

Social Europe guide

Volume 1

Employment Policy

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Social Europe



European Commission

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European Commission

Directorate-General for Employment, Social Affairs and Inclusion
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Foreword

László Andor

Commissioner for Employment,
Social Affairs and Inclusion



In the wake of the largest economic crisis in the EU's history, European citizens expect national leaders, and the EU as a whole, to do as much as possible to increase employment and set Europe back on to a path of broadly shared prosperity. Economic recovery across the EU is uneven, with some countries experiencing strong growth while others are still going through a recession, coupled with the need to consolidate public budgets. One key challenge for Europe in this context is to make sure that economic recovery is *job-rich*, i.e. an increase in economic output should be accompanied by an increase in employment. Another key challenge is to ensure that our socio-economic model remains *inclusive*, which means that people of any age, from any social group, anywhere in the EU can contribute to and benefit from the recovery.

The EU is dealing with these challenges head-on. The Europe 2020 strategy, which provides a basis for all EU and national policies, sets out a socio-economic model based on smart, sustainable and inclusive growth, with a concrete commitment to achieve by 2020 an employment rate of 75%, a tertiary education completion rate of 40%, reduce school drop-outs below 10%, and lift at least 20 million people from the risk of poverty and social exclusion. This presents a strong policy framework for building an inclusive workforce and an inclusive society.

What is the EU doing to deliver these objectives and to achieve these targets in practice? This is precisely the question addressed by the bi-annual series of 'guides to Social Europe', the first volume of which you are reading. The series will explain various strands of EU policy and action in the fields of employment, social policy and inclusion, and how such action responds to specific challenges faced by Europeans.

The first volume focuses on employment policy. Chapter 1 briefly explains the short history of how EU employment policy has evolved and the role it currently plays in the process of European integration and economic governance. Chapter 2 deals with the problem of unemployment and expands on what the EU is doing to improve functioning of labour markets. Chapter 3 explains EU action to build skills, improve labour market participation and support job creation. Chapter 4 summarises the main orientations for EU employment policy over the next few years. The guide also presents the views of Hungary as the country holding the Council Presidency in the first half of 2011, and of MEP Pervenche Berès, Chair of the Employment and Social Affairs Committee of the European Parliament.

I hope you will find this guide useful both as an introduction and as a practical overview of EU employment policy.

Contents

Foreword.....	3
Chapter 1 – Jobs and Skills in Europe: A Policy Overview	7
Chapter 2 – Fighting Unemployment	19
Chapter 3 – Building up Labour Supply and Demand	43
Chapter 4 – The Way Ahead	63
Interview with Sándor Czomba, Minister of State for Employment Policy, Hungary.....	68
Voice from the European Parliament	71
Further Information.....	73
Glossary of Terms.....	74
Forthcoming Guides	76



The challenge

Our prosperity largely depends on people being in paid work, i.e. producing goods and services that people need and providing earnings to enable them to secure their material well-being. More people in work also means less risk of poverty and exclusion. Better work and higher quality jobs not only provide higher earnings but also a chance to make progress, take opportunities and enjoy work more.

Article 3 of the Treaty on the European Union (TEU) commits the EU 'to work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress'. The Treaties set out a number of other objectives for the EU in the areas of employment and social policy, namely to promote a high level of employment and guarantee adequate social protection; combat social exclusion and discrimination; promote social justice, equality

between women and men and solidarity between generations; protect the rights of the child; and promote economic, social and territorial cohesion and solidarity among Member States. These tasks, described in Article 3 of the TEU and in Articles 8, 9 and 10 of the Treaty on the Functioning of the European Union (TFEU), are key features of what is called the 'European Social Model'.

As Europe recovers from the severe economic crisis which started in autumn 2008, it needs a proactive employment strategy: **almost 23 million people throughout the European Union** — about 1 in 10 of the economically active population — **are unemployed**, the highest level since the dawn of the millennium. This is a waste of potentially valuable resources to the economy. Unemployment is a curse on the lives of many citizens, families and communities and represents a major cost to the taxpayer. It also contributes to deficits in public budgets. The EU needs to deal with this problem urgently and lay the foundations for long-term sustainable

employment, thereby ensuring that Europe has a healthy and dynamic economy and people have the right skills they need to get and keep a job.

This booklet sets out the key employment challenges which have to be resolved. It also looks at the policies and actions the European Commission is taking to meet these challenges and to create a Europe with lower levels of unemployment, more jobs and the skills needed to create and keep those jobs.

The development of EU employment policy

With the advance of the Single Market, Member States have become more and more economically interdependent. Economic integration has seen a number of 'spill-over effects' of national employment policies on neighbouring countries and trade partners. Differences in employment conditions between countries can lead to competitive advantages and it is important to keep a good balance between countries and between the needs of employers and employees. Monetary union and the introduction of the euro as a single currency have made it all the more essential to build an economic union with greater policy

coordination. This process has been ongoing since the 1990s and has involved — among others — the introduction of the Stability and Growth Pact, the 2000-2010 Lisbon Strategy for Growth and Jobs, (replaced in 2010 by the more comprehensive Europe 2020 strategy), the development of EU-wide financial stability mechanisms and a steady effort towards reinforcing economic governance in order to coordinate fiscal and economic policies better and help redress macroeconomic imbalances.

In the area of employment policy, a major step forward was the introduction, in 1997, of a European Employment Strategy. This promoted policy convergence and addressed employment and unemployment concerns, which were common to the Member States, through an '**open method of coordination**'. Member States therefore defined common objectives, approaches and benchmarks under the European Employment Strategy. A common knowledge base was thus built that permitted strategic use of comparisons and evaluations. The open method of coordination also generated 'peer pressure' (among Member States) and 'time pressure' (through agreed milestones) for progress at national level.

Just like in the case of the economic union, the building of an EU employment policy is also far from complete. The economic crisis has shown that policies affecting economic performance need to be coordinated more than before, especially within the eurozone. But it has also shown that economic, employment, and social policies need to be closely inter-linked. Although jobs and human resources were already a key focus in the 2000 Lisbon strategy, this has been further strengthened in the Europe 2020 strategy which, for the first time, has set EU-level targets in the areas of employment, education, and poverty reduction. Employment and social policy are increasingly becoming a central part of European economic governance: employment issues are now

being considered together with fiscal and other economic policies, as illustrated by the 2011 European semester, where a single set of economic and employment policy recommendations for each Member State was agreed by the 27 EU leaders.

Europe 2020 and the European Employment Strategy

The Europe 2020 strategy is the European Union's answer to the challenges of the decade ahead. Adopted by EU leaders in June 2010, it is an integrated strategy designed to strengthen Europe's economy, improve its impact on the environment and raise levels of employment, productivity and social inclusion. It provides a common framework and agenda with agreed priorities,

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and establishes targets at both EU and national levels. Its **key objectives** are to secure:

- **smart growth:** by improving performance in education, innovation and use of digital technologies;
- **sustainable growth:** by transforming Europe into a low-carbon economy, by making more efficient use of natural resources and improving the business environment;
- **inclusive growth:** by generating more and better jobs, with greater investment in skills and training. This also means modernising labour markets and welfare systems to ensure that the benefits of growth reach all parts of the European Union.

Europe 2020 is the foundation and framework for tackling the employment and skills challenges of the next decade. It will help unemployed **young people** get back to work, especially those not in education, employment or training. It will also help **older workers** to stay in the labour market for longer and avoid the risk of long-term unemployment by helping them acquire and develop the skills they need to seize new job opportunities. It will help **all workers** to adapt to the changing structure of employment as new sectors and occupations grow while others decline. Pro-

motion of 'green jobs' and the 'green skills' required to do them will contribute to making the transition to a low carbon economy easier. The Europe 2020 strategy and the policies implementing it will also enable **low-skilled** and low paid workers to find jobs and progress to better ones. This will help them to overcome the impact of the recession which widened the employment 'gap' between low- and highly-skilled workers. The strategy will benefit many **communities** who are currently experiencing the most difficult labour market conditions, the highest unemployment rates and the greatest job losses. It will furthermore assist **migrants** to become better integrated into the labour market and strengthen the employability of all groups that are distant from the labour market.

The manner in which the EU implements the Europe 2020 strategy and monitors its progress builds upon — and strengthens — the 'open method of coordination' established under the European Employment Strategy in 1997. This process has four key stages:

1. The Europe 2020 strategy establishes five key **targets** (also known as 'headline targets') that the EU aims to achieve by 2020. Three of these targets relate to

employment and social policy, demonstrating just how crucial these areas are for Europe's economic prospects:

› **Employment target:** to ensure that 75 % of the 20 to 64-year-olds are employed. The EU employment rate for 20 to 64-year-olds was 68.6 % in 2010. In order to achieve the target, the number of people in employment has to grow by around 1 % every year until 2020.

› **Education target:**

- To reduce school drop-out rates to below 10%;
- To ensure that 40 % of 30 to 34-year-olds complete tertiary-level education.

› **Poverty and social exclusion target:** To lift 20 million people from life in, or the risk of, poverty and social exclusion.

Member States have translated these targets into national targets and have developed their own **National Reform Programmes** setting out measures and action aiming to achieve them.

2. EU leaders have also agreed on a set of **guidelines** which aim at driving long-term action of Member States in economic and employment policy. The specific Employment Guidelines encourage each country to focus

The Employment Guidelines

The Europe 2020 objectives and headline targets are supported by 'integrated guidelines', four of which are particularly related to employment (guidelines 7, 8, 9 and 10):

- Guideline 7: increasing **labour market participation** of women and men, **reducing unemployment** and **promoting job quality**.
- Guideline 8: **developing a skilled workforce** responding to labour market needs, and promoting lifelong learning.
- Guideline 9: improving **quality and performance of education and training systems** at all levels and **increasing participation** in tertiary or equivalent education.
- Guideline 10: promoting **social inclusion and combating poverty**.

action on those areas which would help them achieve the Europe 2020 targets (see box).

