especially in the euro zone. Member States with already weak labour markets, such as Cyprus, Greece, Italy and Spain, experienced a dramatic deterioration of employment and unemployment rates. Labour market disparities across Member States and in the euro zone started to reduce again after 2014, with unemployment returning close to pre-crisis levels.

The indicators of labour market dynamics show a pattern of downward divergence that started even before the crisis. The shares of involuntary temporary employment and involuntary part-time employment grew in 2000–2007, while the percentage of transitions from temporary to permanent contracts declined. The economic crisis aggravated these trends, reducing transitions and increasing involuntary temporary and part-time employment. This was especially the case in the euro zone, where disparities among the countries within it increased to higher levels than among those outside it. The countries furthest from the EU average were Mediterranean countries – Cyprus, Italy, Portugal and Spain.

Increasing divergence is even more evident at regional level, as regional inequalities have been growing within all EU countries since the mid-1990s (Bongardt et al, 2013; Bouvet, 2007). Regional disparities were exacerbated by the crisis and continued in the period 2012–2014 as a consequence of the differential impact of the crisis across countries. Regions in both northern and southern Europe – especially in the Baltic states, Croatia, Denmark, Greece, Ireland, Italy, Slovenia and Spain – registered significant increases in unemployment. On the other hand, all the German regions and some regions in Austria, Belgium, Finland and Poland experienced almost no increase or even a decline in unemployment.

Regarding gender differences, female employment rates varied considerably across European regions before the crisis, with regions in southern Italy and southern Spain recording the lowest figures. Since 2008, patterns of female employment have been mixed, with no clear-cut geographical trends. Furthermore, rates fell significantly in regions characterised by both relatively high levels and low levels of female employment (Milio et al, 2014).

As for youth employment, there has been a significant reversal of the convergence trends in the labour market attachment of young people in recent years, mainly due to increases in unemployment rather than in inactivity.

Detailed analysis of five indicators

The rest of this section provides a detailed analysis of the following five indicators:

- activity rate
- employment rate
- unemployment rate
- long-term unemployment rate
- involuntary temporary employment rate

In order to capture different aspects of upward convergence and provide firm conclusions about increases or decreases in disparities, upward convergence is measured here according to a methodology developed by Eurofound (2018). Three measures of convergence are applied:

- verifying whether Member States are moving closer together, meaning that the disparities between them are lessening (sigma-convergence)
- assessing the overall distance of the Member States from the best-performing Member State, as the exemplary model (delta-convergence)
- establishing the extent to which the most poorly performing countries have caught up with the best-performing countries by examining whether the pace of growth in the former has been greater than in the latter (unconditional beta-convergence)

For all five indicators, convergence among and within Member States is investigated, as well as among various demographic groups. The analysis compares patterns within and outside the euro zone as well as patterns in the EU13 versus the EU15. It also notes the pace of convergence for two periods: 2000–2017 and 2010–2017.

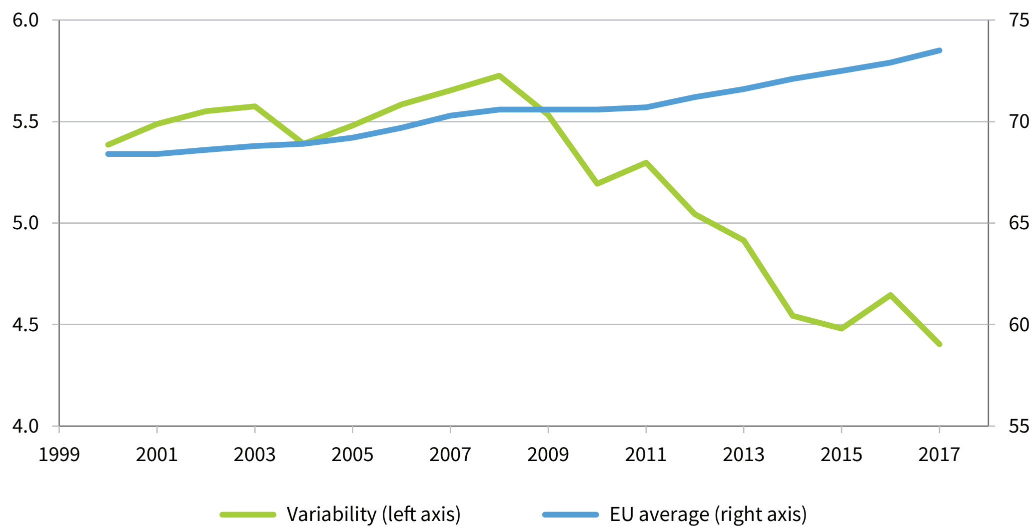
Convergence in the activity rate

The activity rate is the share of economically active people in the total population aged 15–64 years in the EU.

There has been **upward convergence** overall in this indicator over 2000–2017. While the average EU activity rate increased from 68.4% to 73.4% in the EU, Member States also moved closer together as the variability among them decreased (Figure 1).

