

Europe's pre-existing socioeconomic challenges



The long-drawn-out recovery between 2013 and 2019 was associated with a clearly lower risk of poverty in only 10 EU Member States.

Even though the pandemic has been causing unprecedented economic damage by peacetime standards, it is not the only challenge facing Europe and its policymakers. A sustained slowdown in labour productivity growth, the depletion of natural resources and critical environmental degradation (see Chapter 3 in this volume), and persistent economic and social inequalities (see also Chapter 2) are all issues which were at the centre of reflections and policy debates in the EU before the arrival of SARS-CoV-19 in Europe, and they have not gone away. We take a look at a few of them here.

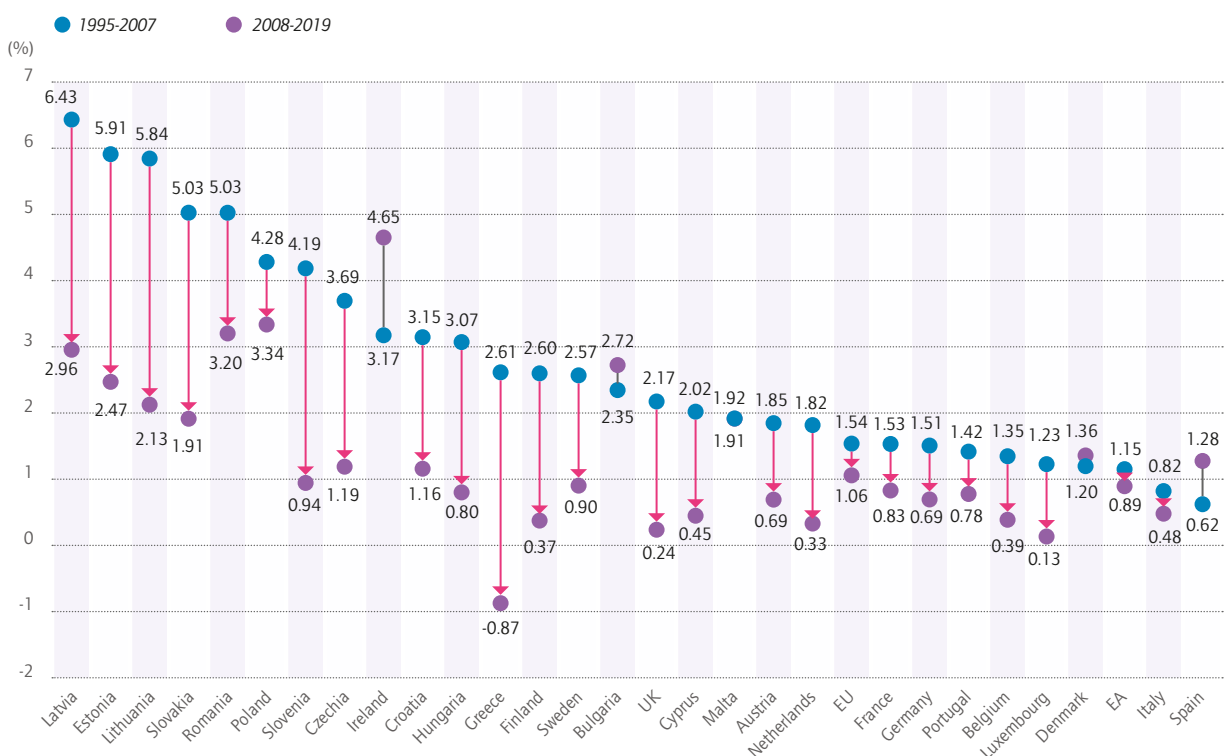
Figure 1.10 shows the evolution of the average annual labour productivity growth rates in 1995-2007 and 2008-2019 for the EU and its Member States (2000-2007 for the EU, euro area, Estonia and Malta). We see that, with the exception of Bulgaria, Malta, Denmark, Spain and Ireland, the average annual growth rates of productivity in 2008-2019 were lower than those in 1995-2007. In the case of Greece, arguably the country hardest hit by the previous economic crisis, the average annual growth rate of labour productivity was negative for the 2008-2019 period. In 15 Member States, it stood at below 1% per year and this was also the case during the recovery period of 2013-2019. This is a worrying development for several reasons: labour productivity growth provides the material base for sustainably raising real wages, even if it is not a sufficient condition thereof (see Theodoropoulou 2019b; see