3. Every year, as part of the European Semester (see box), the European Commission takes into account the Employment Guidelines, when reporting on progress made by Member States towards the respective Europe 2020 targets. It then proposes country-specific recommendations on this basis, including targeted action to improve employment in each Member State. Such recommendations are later discussed

at the Council of Ministers, for endorsement by the European Council (Heads of State or Government of 27 EU Member States) before the end of June. The Commission bases its proposed recommendations on a thorough analysis of the National Reform Programmes submitted by the Member States.

4. **Mutual learning** and exchange of good practices in employment policy are encouraged. They are supported by independent research through the European Employment Observatory.

Chart 1: The European Semester: Who does what and when?

	January	February	March	April	May	June	
European Commission	Annual Growth Survey (AGS) presented				Assessment of NRPs and CSPs	Recommendations to Member States based on NRPs and SCPs	Throughout the year: Peer review of Member States' compliance with recommendations including consideration of possible further reinforcement measures (Excessive Deficit Procedure / Excessive Imbalance Procedure) Autumn: Governments present draft budget to national parliaments for debate in line with established national practice
Council of the European Union		AGS debated ahead of European Council →				Recommendations to Member States formally adopted	
European Parliament		AGS debated ahead of European Council →					
European Council			Endorsement of reform priorities for EU Member States			Debate and endorsement of recommendations to Member States	
Member States				National Reform Programmes (NRPs) and Stability/Convergence Programmes (SCPs) sent to Commission →			

The European Semester

Agreed in September 2010, the European Semester provides greater coherence to policy coordination in the EU. It brings together discussion of Member States' economic, fiscal and employment policies — and of their European implications — within a clear time cycle and furthermore provides a single set of outputs from the EU-level analysis, namely the country-specific recommendations. Such discussions between the Commission and the Member States will take place at EU level from January to June (see Chart 1). This was done for the first time in 2011.

The Semester has several stages. It starts in January, with the Commission publishing the **Annual Growth Survey (AGS)**, which assesses the economic and employment situation in Europe and provides guidance for priority action at EU and national levels. The AGS also includes the **Joint Employment Report**, which assesses progress made on implementation of the Employment Guidelines in the EU as a whole. In March, the European Council discusses and endorses the agenda set by the AGS, taking ownership and committing to its implementation in the Member States. In April/May, Member States submit their **National Reform Programmes (NRPs)** to the Commission together with their Stability or Convergence Programmes (dealing with fiscal policy), where they set out their planned reform measures to achieve the Europe 2020 targets. In June, after an in-depth analysis of these programmes, the Commission recommends that the Council adopt concrete policy recommendations applicable to each Member State, namely the '**Country Specific Recommendations**' (**CSRs**). The Council then discusses and adopts these recommendations, before they are endorsed by the European Council at the end of June. Member States subsequently take account of the guidance from the Council when drawing up their following year's budgets in the second half of the year.

The European Semester process is designed to **support Member States to deliver effectively the growth and jobs agenda** agreed at EU level and to take stock of the European implications of national problems and action envisaged. The process acknowledges that the main responsibility for employment reforms lies at national, regional or even local level.

Social partners also play an important role in European employment policy and help to develop the necessary labour market reforms. A number of innovative solutions which contributed to cushioning the employment and social impact of the economic crisis, such as development of short-time working schemes, resulted mainly from the development of a con-

sensus between social partners. Dialogue between representatives of management (employers) and labour (trade unions) is a fundamental pillar of the European Social Model. At EU level, this takes place in social dialogue committees, where both sides are consulted on relevant policy initiatives, in order to discuss issues of common interest, launch joint action and negotiate binding collective agreements.

The Commission's flagship initiatives

The European Commission plays an important role in the governance process of Europe 2020: It acts as a broker of policy discussion and development, provides advice on the main strategic priorities to be followed, monitors progress, including on the



achievement of targets, and reports on results achieved by Member States and by the Union as a whole.

But its action does not end here. The Commission also undertakes a number of EU-wide measures, thereby providing leverage to national action and adding value, particularly in those places where quick structural change may be difficult due to national institutional and cultural specificities. To that end, the Commission launched three **'flagship initiatives'** in 2010, setting out a number of EU-level actions that will help achieve the EU's 2020 employment goals:

- An Agenda for New Skills and Jobs;
- Youth on the Move;
- The European Platform against Poverty.

The **Agenda for New Skills and Jobs** sets out an overall framework for future EU action to raise employment levels and reduce unemployment, focusing on four key priorities:

- **Better functioning labour markets** to reduce Europe's high levels of unemployment. 'Flexicurity' (see Chapter 2) provides a thorough approach to managing labour markets but needs to adapt to post-crisis conditions in order to better enable people to enter and progress in the labour market,

reduce labour market segmentation, particularly amongst young people, and provide more individually-tailored support to those looking for work.

- **A more highly skilled workforce** that adapts to rapidly changing skill needs and persistent skill mismatches (between the skills we have and the skills we need). Skills development is essential for raising productivity, competitiveness, growth, and employment.
- **Better job quality and working conditions.** High levels of job quality are associated with high productivity and employment. More demanding jobs and new forms of work organisation also affect working conditions.
- **Promotion of job creation and demand for labour.** Ensuring that people remain active in the labour market and have the right skills to get a job is not enough on its own — jobs need to be made available to people. We need a 'job-rich' recovery and sustainable growth thereafter.

Youth on the Move provides a package of initiatives on education and employment for young people, with the aim of improving their educational levels and employability, and thereby not only reduce youth unemployment but also

increase the youth employment rate. It helps make education and training more relevant to young people's needs, enables more young people to take up EU grants to study or train in another country and encourages Member States to take measures to simplify the transition from education to work. Specific measures include the 'Your First EURES Job' scheme to increase labour market mobility across borders.

The European Platform against Poverty and Social Exclusion

sets out a range of action to help achieve the target of reducing the number of people living in, or at risk of, poverty and social exclusion. More than 80 million people in the EU are at risk of poverty, including 20 million children and 8% of the working population. Moreover, 40 million people live in severe material deprivation and 34 million in households with zero or very low work intensity, meaning that 114 million people live at risk of poverty or social exclusion (the groups partially overlap). Although combating poverty and social exclusion is mainly the responsibility of national governments, the EU nevertheless has an important coordinating role in spreading best practices, promoting mutual learning and providing targeted funding. Action

under the Platform is focusing on improving access to work, social security, education and essential services like health and housing; combating discrimination; building new partnerships between the private and public sectors and the social economy; and better managing integration of migrants.

EU funding instruments

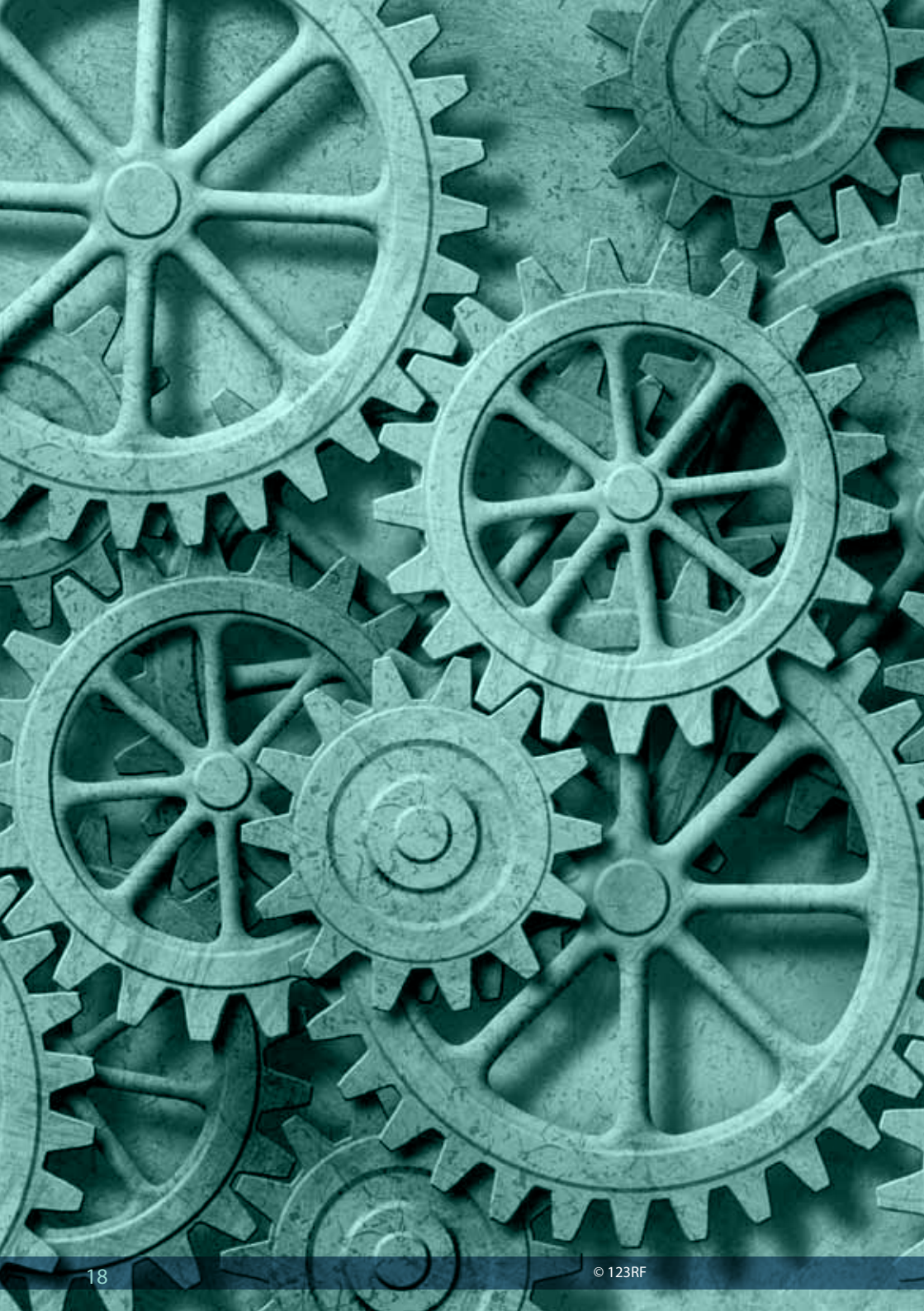
The EU also provides significant amounts of funding to improve employment, skills and social inclusion throughout Europe. The **European Social Fund (ESF)** helps Member States modernise their labour markets and make jobs more accessible even for those with more difficult starting positions. Funding from the ESF also helps modernise education systems, improve adaptability of enterprises to economic changes and deliver programmes for lifelong learning and re-skilling. A number of ESF projects target specific groups, particularly young people, older workers, women and minorities. Over the period 2007-2013 more than **€75 billion** is available to national and regional authorities from the ESF for investment in people, in line with policy priorities agreed at EU level. The ESF trains and supports the employability of around 9 million people every year.