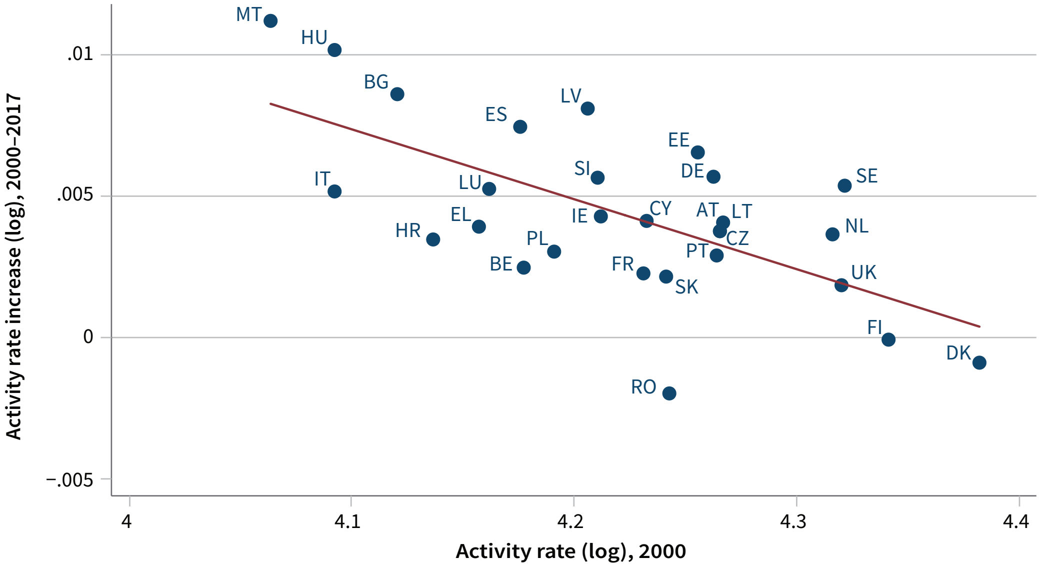
Convergence trends differ across subgroups within the labour force: activity rates of women and older workers show stronger upward convergence patterns than the rest of the working population. However, disparities among Member States have increased for young people aged 15–24.

Figure 1: Upward convergence trend in the activity rate, EU, 2000–2017



Note: *Variability is measured using the standard deviation.*
Source: *Authors' calculations based on European Union Labour Force Survey (EU-LFS) data*

Figure 2: Catch-up of poorly performing Member States with best-performing Member States, activity rate, EU, 2000–2017



Source: *Authors' calculations based on EU-LFS data*

There has been a reduction in disparities across the Member States with respect to the best-performing countries, Denmark and Sweden.

The analysis also finds that the worst-performing Member States caught up with the best-performers over 2000–2017 (Figure 2). EU countries with lower activity rates in 2000, such as Bulgaria, Hungary and Malta (as indicated by their position on the x-axis), show faster rates of growth in this indicator (as indicated by their position on the y-axis). On the other hand, Denmark, Finland and the United Kingdom, countries with higher initial levels, grew at a lower or negative rate.

Overall, in the EU, the pace of convergence over 2000–2017 is estimated at 2% per year, which rises to 4% per year when only 2010–2017 is considered.

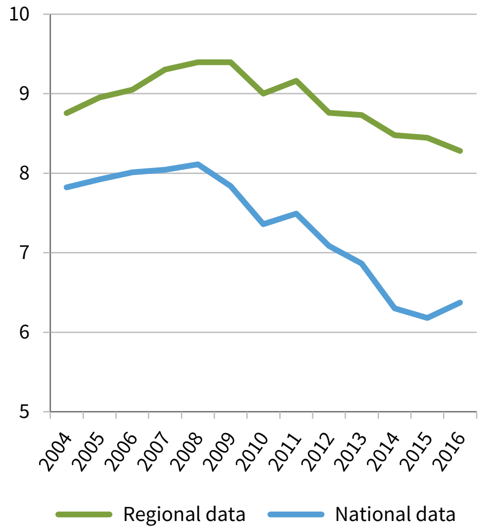
Patterns are similar inside and outside the euro zone, although the reduction in variability is greater outside, where activity levels are higher. Moreover, differences emerge when comparing the EU13 and EU15: among the EU15, convergence in the activity rate occurred only before 2010, whereas among the EU13, convergence is evident only after 2010.

Regional trends

Disparities in the activity rate are higher within the EU NUTS 2 regions[1] than among Member States, and the convergence trend observed at regional level since 2009 is less pronounced compared to the national trend (Figure 3). Moreover, the analysis by groups of countries shows convergence at regional level only in Member States outside the euro zone. Within the euro zone, disparities among regions are larger in 2017 than in 2000. The pace of convergence is faster among regions of the EU13 and non-euro zone countries, being almost null among regions of the EU15 and of euro zone Member States.

1 The Nomenclature of Territorial Units for Statistics (NUTS) is a classification of the economic territory of the EU. NUTS 2 are basic regions for the application of regional policies.

Figure 3: Regional versus national convergence in the activity rate, EU, 2004–2016



Note: *Variability is measured using the coefficient of variation.*
Source: *Authors' calculations based on EU-LFS data*

Finally, the analysis of the variability at regional level shows that the reduction of disparities in activity rates in the EU is mainly due to a reduction of disparities between Member States rather than a reduction of disparities among regions within Member States.