also Chapter 4 in this volume). In principle, it makes the redistribution of resources within and across generations to counter inequality politically easier; it could also imply producing the same output with fewer resources.

The process of convergence in living standards (conventionally measured as output per capita and therefore closely related to the labour productivity mentioned above) across Member States had slowed down during the crisis and then started picking up again in 2017 (Theodoropoulou et al. 2019a). While it is still too early to conclude what the effect of the pandemic will be on the process of convergence, some of the worst-hit Member States, such as Italy and Spain, were also among those who had been driving the slowdown in convergence during the previous economic crisis. It is therefore likely that the pandemic will rekindle tendencies of divergence in income growth.

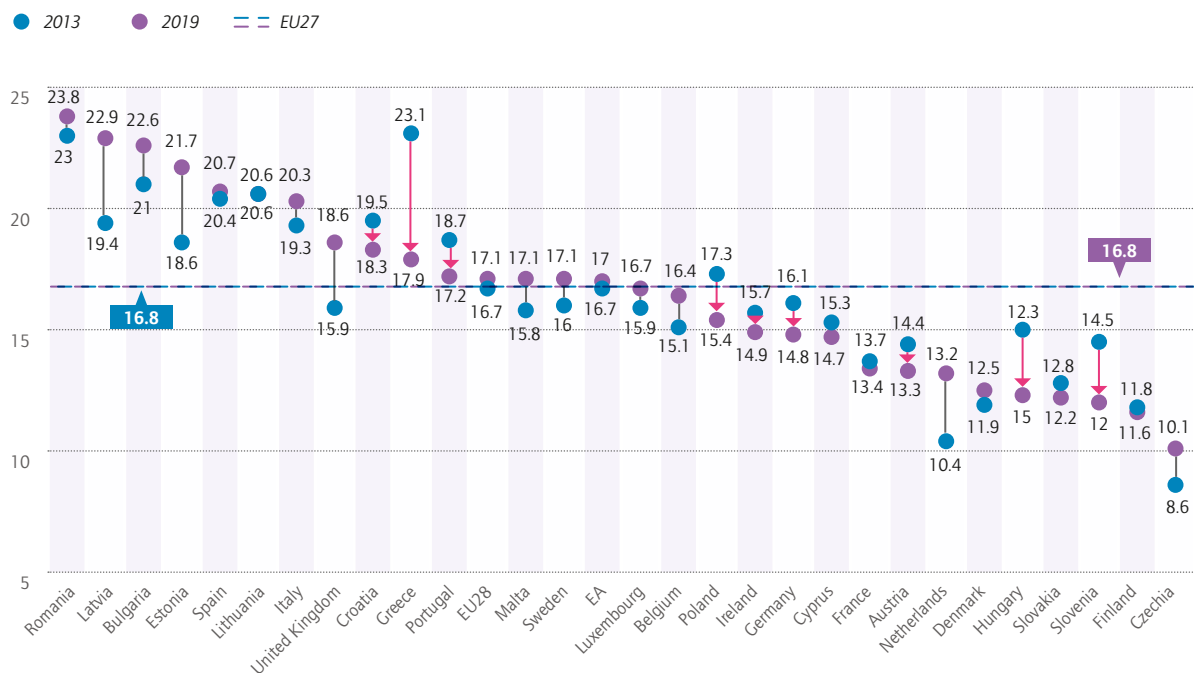
Figure 1.11a shows the evolution of the at-risk-of-poverty rate, a measure reflecting income inequality, in the EU, its Member States and the UK in 2013, when the recovery period began in Europe, and in 2019 (2018 for the EU, the euro area, Luxembourg, Belgium, Ireland, France and Slovakia). In 2019, a little over one in six people lived in a household with disposable equivalised income at or below 60% of the median income (the definition for measuring the at-risk-of-poverty rate) in the EU and the euro area,