The **PROGRESS Programme** for 2007-13 additionally provides **€ 680 m** to support employment and social solidarity through activities with a direct European dimension, such as analysis, networking and sharing of information between authorities and social partners in Member States, in order to improve policy and practice. It also funds campaigns to highlight and inform about key issues in employment policy.

Since 2007, the **European Globalisation Adjustment Fund (EGF)** has been supporting workers made redundant due to changing global trade patterns, and since 2009 it has also helped those laid off as a consequence of the economic crisis. The EGF is designed to provide emergency support in cases of

sudden large-scale layoffs in a given region or sector, unlike the ESF, which is based on 7-year planning and can finance broad structural measures for employment, education and inclusion. € 500 m euros are available each year from the EGF for training, re-skilling and job-counseling programmes designed by national/regional authorities for the people affected.

As we have seen, employment policies across the EU are becoming more and more coordinated, employment is a key focus of the Europe 2020 strategy and significant funding from the EU budget is available to support it. In the next Chapter, we look in detail at EU action to address the problem of unemployment.



Fighting Unemployment

The challenge

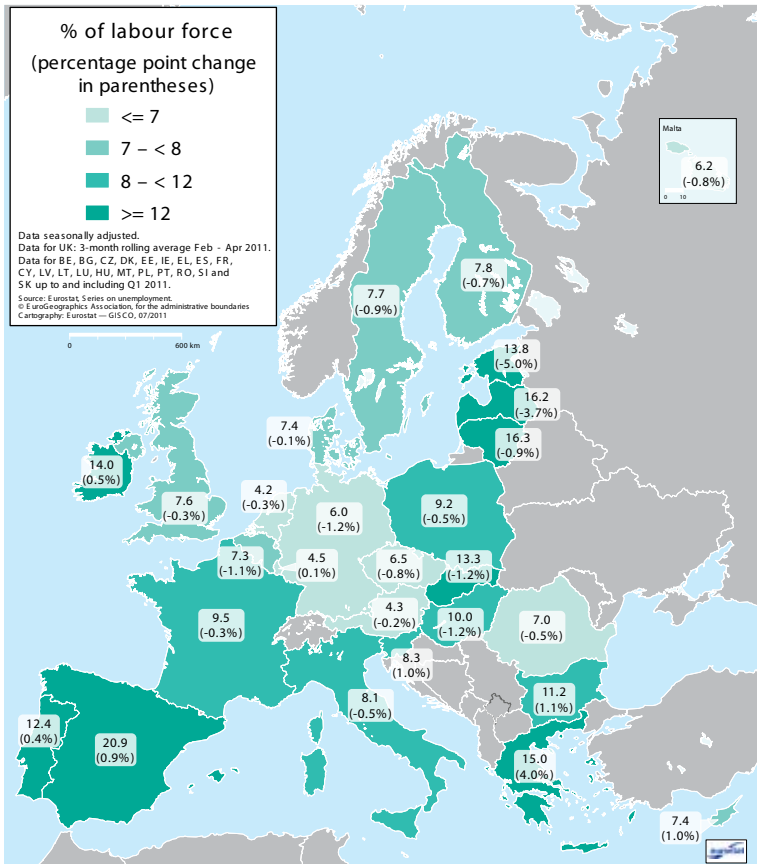
In 1957, when France, Germany, Italy and the Benelux countries signed the Treaty of Rome to create the European Economic Community, the average unemployment in countries of western, northern and southern Europe was less than 2%.

In 1997, at the launch of the European Employment Strategy, unemployment in the then 15 Member States of the EU was 10.6%. When the Lisbon Strategy for Growth and Jobs was launched in 2000, the EU-15 unemployment rate was 7.7%, compared to 4.0% in the US and 4.7% in Japan. In 2004, the EU-15 unemployment rate was 8.1% and the enlargement to EU-25 increased it to 9.1%. A substantial improvement was observed from

2005 to 2008, when EU-27 unemployment fell as low as 7.1% in 2008 (compared to 5.8% in the US and 4.0% in Japan). However, the economic crisis that began in 2008 saw EU GDP fall by 4.2 percentage points in 2009 and unemployment consequently rose to 9.6% in 2010. It presently stands at 9.4% (June 2011). There are currently 22.4 million people without a job and looking for one, while in early 2008 the number was only 16 million.

Chart 2 shows the current unemployment levels across the 27 EU countries. Rates vary significantly from low, e.g. 4.3% in Austria and 4.2% in the Netherlands, to 14% in Ireland, 15% in Greece, and over 20% in Spain. Indeed Spain accounts for 1 in 5 of all unemployed people in the EU.

**Chart 2: Unemployment rates, May 2011
and unemployment rate changes (May 2010-May 2011)**



Source: Labour Market Fact Sheet, July 2011, European Commission

Long-term unemployment (continuous unemployment for over twelve months) is a particularly acute problem. At present, 40 % of all unemployed are long term unemployed, up from 32 % at the end of 2008. The overall long-term unem-

ployment rate in the EU is 3 % (of the economically active), but it varies substantially from less than 1 % in Austria, the Netherlands, Denmark and Cyprus to over 4 % in Hungary, Latvia, Spain, Portugal and Slovakia.

Although the impact of the economic downturn on unemployment was severe, it was somewhat tempered as compared to other regions, for example the US. This has been partly due to the 'internal flexibility' of companies in using measures like '**short-time working**'. The fall in employment relative to GDP was especially pronounced in the Baltic States, Ireland, Denmark, Portugal and Spain. It was lowest in Germany, the UK, the Netherlands, Italy, Belgium and Austria.

Who has been most affected?

Unemployment does not fall evenly across all members of the workforce or across countries. So, who are the most affected?

Chart 3 shows current and recent unemployment rates across the EU by **gender, age, skill level** and **nationality**. We can observe that whilst unemployment has historically been higher amongst **women** than men, the recession has actually had a greater impact on **men** than women, leaving current unemployment rates broadly similar.

The crisis has most severely hit people working with **temporary contracts**, especially young

people or those with low skills. The percentage of job losses among people on temporary contracts has been more than twice as high, when compared to the overall job losses.

In terms of age, unemployment has historically been significantly greater amongst **young people** and the current recession has reinforced this pattern. Youth unemployment, at over 20 %, is well over double the overall average and unemployment rates appear to decline with age.

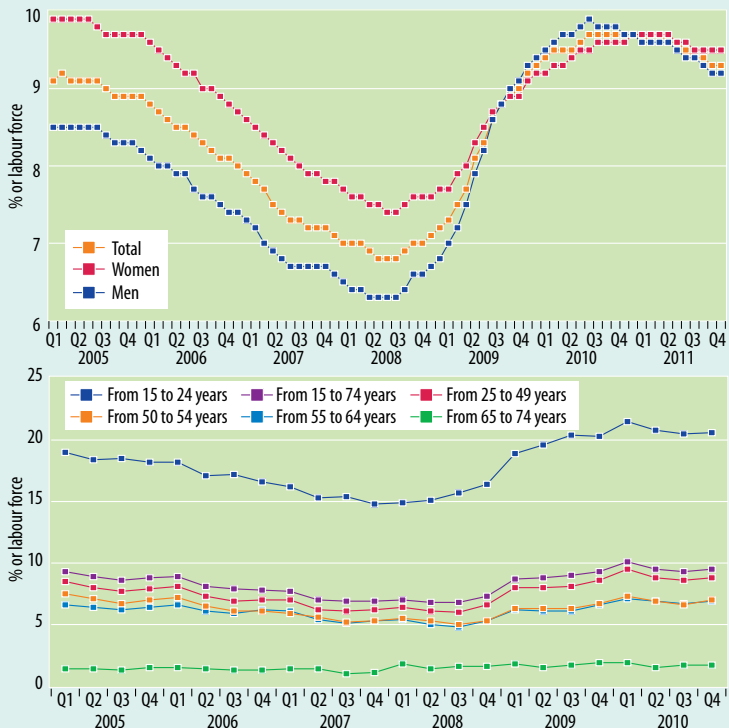
With regard to **skills**, unemployment varies consistently with qualification levels: the most highly qualified have experienced the lowest unemployment and the least qualified, the highest. The unemployment rate is 5.5 % for the highly skilled, 8.9 % for the medium skilled, and 16.1 % for the low skilled. This 'gap' increased further in the recession and low-skilled workers in particular suffered most. Numbers of highly skilled (and medium-skilled) employed people actually increased during the recession. Non-EU nationals experienced even higher unemployment rates (close to 20 %) when compared to EU nationals (around 10 %) and, once again, the 'gap' has increased with the recession.