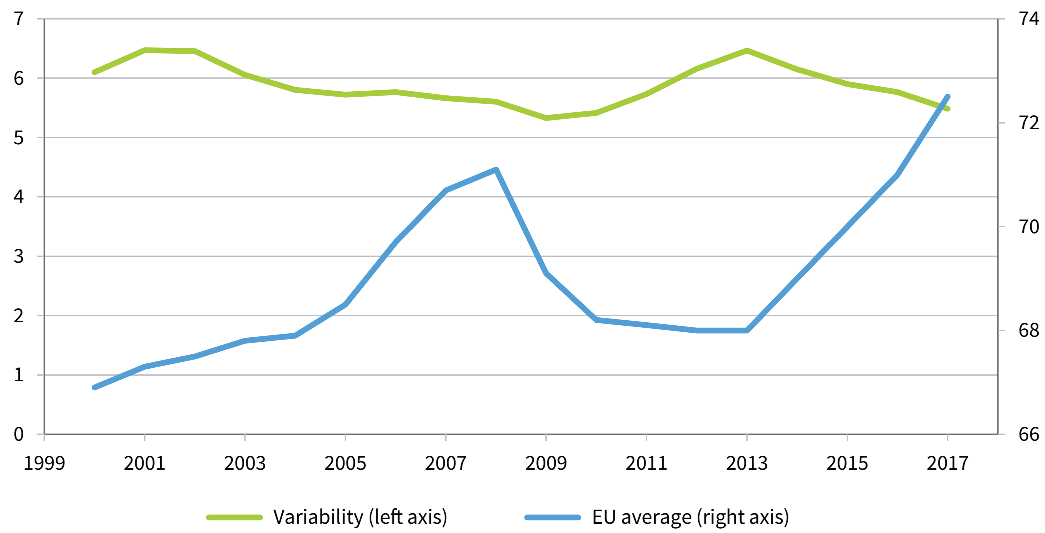
Convergence in the employment rate

The employment rate is the share of people in employment in the total population aged 20–64 in the EU.

Upward convergence is apparent in this indicator over 2000–2017. The employment rate increased from an average of 66.9% to 72.5% in the EU in this period, and the variability among Member States decreased (Figure 4). However, this pattern was not consistent over the whole period. Upward convergence was interrupted by the economic crisis, changing to downward divergence between 2008 and 2013, with a falling employment rate and increasing variability across Member States.

Convergence trends differ across sociodemographic groups within the population: the analysis shows that reductions in Member State disparities regarding the employment rate are higher for women, older people and those with low educational levels.

Figure 4: Upward convergence trend in the employment rate, EU, 2000–2017



Note: *Variability is measured using the standard deviation.*
Source: *Authors' calculations based on EU-LFS data*

By contrast, disparities among Member States increased for the youth employment rate until 2013.

There was a fall in the distance of Member States from the best performers, which again are Denmark and Sweden.

The analysis finds that the poorest-performing Member States caught up with the best-performers over 2000–2017 (Figure 5). EU countries with lower employment rates in 2000, including Bulgaria, Hungary, Malta and Poland, show higher rates of growth, whereas countries with higher initial levels, such as Denmark, the Netherlands, Portugal and the United Kingdom, grew at a lower or negative rate.

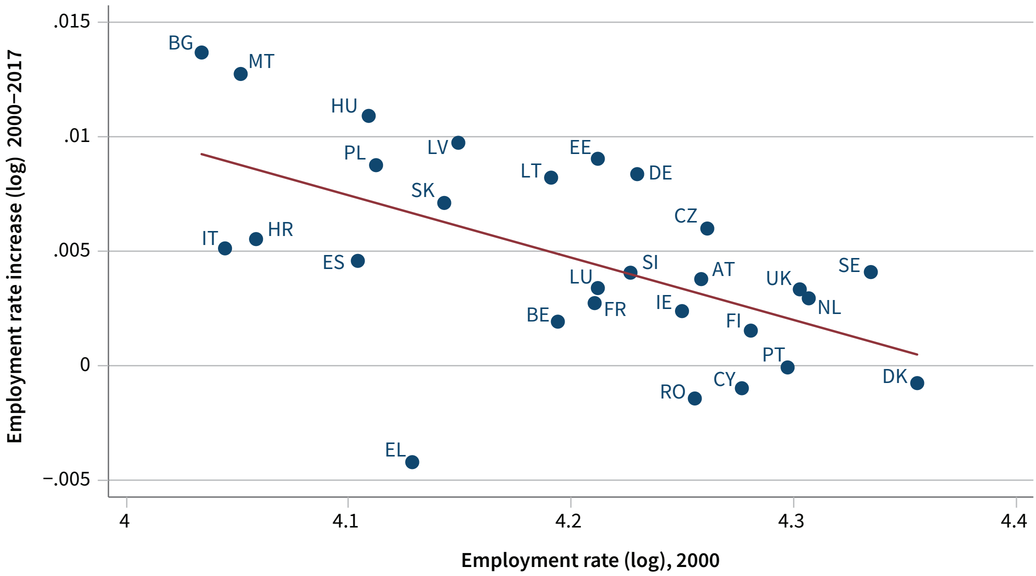
Overall, the pace of convergence in the employment rate in the EU over 2000–2017 is estimated at 3% a year, which rises to 6% a year if just 2010–2017 is considered.

Over the entire 2000–2017 period, clear upward convergence in the employment rate can be detected only in the Member States outside the euro zone. Among euro zone Member States, upward divergence is observed, and the disparities are higher in 2017 than in 2000. The pace of convergence tends to be lower especially among the core euro zone countries – Austria, Belgium, France, the Netherlands and Sweden – which had similar initial levels. The pace of convergence is higher in the EU13, whose initial employment rates diverged significantly, compared with the EU15.