Figure 1.10 Average annual real hourly labour productivity growth rate, EU, Member States and the UK, 1995-2007 and 2008-2019



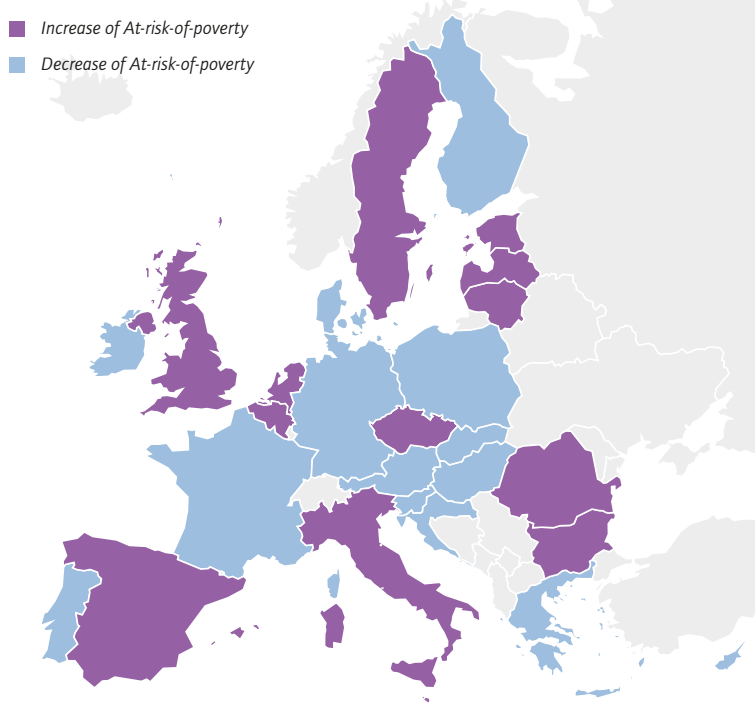
Source: Own calculations using AMECO data, RVGDE and NLHA series.

Figure 1.11a At-risk-of-poverty rate (% of population), EU Member States and the UK, 2013 and 2019*



Source: Eurostat, TESP010 series.
* 2018 data for Italy, UK, EU28, EA, EU27-2020, Luxembourg, Belgium, Ireland, France, Slovakia.

Figure 1.11b At-risk-of-poverty rate (% of population), EU Member States and the UK, 2013 and 2019* Countries with increase and decrease of AROP (map)



Source: Eurostat, TESP010 series.
* 2018 data for Italy, UK, EU28, EA, EU27-2020, Luxembourg, Belgium, Ireland, France, Slovakia.

not too different than in 2013. Looking at individual Member States, there was a wide range of values: in 2019, almost one in four people in Romania were at risk of poverty, while only one in ten people faced that risk in Czechia. There was a clear reduction in the share of people at risk of poverty in Croatia, Greece, Portugal, Poland, Ireland, Germany, Cyprus, Austria, Hungary and Slovenia. In Spain, Lithuania, the EU, the euro area, France, and Finland, the rate remained practically unchanged, whereas in Romania, Latvia, Bulgaria, Estonia, Italy, the UK, Malta, Sweden, Luxembourg, Belgium, the Netherlands and Czechia, the share of people at risk of poverty increased (Figure 1.11b). In other words, the long-drawn-out recovery between 2013 and 2019 was associated with a clearly lower risk of poverty in only 10 EU Member States.

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