Occupationally those who suffered most from increased unemployment in the recession were manual workers (especially in craft and related trades), plant and machine operators, and assemblers, which reflects the **sectoral** nature of the job losses, i.e. predominantly in manufacturing and construction.

Geographically, the most affected countries during the recession have been Denmark and Spain, where unemployment

rates have more than doubled; Ireland, where they have tripled; and the Baltic States, where they have increased fourfold or even more. Between spring 2010 and spring 2011, unemployment rates fell in seventeen Member States but increased in nine. The biggest improvement was in Estonia and the worst deterioration was in Greece. More details on unemployment trends are available in the European Commission's Quarterly Employment and Social Situation Review.

Chart 3: Unemployment rates in the EU



Source: Eurostat, EU LFS. Data not seasonally adjusted (except gender).

Youth unemployment

The level of youth unemployment in the EU has been at around 20% since mid-2009. This means that **over 5 million young people** (15-24 year-olds) are **unemployed**, i.e. more than 1 in 5 of those active in the labour market, which is more than **double the rate for the workforce as a whole**. Youth unemployment is particularly severe in Sweden, Ireland, Portugal, Italy, Hungary, Greece, Slovakia, Latvia, Lithuania and Spain, with rates

ranging from 25% to over 40%. The 'gap' between youth and adult unemployment rates is particularly great in Spain (44% vs. 18%) but almost non-existent in Germany (8% vs. 6%).

And the recession has hit young people particularly hard. Their unemployment increased by one-third from the 'low' of 15.8% in 2008. In the 2008-2010 period, this rise was mainly associated with increased unemployment of young men, but unemployment

by gender, age, education and nationality

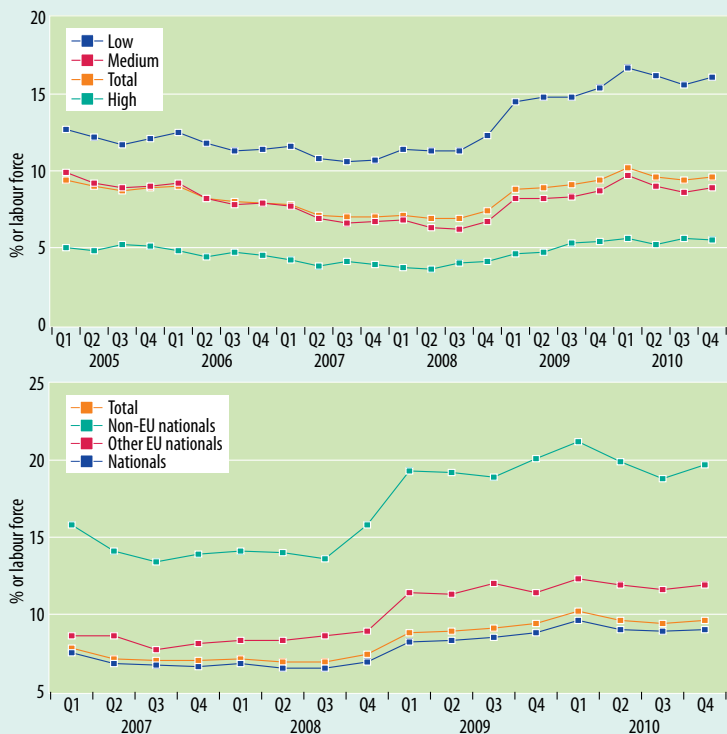
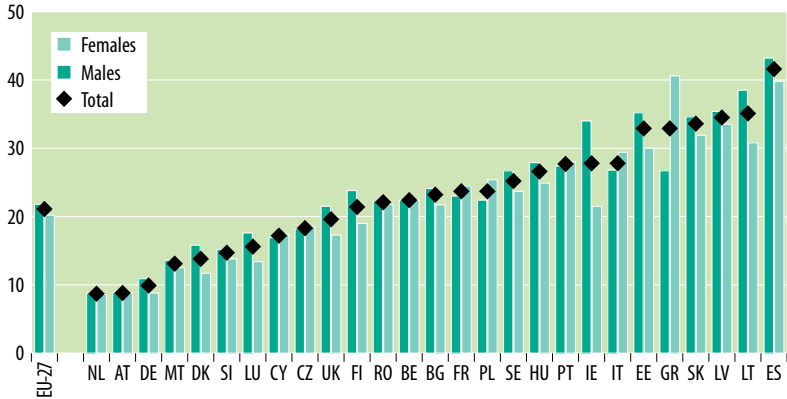


Chart 4: Youth unemployment rates for EU Member States by gender (2010)



Source: Eurostat, EU LFS

of young women has also been rising since 2010. Unemployment of young people accounts for a substantial part of the overall rise in unemployment: 30 % of the increase in EU unemployment (from the second quarter of 2008 to the second quarter of 2010) was attributed to 25 to 34-year-olds and 18% to 15 to 24-year-olds.

One particular concern is the impact of the crisis on detachment of young people from the labour market and educational opportunity. Those who are **'not in education, employment or training'** — the so-called NEETs — **now amount to 13 % of all 15 to 24-year-**

olds (more in the UK, Italy, Spain and Portugal). Increases in this group have been most marked in the Baltic States, Ireland, Spain, Bulgaria and Italy.

But youngsters have also been experiencing more precarious contractual arrangements in the labour market than other members of the workforce. **Fixed-term/temporary contracts** account for around 13 % of total employment in the EU and, indeed, over 20 % in Portugal, Spain and Poland. But they account for over 40 % of all jobs of 15-24 year-olds, as compared to just 10% of those aged 25 and over.

Whilst such contracts can make hiring and job creation easier, they can also lead to what is often called labour market **segmentation**. Labour markets may be divided, or segmented, into 'insiders' (with permanent contracts, continuous employment and the prospect of careers, promotions, rising incomes and training) and 'outsiders' (with temporary contracts, at risk of repeated unemployment, with limited career advancement opportunities, lower earnings and pension entitlements and even less access to education, training, housing and health-care of their choice). Temporary contracts are 'cyclically sensitive', bearing the brunt of downturns and expanding again in upturns. **Part-time employment** is also much more prevalent amongst young people. More than a quarter (28 %) of youngsters are in part-time employment (10 % more than adults) and more than 7% see such part-time employment as 'involuntary', indicating a degree of under-employment.

Considering that young people have limited job experience, and transition from education and training into work is a relatively big step, it is not surprising then

that youngsters experience more 'transitions' (hires, separations and overall labour turnover), in and out of the labour force and between jobs, than others in the workforce. The **duration** of their spells of unemployment is, however, shorter than that of adults: the long-term unemployment rate of young people is 6% (the duration of unemployment rises steadily with age). But their spells of unemployment are more frequent, and their labour market experience is more insecure.

Job prospects of youngsters are strongly determined by their levels of **educational attainment**. Employment and earnings are strongly correlated with qualification levels and the labour market increasingly requires more people with higher level skills. It is estimated that, by 2020, 35% of all jobs will require high-level qualifications compared to 29% today, and the number of jobs requiring low or no qualifications will decline. Yet around 1 in 5 of 20-24 year-olds have not completed higher secondary education and the proportion is even greater in, for example, Denmark, Portugal and Spain.

Action to tackle unemployment

Better functioning of labour markets

So, what can Europe do to tackle unemployment, and in particular unemployment amongst the most affected groups?

The main responsibility for employment lies with the EU's 27 Member States. However, as we have seen, the European Commission has an important role to play through **co-ordination of actions; monitoring and analysis;** and also by **recommending action** needed to ensure progress towards the agreed European goals.

While employment and unemployment levels partly depend on the level of economic activity and the structure of the economy, the EU can nevertheless help **improve the way in which Europe's labour markets function**. Even at the peak of the boom in 2008, the EU unemployment rate was around 7 % while the employment rate among 15-64-year-olds was 65.9 %. Over 16 million people were still unemployed then. Therefore, much of our unemployment is not a result of the business cycle, the crisis, or deficient demand, but rather due to the structure and operation of our labour markets. Such **'structural' unemployment** can be reduced by an employment policy that focuses on reducing the **'mismatch'** between unemployment and vacancies.



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Labour market efficiency and frictions

The matching of labour supply and demand is a major topic in economics. The 2010 Nobel Prize in Economic Sciences was awarded to Christopher Pissarides, Peter Diamond and Dale Mortensen for developing a theory and economic models of how labour markets operate to bring jobseekers to fill available vacancies.

Job markets are dynamic, not static: in Europe they have a yearly 'turnover' of about 20 % of all jobs being created or destroyed. But there is no 'invisible hand' to shift workers automatically from one job to another, and many 'frictions' exist: people may not have the competences required for the jobs on offer (skills mismatch), they may not be able to move (mobility), or they might not even be aware about suitable job openings (information). Such 'structural' factors explain why unemployment and vacancies exist side by side. For example, in early 2011, nearly 23 million people were unemployed in the EU, while approximately 4 million jobs were on offer.

In March 2011, the Commission organised a *Conference on the Future of European Labour Markets*, with Nobel Prize Laureate Christopher Pissarides as a keynote speaker. The objective was to bring together experts from Member States and social partners, in order jointly to analyse how employment and economic policy can be used to improve the labour market situation. The conference highlighted the need for an active role of public employment services and their good cooperation with industry and education institutions in 'thinking ahead' of structural changes in the economy and helping people build the right skills, both among young people who move from one temporary job to another and among older workers. It also showed that employment policy is only part of a broader economic policy and that labour markets can be helped or exposed to additional challenges by other parts of economic policy, e.g. taxation, pensions policy or investment policy, while the functioning of labour markets in turn has an important influence on the economic situation and public budgets as a whole.