Regional trends

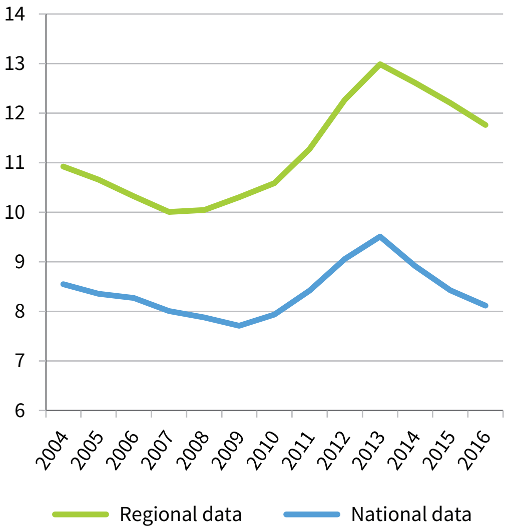
The analysis of regional data at NUTS 2 level shows that disparities in the employment rate are higher among EU regions than among EU Member States (Figure 6). Moreover, over 2000–2017, disparities in the employment rate increased among EU regions. In fact, at regional level, the divergence process triggered by the economic crisis started earlier and is more pronounced than at national level. From 2000 to 2017, convergence at regional level

Figure 5: Catch-up of poorly performing Member States with best-performing Member States, employment rate, EU, 2000–2017



Source: *Authors' calculations based on EU-LFS data*

Figure 6: Regional versus national convergence in the employment rate, EU, 2004–2016



Note: *Variability is measured using the coefficient of variation.*
Source: *Authors' calculations based on EU-LFS data*

takes place only in non-euro zone Member States and the EU13, but not among regions within the euro zone or within the EU15.

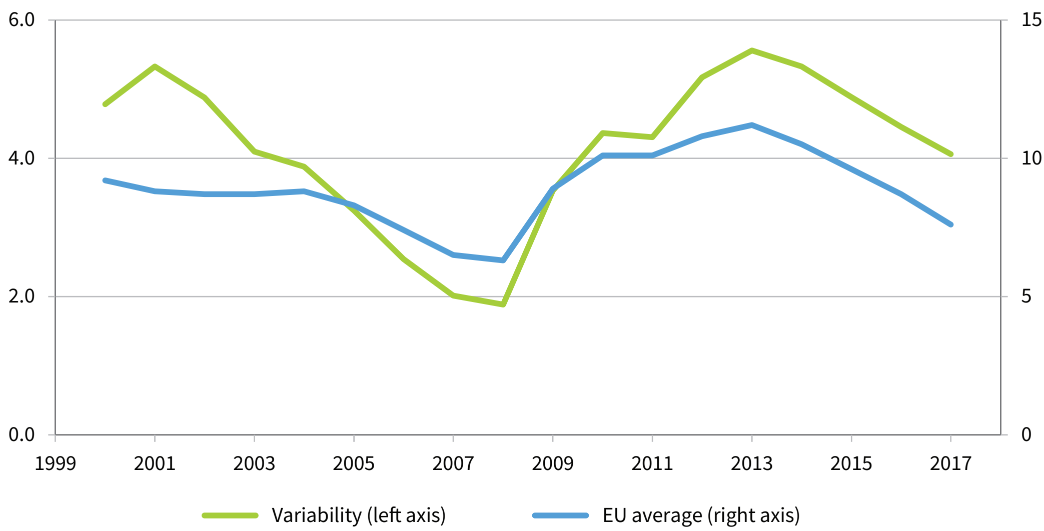
Convergence in the unemployment rate

The unemployment rate is the share of the economically active population aged 15–74 who are available for work but who do not have a job.

There has been a trend of **upward convergence** in this indicator over 2000–2017 (Figure 7). The EU average unemployment rate fell from 8.8% to 7.6%, and the variability among Member States decreased. The convergence process was interrupted by the economic crisis, changing to a pattern of downward divergence as the average unemployment rate rose and the variability of the rate among Member States increased in 2008–2013. From 2013 onwards, upward convergence in the unemployment rate resumed among EU countries.

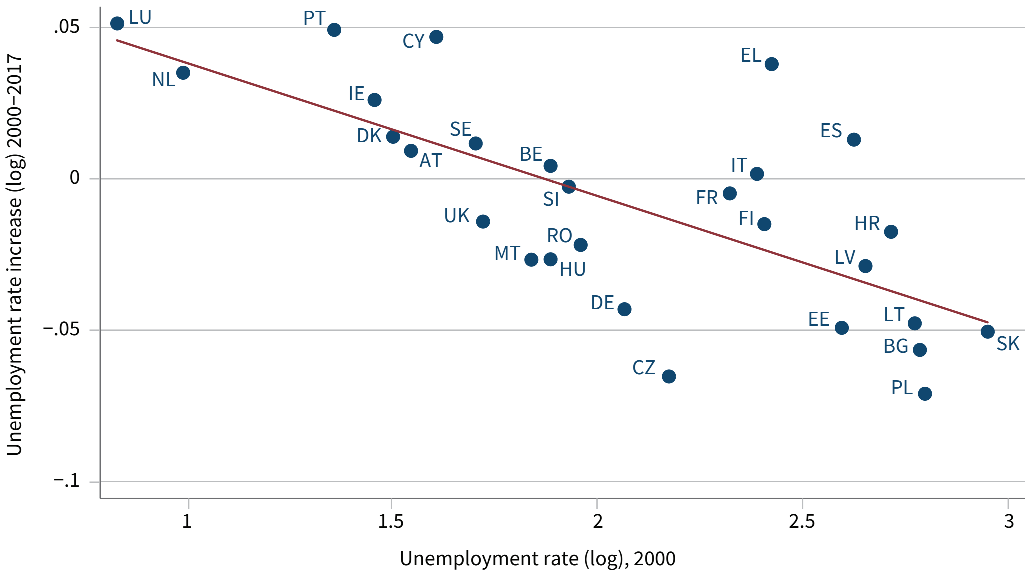
Convergence patterns in the unemployment rate differ across subgroups of workers, especially in the aftermath of the crisis. In fact, the analysis shows a high increase in disparities in the male unemployment rate among Member States during the initial years of the crisis (2008–2011); since 2012, a slight