Improving the functioning of labour markets firstly means making the most of currently available vacancies and of those expected to be available in the future. It does not make economic or social sense to create jobs that cannot be filled, whilst unemployed people remain jobless. Employers need to be able to hire and retain the workers they need, while workers need to be able to develop their skills and have certain economic security and professional prospects, even if they need to change jobs. **The European Union's overall approach to improve the functioning of labour markets is known as 'flexicurity'.**

Flexicurity seeks to combine the best of both flexibility and security. It aims to reconcile the need for a flexible workforce (one that can adapt to changes in the economy and the labour market) with the need for economic security, i.e. create confidence that workers will not endure long periods of unemployment. The flexicurity approach aims to secure **employability** for all, despite the fact that the present-day economy, which operates within a context of global competition, does not guarantee job security. Flexibility can benefit **both** workers and employers, as long as workers can turn to lifelong learning, job-search support, re-skilling programmes

and income support while they are unemployed or looking for a different job. Changes in technology, consumer demand and competitive advantage always lead to the creation or growth of some companies, while possibly leading to the decline or failure of others. Flexicurity responds to this economic reality by enabling both companies and workers to be more adaptable.

Flexicurity has four mutually reinforcing elements:

- flexible but reliable **contractual arrangements** in labour law, collective agreements and work organisation;
- comprehensive **lifelong learning** strategies to ensure adaptability and employability of workforce;
- effective **'active labour market policies'** to help workers cope with labour market change, ease the transition between jobs and reduce the duration of unemployment spells;
- modern **social security systems** to provide adequate income support, encourage employment and facilitate labour market mobility.

When combined together in a balanced manner, these measures can bring flexibility to the labour market and provide security to workers.

Kurzarbeit in Germany

Short-time working arrangements ('Kurzarbeit') proved to be an essential instrument for preserving jobs in Germany during the crisis and can be considered an example of a flexicurity measure. They allowed companies in economic difficulties to substantially reduce the number of hours worked by their employees (up to 100%) and at the same time provided public income support to partially compensate employees for the corresponding reduction in salaries and wages. This helped employers to avoid laying off workers due to a shortfall of orders. A good level of dialogue between employers and workers' representatives played an important role in making 'Kurzarbeit' possible in practice.

The German public support scheme for short-time working existed before the crisis and is one of the oldest in Europe. However, in order to avoid mass redundancies, the pre-existing possibilities of short-time work were stepped up during the crisis: In November 2008, the period for which short-time work allowances were paid was extended from 12 to 18 months. Moreover, 50% of social security contributions paid by employers to the state in 2009 and 2010 were reimbursed. As of January 2009, employers who provided qualification/training to their employees during short-time work were reimbursed for the full amount of their share of social insurance contributions. In July 2009, the duration of the short-time allowance was extended to 24 months. The number of workers for which short-time work was notified leapt from 27 000 in September 2008, to more than 1.4 million in June 2009.

A common approach by EU institutions, Member States and social partners is needed for Member States to make the best use of flexicurity. In order to strengthen the social partners' involvement, the Commission held the first **Tripartite Social Forum** in March 2011 to discuss

implementation of flexicurity policies on the ground. Such dialogue will be repeated at least once a year. A major **Stakeholder Conference on Flexicurity** will be held in November 2011, as a comprehensive debate for strengthening the four flexicurity components. The

aim is to reach a consensus on what flexicurity measures should look like in the wake of the eco-

nomie crisis, and then set this out in detail in a Commission's Communication in 2012.

Possible adaptations to flexicurity in the post-crisis decade

- **Modernising contractual arrangements.** The Commission is helping Member States to find ways of reducing labour market segmentation and improving labour market prospects for people in precarious jobs, whilst not simultaneously discouraging companies from hiring. This could be done, for example, by introducing 'open-ended' contracts (instead of traditional temporary ones), where worker protection within a company would gradually increase over time.
- **Better access to lifelong learning.** Re-skilling and updating of existing qualifications is crucial to help people gain access to jobs in higher added value sectors and expanding occupations, as well as to facilitate transitions from unemployment to work. The Commission is helping Member States to modernise their lifelong learning policies and to improve cooperation between education/training providers, businesses and public services, in order to add to the relevance of training and increase private and public investment in workforce training.
- **Active labour market policies.** The EU provides funding and promotes mutual learning between employment services, in order to improve the mix and effectiveness of job counselling, job search services and skills and employability training. It also helps to improve targeting of benefits and subsidies.
- **Modern social security systems.** Unemployment and in-work benefit systems need reform, so that they are capable of targeting those at most risk of unemployment. Pension systems also need to be adapted to the changing nature of labour markets, so that they are able to assist those with gaps in social security contributions due to unemployment or short-term contracts. The Commission helps sharing of expertise and best practices among Member States.

Given the importance of acquiring skills and competences throughout our working life, the Commission is stimulating action across the EU for **lifelong learning**. This is based on common principles of shared responsibility and partnership, effective financing mechanisms, flexible pathways depending on individual needs, quality initial education and targeted ongoing training. The Commission is also working on a European policy handbook for lifelong learning implementation, and on a

renewed action plan for adult learning.

The Commission will also establish a **partnership between employment services (PARES)** from the public, private and third sectors by the end of 2011, in order to encourage an EU-level strategic dialogue and improve services for job-seekers. The partnership will also provide small-scale funding for best-practice projects and a new web tool will disseminate the good practices.

Skills and lifelong learning in Wales

A number of lifelong learning programmes across the EU are financed from the European Social Fund (ESF). The ReAct programme was developed by the Welsh Government in response to the economic downturn and is delivered by the local careers service. ReAct aims to address the needs of people across Wales who were either made redundant, or who are under notice of redundancy, through training and other measures designed to remove access barriers to new employment. This support goes beyond what could otherwise be provided by the Welsh employment and careers services. It is expected that the programme will help over 37 000 people from 2008 to 2014, with most of them achieving additional qualifications.

Job information centres in Italy

With support from the ESF, Lombardia was the first region in Italy to develop an integrated information system (Borsa Lavoro), to bring together all existing labour market information sources (unemployed people, vacancies, training, etc.) and to provide an easy access point for both jobseekers and companies. Following up on a country-specific recommendation from the EU within the Lisbon process, Italy developed a nation-wide network of job information systems over time, using e-government tools to improve labour market matching.

Improving labour mobility

The economic performance and competitiveness of individual companies and sectors change continually, and so do the prosperity and labour market situations of individual localities and regions. People will therefore often necessarily **change jobs** and, in the process, **move geographically**, thereby improving their chances of seizing new opportunities to move into new jobs and reducing the likelihood of remaining unemployed for a long time. Limited mobility reduces the ability of the labour market to 'match' people and jobs, and makes economies less adaptable to changes.

Europeans tend to move mainly within their countries: only 2.3% of the working age population lives and works in a Member

State other than that of their nationality. However, just as the EU's prosperity has increased with a single market for goods and services (as opposed to fragmentation into 27 small markets), it also makes sense to have a single market for labour and skills. People nowadays move for work in all directions, even for shorter periods. Mobility is increasingly attracting young workers regardless of their level of qualification.

Thus, the right to move freely within the EU to work and seek work, set out in Article 45 of the Treaty on the Functioning of the European Union, is an important part of the Single Market and of European integration as such. It prohibits 'discrimination based on nationality between workers of the Member States as regards employment, remuneration and other conditions of work and

employment'. It entails the right for individuals to accept employment offers that are actually made, to move freely across the EU for the purpose of employment and, under certain conditions, to remain in another Member State after having been employed there. Following the EU enlargements in May 2004 and January 2011, 'older' Member States have been allowed (by provisions in the respective Accession Treaties) to apply restrictions on free movement of workers from the 'new' Member States for a transition period of up to seven years. Most 'older' Member States ended their temporary restrictions earlier than that and, since May 2011, the restrictions can now only be applied to citizens of Bulgaria and Romania (until the end of 2013 at the latest).

In order to improve mobility in practice, a number of important mechanisms have been established at EU level, e.g. to increase job information available to people, to help people have their skills recognised in different Member States and to coordinate social security systems.

EURES is the European network for employment services and the EURES on-line job mobility portal enables people to search for a job, advertise a job and

post CVs online (<http://eures.europa.eu>). The EURES portal is a central information point for jobseekers and employers: more than 1.1 million job vacancies, 600 000 CVs and 24 000 companies are registered. Jobseekers can not only search on their own and upload CVs but can also receive e-mail notifications of relevant vacancies. Employers can access candidates' information, advertise vacancies internationally and receive alerts when profiles that match a vacancy are posted. From 2014 onwards, the Commission wants EURES to do much more: provide an EU-level matching service for both outgoing and incoming placements; further increase EURES's outreach to public and private employment services and the number of vacancies; and develop targeted mobility schemes to fill labour market niches and help specific groups. A mobility scheme for young people, '**Your First EURES Job**', is currently under preparation.

In order to make mobility easier, it is also important to 'speak the same language' in terms of occupations, skills/competences and qualifications. The Commission is therefore coordinating an EU-wide classification system (**ESCO**), which is being developed in all EU official languages, and is linked to other interna-

tional classifications and standards. The current version of ESCO contains 6 000 skill/competence terms and 5 000 occupation titles. ESCO improves the quality and transparency of vacancy information and improves matching of jobseekers and vacancies within and across EU countries: Jobseekers can use it to describe their skill set, employers to define their requirements in a job description, learners to build skill profiles and record learning outcomes, and training providers to improve curriculum development. As a common standardised classification, ESCO helps in recognition of foreign qualifications, and is being used by the EURES system.