Figure 7: Upward convergence trend in the unemployment rate, EU, 2000–2017



Note: *Variability is measured using the standard deviation.*
Source: *Authors' calculations based on EU-LFS data*

Figure 8: Catch-up of poorly performing Member States with best-performing Member States, unemployment rate, EU, 2000–2017



Source: *Authors' calculations based on EU-LFS data*

trend of upward convergence has been restored. By contrast, the crisis triggered a process of persistent divergence in the female unemployment rate. In addition, for workers aged 25–54 and those with high educational levels, the divergence in unemployment rates among EU countries initiated in 2008 is more marked compared to young workers and those with a low educational level. In fact, regarding the latter group, there is a constant decline in disparities among Member States.

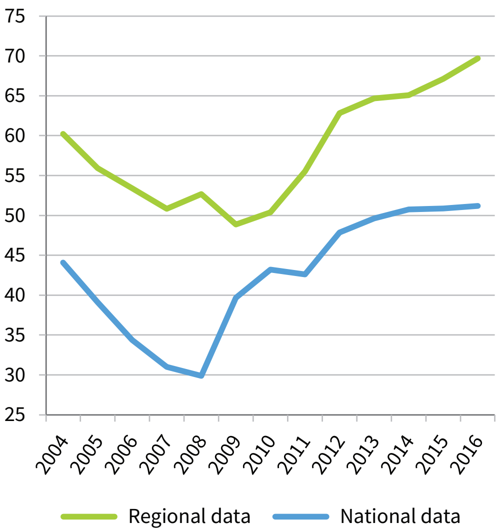
A reduction in the disparities in the unemployment rate with respect to the best-performing Member States is apparent, especially in the years before the crisis. The countries with the lowest unemployment rates are Luxembourg and the Netherlands in the period before the crisis, and Austria and Germany afterwards.

The analysis shows that the poorest-performing countries on this indicator caught up with the best performers over 2000–2017 (Figure 8). Among the Member States with higher unemployment rates in 2000 – the Baltic states, Bulgaria, Poland and Slovakia – reductions were larger, whereas in countries with lower initial rates – such as Ireland, Luxembourg and the Netherlands – reductions were lower, or unemployment rates even increased.

Overall, the pace of convergence over 2000–2017 in the EU is estimated at 4% a year, which rises to 7% a year if just 2010–2017 is considered.

Patterns in the average unemployment rate were similar inside and outside the euro zone. However, from the beginning of the crisis, the average unemployment rate of the euro zone surpassed that of the non-euro zone, and the gap increased over time, reaching around 3 percentage points in 2017. In addition, before the crisis, disparities among countries were larger outside the euro zone, whereas after 2007, the disparities became larger within the euro zone.

Figure 9: Regional versus national convergence in the unemployment rate, EU, 2004–2016



Note: *Variability is measured using the coefficient of variation.*
Source: *Authors' calculations based on EU-LFS data*

Regional trends

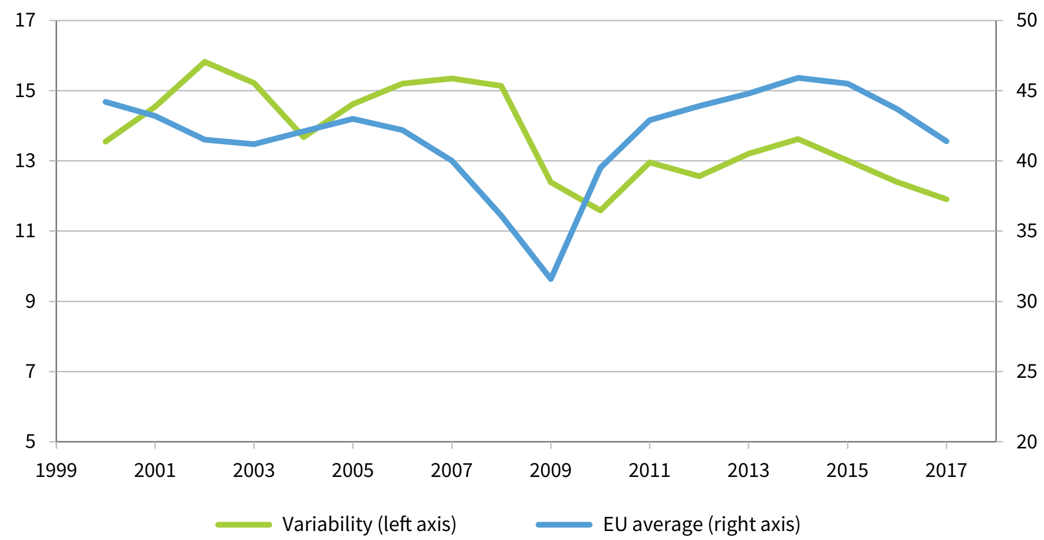
The analysis of NUTS 2 data over the period 2004–2016 shows that disparities in the unemployment rate were higher among EU regions than among EU countries (Figure 9). Moreover, the disparities have increased among EU regions. The analysis of upward convergence by groups of countries shows that outside the euro zone, patterns are similar across countries and regions, but this is not true of countries and regions within the euro zone.

Convergence in the long-term unemployment rate

The long-term unemployment rate is the share of people aged 15–74 who have been unemployed for more than 12 months.

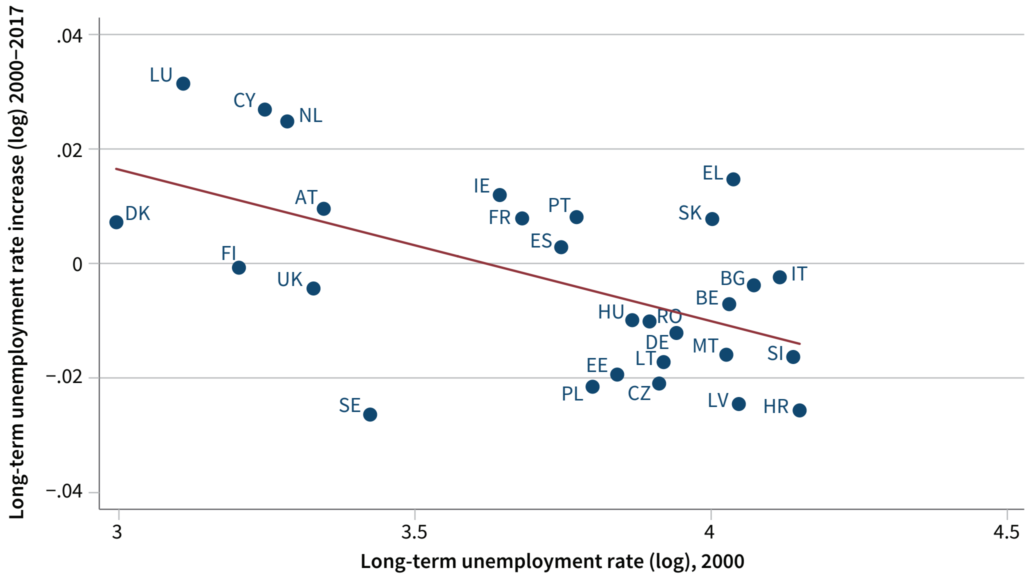
There was **upward convergence** in this indicator over 2000–2017. The EU average long-term unemployment rate fell from 44.2% to 41.4%, and the variability among Member States decreased (Figure 10). However, different patterns emerge when looking at subperiods before and after the crisis. Upward convergence since 2000 was replaced from 2009 to 2014 by a trend of downward divergence, characterised by a strong increase in the average long-term unemployment rate (+14 percentage points) and an increase in the variability among Member States. Upward convergence resumed in 2014.

Figure 10: Upward convergence trend in the long-term unemployment rate, EU, 2000–2017



Note: *Variability is measured using the standard deviation*
Source: *Authors' calculations based on EU-LFS data*

Figure 11: Catch-up of poorly performing Member States with best-performing Member States, long-term unemployment rate, EU, 2000–2017



Source: *Authors' calculations based on EU-LFS data*

The disparities in long-term unemployment rates among the Member States are greater for women than for men. However, both male and female long-term unemployment rates show similar convergence patterns over 2000–2017.

There has been a reduction in the disparities in long-term unemployment rates with respect to the best-performing countries. In general, the Scandinavian countries, Austria, Luxembourg, and the United Kingdom had relatively low long-term unemployment rates during the period.

The analysis finds quite a marked catch-up by the poorest performing Member States over the period 2000–2017 (Figure 11). Reductions were larger in Member States with higher long-term unemployment rates in 2000 – such as the Baltic states, Croatia, Malta and Slovenia – than in countries with lower initial long-term unemployment rates – such as Cyprus, Denmark, Luxembourg and the Netherlands.

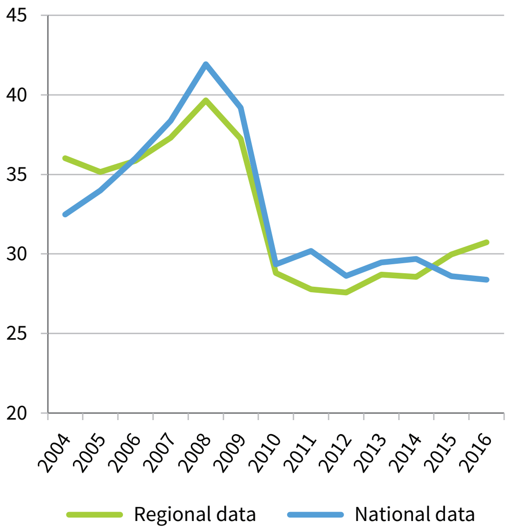
Overall, the pace of convergence over 2000–2017 is estimated at 3% a year, which rises to 5% a year for the period 2010–2017.

There are differences between Member States within and outside the euro zone. In 2000–2017, non-euro zone countries showed upward convergence, with a significant reduction of the overall dispersion and of average long-term unemployment rates. Within the euro zone, there was downward divergence due to a considerable increase in the long-term unemployment rate during the crisis and a slower recovery. After 2010, convergence was particularly strong in the euro zone and among the EU13.

Regional trends

The analysis of regional data at NUTS 2 level over the period 2004–2016 shows that disparities in long-term unemployment rates at regional and national levels are similar, where both have fallen (Figure 12). During 2004–2016, regions with high long-term unemployment rates caught up with regions with lower rates. The convergence process is more evident in the period 2004–2010.