The **PLOTEUS** portal supports mobility by providing a one-stop source of learning opportunities, including work placements and exchanges, and educational institutions across the EU. It gets 800 000 online visits a year (<http://ec.europa.eu/ploteus>). It also provides practical information on accommodation, travel and health, again reducing barriers that may prevent some people from seizing opportunities in another country.

The European Commission has been providing a quarterly **European Vacancy Monitor** since 2010, with systematic informa-

tion on vacancies and hiring at EU and country levels, bringing together data that was previously scattered across multiple sources. This provides an insight — for employment services, education/training institutions and individuals — into currently growing occupations and areas where recruiters have difficulty finding people to fill vacancies. The European Vacancy Monitor is complemented by a **European Job Mobility Bulletin**, which analyses vacancies posted on the EURES portal, by focusing on people looking for jobs outside their home country.

Finally, the EU is running a computerised system which helps people to move abroad by facilitating the necessary information flow between social security systems of individual countries. Known as **EESSI** (Electronic Exchange of Social Security Information) and launched in 2010, the system makes life easier for EU citizens who wish to receive their unemployment benefits, child care benefits or pension in another country. EESSI speeds up decision-making for calculation and payment of social security benefits, by enabling social security authorities in different Member States to easily exchange and verify the information needed. The Commission is also running an awareness cam-

paign on how citizens can benefit from EU social security coordination rules, with a view to helping their movement around the EU without losing their rights.

All this action is helping to reduce labour market ‘mismatch’ between job vacancies and job-seekers. It is helping to reduce the risk of co-existence of high levels of unfilled vacancies (and thus skill shortages) with high levels of unemployment. It also helps to reduce the risk of long-term unemployment and ensure that there are people available to seize opportunities when jobs are created in the recovery.

Reducing youth unemployment

On average, more than 20 % of 15 to 24-year-olds who are looking for a job cannot find one. The youth unemployment rate is around 7 % in Germany and the Netherlands but reaches around 27-28 % in Italy, Portugal, Ireland, Bulgaria and Latvia. It exceeds 30 % in Slovakia and Lithuania, and hits 44 % in Spain. What is the EU doing to help reduce **youth unemployment** — besides the above-mentioned attempts to reduce unemployment more generally?

As part of the Europe 2020 Strategy, the EU recently launched its flagship initiative ‘Youth on the

Move’, which, for the first time, sets out a comprehensive policy framework for youth employment. It focuses on three main lines of action, each addressing different stages of young people’s lives: in **education** (both school and university); in the **transition from education to work**; and in **work**, through increasing mobility.

Education

A key factor for preventing high unemployment is to ensure that quality education and training are accessible to everybody and that they deliver key competences and qualifications in line with labour market demands. Problems with employability can have their roots in early stages of life —inadequate pre-school or elementary education, low literacy or early school leaving. And they can also result from poor or badly chosen secondary education, lack of careers information and guidance, and lack of vocational and other professional training, in which key competences and skills required for the world of work could have been developed.

The Commission has established a high-level expert group to make recommendations on improving **literacy** across the EU, after recognis-

ing that 80 million adults currently have low levels of basic skills and that results of the OECD's PISA tests show that 20 % of 15-year-olds in the EU have poor reading skills. The

Commission has also proposed a Council Recommendation to deal with high **school drop-out rates** through a combination of prevention and remedial measures.

Second chance schools in Languedoc-Roussillon

As part of the education headline target, the Europe 2020 strategy aims to reduce school drop-out rates below 10 % (from approximately 15 % today). People who drop out of school without a diploma find themselves at a long-term disadvantage in the labour market, often for the rest of their lives. In the Languedoc-Roussillon region of France, 6 % of school-leavers are early drop-outs and a third of them suffer problems with reading and writing. The European Social Fund contributes half its budget in the region to nine 'Second Chance Schools', which target 18 to 25-year-olds who dropped out without a diploma but who are registered with the public employment service and have motivation. The schools provide professional training and career advice, thus giving the students an opportunity to move to a job or to further education.

Vocational education and training (VET) is crucially important for many professions. The demand for qualifications is increasing even in occupations categorised as low-skilled, and it is estimated that around 50 % of all jobs in 2020 will continue to depend on medium-level qualifications provided through VET. The Commission is supporting a partnership among Member

States and social partners which aims to raise the attractiveness and availability of VET and to show ways of modernising VET systems. The Commission will also be proposing a Council Recommendation in 2011, for promotion and validation of non-formal and informal learning, to help step up Member States' action in order to improve recognition of such skills.

Besides VET, the EU also promotes further workplace learning through **apprenticeships** and **traineeships**. While apprenticeship-type training schemes are well-established in some Member States, others have only recently started to set them up. The Commission is therefore working with Member States on a quality framework for traineeships and is encouraging companies to take apprentices as part of their corporate social responsibility (CSR).

Finally, the Commission is promoting greater participation in — and modernisation of — **higher education**, which is crucial for building a knowledge economy, with the intention of achieving the 40 % higher education target of the Europe 2020 strategy. In 2011, the Commission is putting forward a Communication on reinforcing higher education, focused on employability of graduates; mobility between academia and industry; transparent information on study and research possibilities; and performance of education institutions. It will also address opportunities for non-traditional learners and access for disadvantaged groups.

Transition from education to work

Young people who finish schooling and are unable to access further education, training or employment need to be supported by active labour market measures so they are not left behind. 'NEETs' are especially at risk and need adequate safety nets with a combination of income support, access to quality services and more inclusive labour markets. However, such support should be conditional on the person actively searching for a job, further education or training. Those graduating from further/higher education may also need help from employment services for job search.

Temporary contracts are often prevalent in youth labour markets and, although often valuable as a 'stepping stone', they should not be used successively as an alternative to permanent contracts. Precariousness of temporary jobs has negative effects not only on the young person concerned (lack of economic security) but also on the employer: workers with limited career prospects are less motivated. Performance will thus gradually decline if companies do not invest in further development of their employees' skills.

The Commission is therefore working with Member States to ensure that effective support measures for young people, including 'NEETs', are available and labour market segmentation is reduced. It supports mutual learning and sharing of best practices among Member States, in order to **identify the most effective support measures for young people**, including job placement and in-work training programmes, recruitment subsidies and wage arrangements,

and benefits combined with activation. It encourages Member States to develop a **'Youth Guarantee'** as part of their work on implementing the Europe 2020 strategy, in order to ensure that all young people are in a job, further education or activation programmes **within four months of leaving school**. Member States are specifically asked to identify and overcome any legal and administrative obstacles that may block young people's access to support measures.

Training guarantee for young people in Austria

In general, Austria has a strong focus on vocational education and training (VET) where around 80% of each age cohort enters a VET pathway after finishing compulsory education. About 40% of these youngsters aim at starting an apprenticeship. In 2008, a 'Training Guarantee' was introduced, to provide young people (with difficulties in finding a company-based apprenticeship) with the opportunity of learning a trade through an apprenticeship at a 'supra-company training institution'. The supra-company apprenticeship training is set up as part of the VET system and is equivalent to the regular company-based variant. The participants' social security situation was likewise improved by including them in the unemployment insurance scheme.

The number of supra-company training places had to be increased from 9 300 to 12 300 for the training year 2009/2010 in the wake of the crisis, due to the low number of training vacancies available in companies. The budget allocated to supra-company apprenticeship training in 2009/2010 amounted to EUR 187 million and was provided by the Public Employment Service (86%) and the Länder (14%).

To support policy development and mutual learning, the Commission also systematically monitors the situation of young people who are not in employment, education or training (**NEETs**) on the basis of EU-wide comparable data.

Member States are also encouraged to improve **support for entrepreneurship and self-employment**, by fostering an entrepreneurial mindset in education and training; by providing support and coaching with business plan preparation; and through other measures needed by any young person wanting to start an enterprise. The Commission is encouraging greater use of support to potential young entrepreneurs via the **European Progress Microfinance Facility**, established in 2010, to increase accessibility and availability of microfinance, for those wanting to set up or develop a business but who have difficulties in accessing credit from banks.

Finally, to fight labour market segmentation, the Commission is encouraging Member States to consider modernising their labour laws by introducing new **open-ended contracts with a gradual increase in protection** (for new recruits). Such a contract would have no ex-ante

time limit (unlike current 'temporary' contracts) but unlike current open-ended ('permanent') contracts, it would provide an entry phase for a young person into the labour market, with monetary and legal rights on dismissal (e.g. notice period and severance payment) that would increase with length of job tenure. Of course, the specific design (length of entry phase, combination and level of monetary and legal rights and so on) would be tailored to national circumstances. Member States could use ESF resources to try such a contract.

Learning and employment mobility for young people

Young people are the most 'mobile' in the EU and they can be further supported through easier recognition of educational qualifications and through EU-wide formats and platforms to facilitate information on learning and employment opportunities in other EU countries.

The EU has long been supporting learning mobility, for example, through the **Erasmus** programme in higher education or **Leonardo da Vinci** in vocational education and training. Learning mobility is also helped by systems such as the European Credit Transfer and

Accumulation System (ECTS), the European Qualifications Framework for lifelong learning (EQF), and Europass templates.

The Commission is currently developing Europass into a **European Skills Passport** to help increase transparency, transfer competences and ease recognition of skills across countries. The dedicated **'Youth on the Move' website** also provides information on EU learning and mobility opportunities (<http://ec.europa.eu/youthonthemove>) whilst the **Youth on the Move card** aims to facilitate mobility for all young people (students, pupils, apprentices, trainees, researchers and volunteers), by helping to make the integration process of mobile learners smoother. The Commission is also providing information on the **rights of mobile students**, covering issues such as access, recognition and portability of grants.

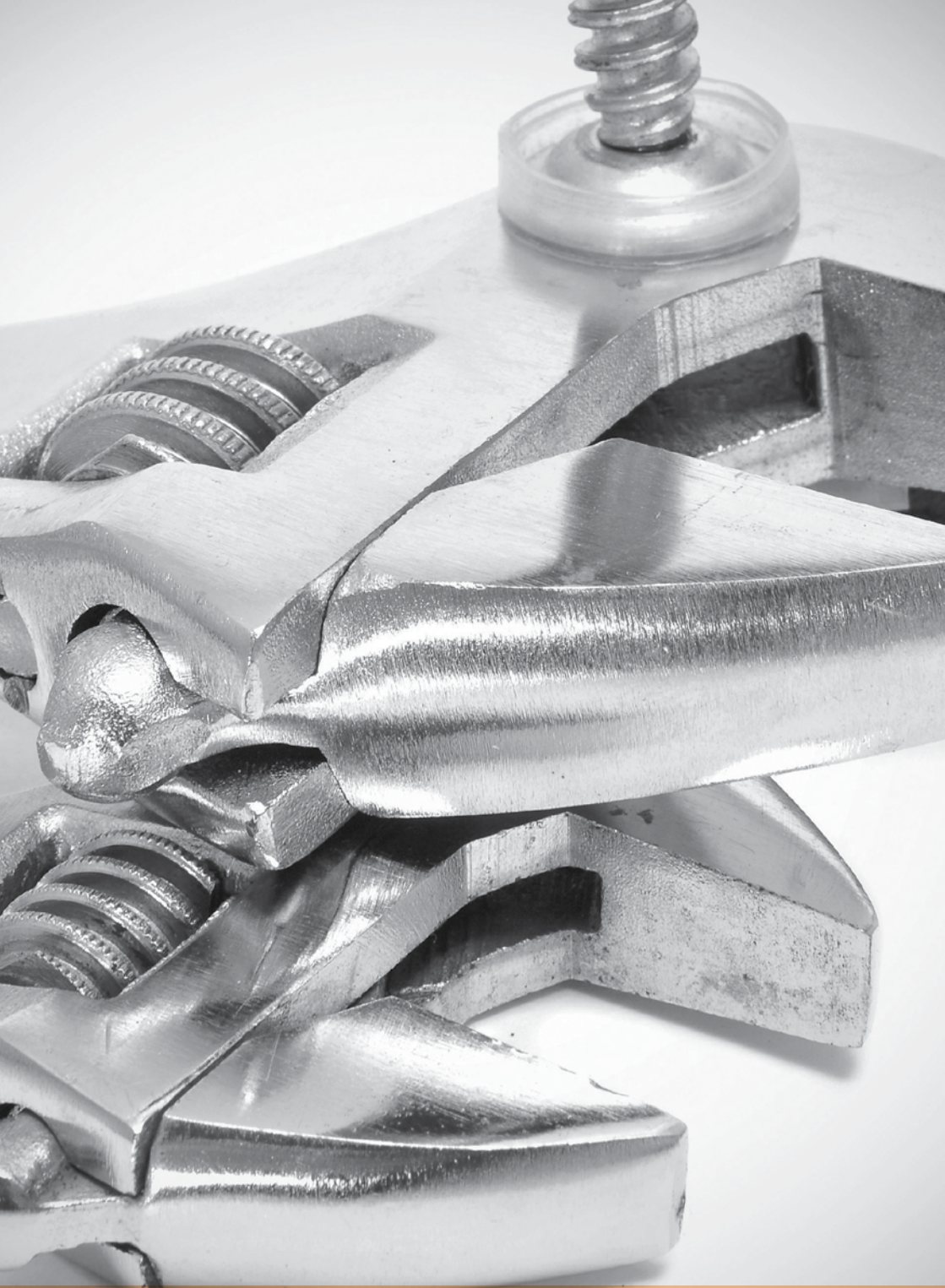
Working abroad is particularly attractive for many young peo-

ple. Employment mobility is an important way of better matching labour supply with labour demand and providing young workers with valuable experience and skills. There nevertheless still remain obstacles that hinder movement, one of them being awareness of opportunities. Young people and businesses do not always find it easy to 'connect' and Public Employment Services do not always offer services that are suited to youngsters keen on moving abroad. In order to maximise the potential of **EURES** and the job opportunities it offers, the Commission is developing a new initiative, **'Your first EURES job'**, as a pilot project targeted specifically towards helping young people find a job in another Member State. It will provide advisory, job search, recruitment and financial support to both young jobseekers willing to work abroad and companies recruiting young European mobile workers. It will also support integration programmes for newcomers within companies.

Beyond unemployment

Tackling unemployment is crucial to the employment agenda. But **employment policy needs to focus on more than just reducing unemployment**. In particular, people need to be able to access new jobs that are being created and for that they need the right **skills** to enable them to avail of such opportunities and then do the jobs effectively and productively. Also, it is necessary to increase **labour market participation** and to reduce the number of economically inactive people, e.g. older people who decide

to retire early, women who stay in households although they would be able and willing to be employed, or people with migrant or minority backgrounds who for various reasons do not enter the labour market (economically inactive people are not included in unemployment rate figures and therefore it is important to look at the employment rate). Furthermore, to increase employment we also need to support the **demand for jobs** by eliminating possible obstacles and bottlenecks. These are the three main issues that we will be addressing in the next chapter.



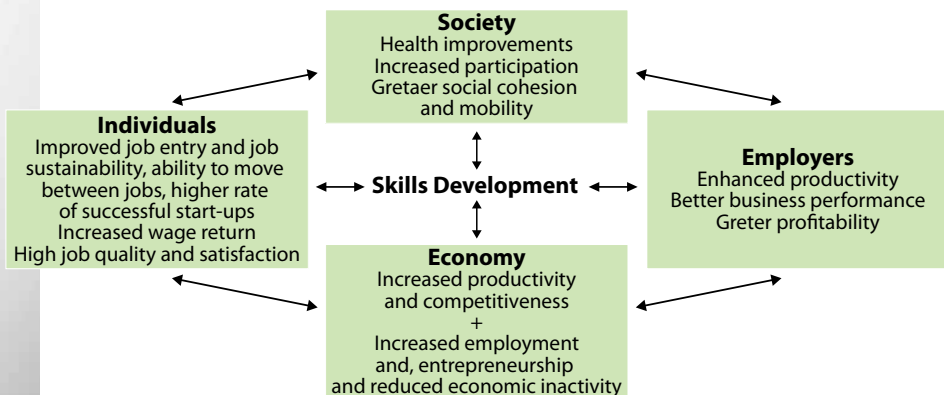
Chapter 3 Building up Labour Supply and Demand

Skills: the challenge

Upgrading, adapting and widening the skills of Europe's citizens to fill and create jobs of tomorrow is one of the greatest challenges facing Europe. Our prosperity ultimately depends on how many people are in paid work and on how productive they are when in work. Skills are crucial to both employment and productivity. **A highly skilled workforce is a more employable workforce, a better-paid workforce and a more productive workforce.** In every single EU country, unemployment rates vary systematically with qualifications. The

more highly qualified you are, the greater the chances of you being in work. The employment rate for the EU as a whole is as follows: highly skilled – 83.9 %, medium level of skill – 70.6%, and low skill level – 48 %. And in just about every EU country, the higher your qualifications, the more you earn. The number of high skilled jobs actually increased even during the recession. The right skills are key to ensuring a sustainable recovery and are the best guarantee to sustain growth and secure long-term economic success. And these skills need to be effectively used in the workplace to maximise their impact on prosperity.

Chart 5: The benefits of skills



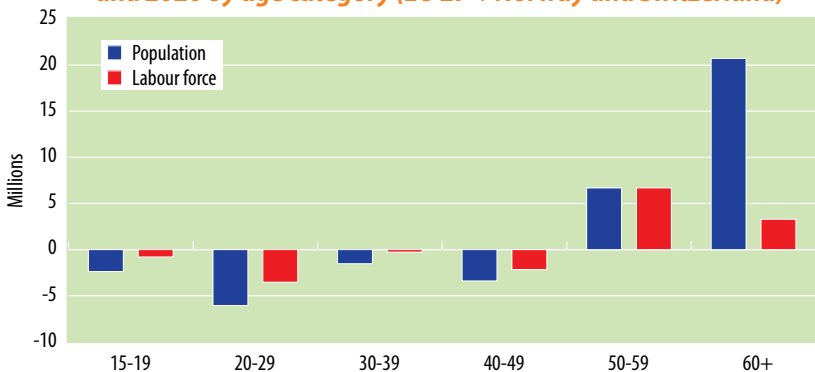
Source: New Skills for New Jobs: Action Now (2010)

And yet the inconvenient truth is that **Europe is insufficiently skilled**. Nearly a third of our working age adults, our population aged 25 to 64 — some 77 million people — have low qualifications or none. Only one of the five European benchmarks for education and training set for 2010, as part of the Lisbon strategy, was reached.

Demographic trends also mean that we need to raise skill levels

higher. The only growing labour force segment over the next ten years is the one aged over 50 (See Chart 6) and, from 2012 onwards, the working age population in Europe will actually fall. The 'old-age dependency ratio' will also rise considerably, with each person in productive age needing to support more older people. The proportion of +65-year-olds vs. 15 to 64-year-olds, will increase from 26 % in 2008 to 38 % by 2030.