Figure 12: Regional versus national convergence in the long-term unemployment rate, EU, 2004–2016



Note: *Variability is measured using the coefficient of variation.*
Source: *Authors' calculations based on EU-LFS data*

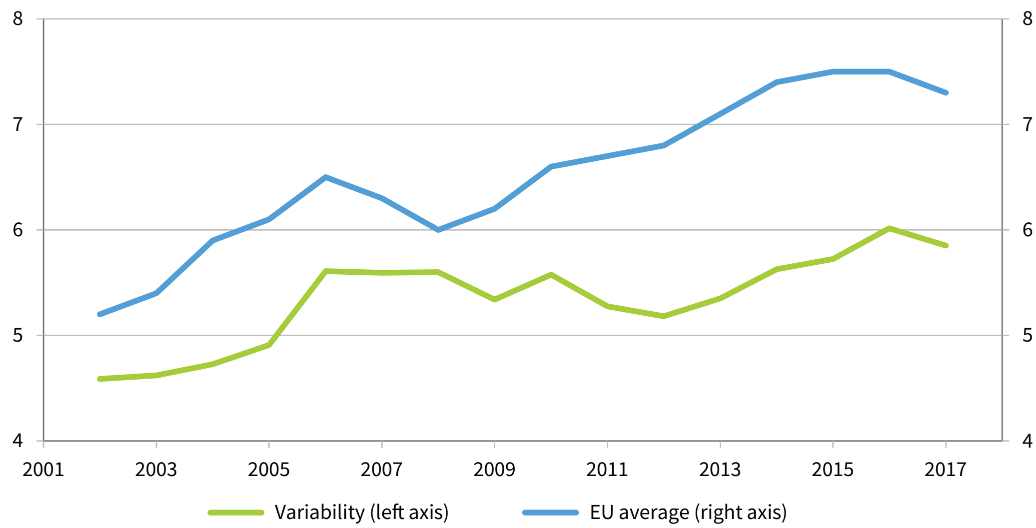
Convergence in the involuntary temporary employment rate

Involuntary temporary employment is the percentage of employees aged 20–64 with a temporary work contract because they could not find a permanent job.

This indicator shows a trend of **downward divergence** over 2002–2017. The EU average rate of involuntary temporary employment rose from 5.2% to 7.3% in this period, and the variability among Member States increased (Figure 13). Overall, variability has increased: divergence among Member States is especially apparent up to 2008, during the crisis it remained stable, and then from 2013 onwards, divergence resumed.

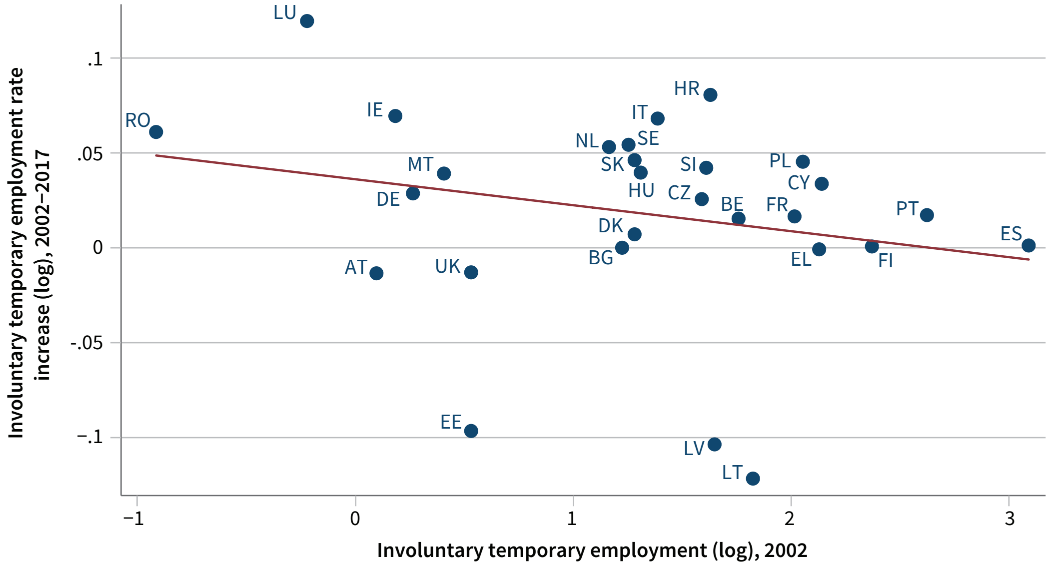
There has been an increase in disparities for this indicator with respect to the best-performing countries. In fact, for some countries, including Cyprus, Hungary, Italy, Poland, Slovakia and Slovenia, the gap with the best performers increased.

Figure 13: Downward divergence trend in the involuntary temporary work rate, EU, 2002–2017



Note: *Variability is measured using the coefficient of variation*
Source: *Authors' calculations based on EU-LFS data*

Figure 14: Catch-up of poorly performing Member States with best-performing Member States, involuntary temporary employment rate, EU, 2000–2017



Source: *Authors' calculations based on EU-LFS data*

The poorest-performing Member States have not caught up with the best performers on this indicator (Figure 14). The largest reductions in the indicator occurred in Member States with low initial levels.

Downward divergence is apparent both inside and outside the euro zone. However, the greatest increase in both the average rate of involuntary temporary employment and in the variability among Member States was recorded outside the euro zone during 2002–2006.

During 2002–2017, convergence is evident only in the EU15 and in peripheral countries of the euro zone (Ireland and the Mediterranean Member States), which converge towards higher rates of involuntary temporary work.

No NUTS 2 data is available for this indicator.

Policy pointers

Restored upward convergence

The evidence in this policy brief shows that for most labour market indicators, the shock from the crisis has been absorbed. The situation today is the same as before the crisis, or even better for some indicators, both in terms of the level of the indicator and the magnitude of disparities across Member States. This is particularly true for the employment and unemployment rates as well as the activity rate. The situation is less positive for the involuntary temporary work rate.

Other patterns among regions and demographic groups

Notwithstanding the positive picture of restored upward convergence at Member State level, the analysis of convergence of regions and by different sociodemographic groups within the population shows less positive developments. For some indicators, differences are larger among regions than among countries, with a faster pace of convergence among the EU13. Furthermore, convergence trends in certain indicators at Member State level are not reflected at regional level. For example, convergence in the employment rate across Member States occurs simultaneously with divergence across regions. The analysis also shows Member States diverging in the employment rates of young workers and workers with higher educational attainment. These findings indicate that more attention should be given to the regional level in order to ensure that employment growth and reduction of disparities extends to all geographical levels and across the working age population.

Policy option: European unemployment insurance scheme

Given the breadth of the area of employment and the multiplicity of factors that influence labour market developments, the possible political interventions to support the convergence of Member States in employment outcomes are vast. Here we examine the arguments for and against one policy option, discussed earlier in the Policy context – a European unemployment insurance scheme – which has been discussed as a mechanism to support citizens and to protect Member States from the economic shocks that undermine convergence.

From a policy perspective, the rationale behind the establishment of a European unemployment insurance scheme is that it could potentially deliver significant benefits.

- It could act as a rapid automatic counter-cyclical mechanism, supporting consumption and domestic demand during recessions, with a multiplier effect (Beblavý et al, 2015). It would thus serve as an EU macroeconomic stabilisation mechanism and could potentially have more impact than national schemes due to higher spatial and intertemporal smoothing effects. It could also provide wider coverage, be more generous compared to national schemes, and centralise risks.

- Used as a reinsurance mechanism, it would be activated only in cases of large unemployment shocks, preventing permanent redistribution between rich and poor countries. Such a reinsurance fund would be much more easily operated at cross-country level than other options that entail a coexistence of European and national schemes.
- It could support upward socioeconomic convergence and social cohesion by having positive redistributive effects both at the individual and territorial levels, supporting those workers more likely to bear the social costs of an economic downturn, as well as those regions or countries most affected. National unemployment benefit schemes might be enhanced, improving the protection of the unemployed (in terms of the number of people protected or the level of protection offered) and supporting the introduction of minimum requirements for activation policies. This mechanism to strengthen the social dimension of the EU might also contribute to the legitimacy of the European project (Andor, 2014). Depending on the design of the scheme, it could be seen as a sign of solidarity among countries and citizens.
- The budgetary cost is likely to be relatively low (estimated at a maximum of 1% of EU GDP) compared to other income-support measures. A legal base for funding can be found within the existing legal framework, such as the Multiannual Financial Framework. Setting up the financing side as part of the general budget appears to be the easiest and preferred option (rather than setting it up outside of the budget).

However, there are also significant drawbacks to the implementation of such a scheme and arguments against it.

- The legal and operational feasibility of an EU-wide unemployment scheme has been questioned. Doubts have been raised over whether such a scheme could be established within the existing EU legal framework, without requiring a treaty change. The legislative amendments required would depend largely on the design of the scheme. For example, fewer amendments would be necessary if a reinsurance scheme were introduced, while a genuine insurance scheme would increase the administrative burden considerably and restrict operational feasibility.
- National unemployment benefit schemes reflect historical and political choices and preferences. They are implemented by existing administrations, and so their harmonisation is likely to be complex.
- There is a risk that some countries would become permanent contributors and others permanent recipients. The risk of moral hazard is also thought to be high: governments of the recipient countries might avoid implementing unpopular structural reforms and policies, such as labour market reforms, knowing that the EU scheme would provide increased financial support in case of high unemployment and structural imbalances.
- The geographical scope of a European unemployment insurance scheme is still not clear; it should be clarified whether the scheme would apply to all Member States or only to those countries in the EMU.

Many factors temper support for such a scheme. However, the balance of benefits and downsides vary considerably depending on how the scheme is designed, and several proposals have been debated during the years. Acting now in a time of upward convergence is important in order to prevent future divergence and minimise the risk of future asymmetric shocks.

Resources

All Eurofound publications are available at www.eurofound.europa.eu

Eurofound web topic, 'Monitoring convergence in the European Union': http://eurofound.link/convergence

EU convergence monitoring hub: http://eurofound.link/convergencehub

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In the wake of the economic crisis, European leaders and policymakers have recognised that economic and social convergence must go hand in hand if the goals of economic and monetary union are to be achieved. This policy brief provides an updated picture of convergence in employment outcomes across the EU Member States and regions. Five key labour market indicators are examined. The study finds that there has been upward convergence of Member States in most employment indicators for the past two decades. The analysis of regional convergence and convergence in respect of different sociodemographic groups within the population, however, shows less positive developments.

The brief also discusses the policy option of implementing a European unemployment insurance scheme for enhancing convergence, or avoiding divergence, within the EU.

The European Foundation for the Improvement of Living and Working Conditions (Eurofound) is a tripartite European Union Agency, whose role is to provide knowledge in the area of social, employment and work-related policies. Eurofound was established in 1975 by Council Regulation (EEC) No. 1365/75, to contribute to the planning and design of better living and working conditions in Europe.

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