Chart 6: Changes in population and workforce size between 2010 and 2020 by age category (EU 27 + Norway and Switzerland)



Source: CEDEFOP, 2010

There will also be fewer young people graduating from schools, colleges and universities and entering the labour market. The working age population will decline by 6 million from 2007 to 2020.

We clearly need to improve, and make the most of people's skills,

in order to increase productivity of those in employment. And in order to deal with the 'economic dependency ratio' (inactive and unemployed vs. employed), it is vital to increase labour market participation and get the unemployed or inactive upskilled and back to work.

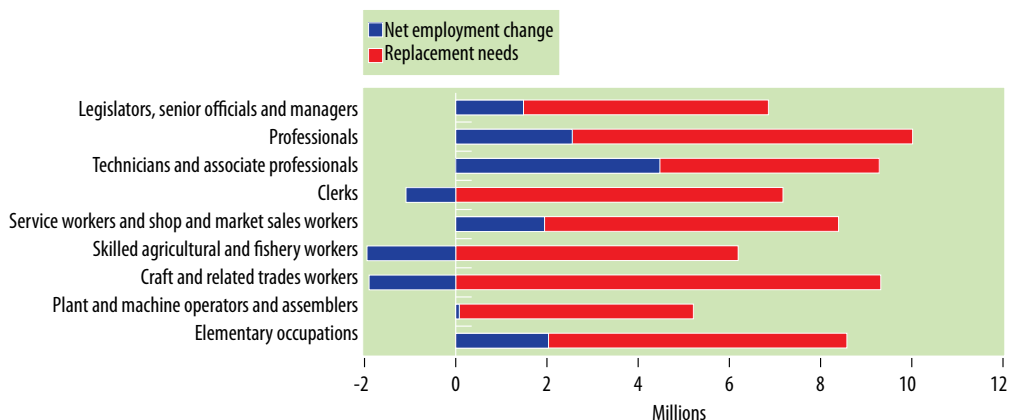
And **we not only need to upskill, but also to reskill**. We must adapt and develop the skills of our workforce to meet the changing needs of the labour market. As patterns of demand, competitiveness and technology change, the sectoral balance of the economy changes: the number of jobs is increasing, for example in business services, hospitality, retail and distribution and care, while there are fewer jobs in the utilities and most of the manufacturing sectors. The occupational structure, or jobs that people do, is also observed to change with the sectoral structure. We therefore

need to have the right skills, i.e. economically relevant skills.

Skills: the opportunity

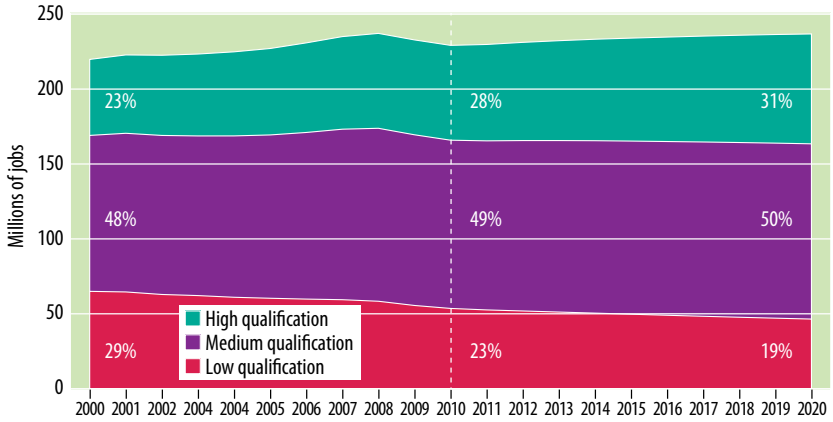
About **80 million job opportunities are expected to arise** (as people retire or leave the labour force) over the next decade. These will include almost 7 million net, new, additional jobs. Most of these jobs require a highly skilled workforce as well as one with different skills. Charts 7, 8 and 9 show an increase in the 'skill intensity' of jobs in terms of both occupational groups and qualification levels.

Chart 7: Future job opportunities by occupational groups for the period 2010-2020 (EU-27 + Norway and Switzerland)



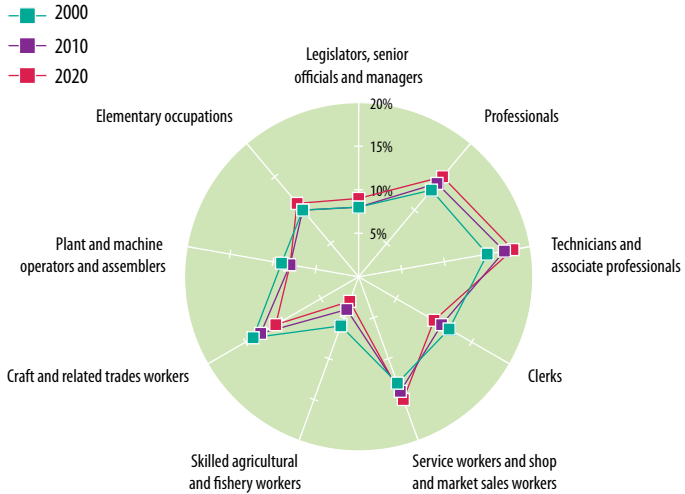
Source: CEDEFOP, 2010

Chart 8: Employment trends by level of qualification, 2000-2020 (EU-27 + Norway and Switzerland)



Source: CEDEFOP, 2010

Chart 9: The changing occupational structure of employment, EU-27+



Source: CEDEFOP, 2010

The largest growth in job opportunities is in professional jobs, but there are also significant increases in skilled non-manual and manual occupations. Moreover, in most jobs, the skills required to do them well are increasing over time. By 2020, a third of those employed are likely to have high qualifications whilst only around 1 in 5 will have low or no qualifications. The 'spider diagram' in Chart 9 clearly shows the level and changes in occupational patterns of employment, with particularly strong growth in technician and associate professional jobs. **Eighty-one percent of jobs will require medium to higher level skills.**

Moreover, even in 'declining', relatively low skilled occupational groups, the trend is towards increasing skill requirements as customer demands and expectations increase, technology changes and work organisation becomes more complex.

Skills: agenda for action

Upskilling the workforce and matching availability of skills with labour market needs is a key challenge for employment policy. In 2008, the Commission Communication 'New Skills for New Jobs' established **the anticipation and matching of labour**

market and skills needs as a top priority for the EU. The present crisis, and recovery from it, has underlined the importance of the challenge. Recovery is currently constrained by the difficulties encountered, when recruiting people with the right skills for the jobs that are being created. Serious deficits of job-specific skills, in qualified management and technical professionals, are hampering Europe's sustainable growth objectives, e.g. in science, technology, engineering and mathematics. We also need to enhance people's transferable skills — oral and written communication, literacy, numeracy and the use of ICT — skills that are strongly valued in the labour market.

The mismatch between skills demanded and skills available also has a geographical dimension: shortages of skills and gaps in high-growth areas coexist with other areas that experience high unemployment. Yet labour mobility remains modest in the EU: as mentioned in Chapter 2, only 2.3% of the EU's working age population lives in another Member State. Migration from outside the EU is therefore of strategic importance for dealing with skills shortages: non-EU citizens amount to almost 20 million or 4% of the EU population and without migration from external countries, the working age population could shrink by as much as 12%

by 2030. Yet skilled migrant workers too often occupy low skill jobs. Also in case of migrant workers, Europe needs to better manage human potential and skills.

Three core areas of EU action for development of skills are: (a) building up labour market intelligence and skills governance, (b) supporting the availability of the right mix of skills through education and training systems and (c) helping to use the potential of migration.

Developing labour market intelligence and skills governance

At EU level, **CEDEFOP** (the European Centre for the Development of Vocational Training in Europe) plays a vital role in

providing labour market intelligence and assessing changes in supply and demand of skills. In particular, CEDEFOP provides medium to long-term forecasting of skills, both at EU and country level, by assessing changes in occupational and educational trends. The Commission also facilitates cooperation between Member States' bodies involved in skills governance, in order to promote information-sharing and better use of labour market intelligence in employment, education and training policies, and furthermore, in the relationships between education and training providers and employers. Strengthening the capacity to anticipate and match the skills needed by the labour market is



crucial for managing the supply of skills. The Commission works with Member States to develop existing labour market tools at all levels (EU, national, regional and sectoral) and to disseminate their results widely in order to address imbalances of skills better.

In 2012, the European Commission will launch the **EU Skills Panorama**, an on-line instrument for improving labour market transparency for jobseekers, workers, companies and public institutions. The Panorama will provide updated forecasting of skills supply and labour market needs up to 2020. It will analyse skill requirements using the European Vacancy Monitor and assess skill mismatches and the use of skills in the workplace, through surveys of employers, learners and graduates. It will also provide analysis at sector level, based on the work of the European Sector Skills Councils. The Panorama will also report on the specific skills needs in particularly important areas, e.g. science, technology, engineering and mathematics.

Enabling people to get the right mix of skills

The EU is working towards ensuring availability of the right mix of skills by bringing together the worlds of education, training and work, and by helping develop effective relationships between schools, colleges and universities on the one hand, and employers on the other. Guidance and placement services also have a key role to play here. The Commission promotes the establishment of **'knowledge alliances'**, i.e. ventures designed to bring together business and education/training institutions to develop new curricula to address gaps in skills and improve matching to labour market needs. The Commission also promotes development of transversal competences, especially digital and entrepreneurial, which are an essential complement of specific technical/professional competences, enabling adaptation to labour market needs and encouraging innovation. The European Social Fund provides a significant source for investment in skills across Europe.

Poland: Dream School

This ESF-funded project increased educational opportunities for students in primary, middle and secondary schools in rural areas of Poland, as well as schools with at least 35 % of pupils from rural areas. After presenting a development plan, rural schools received subsidies to broaden their students' educational opportunities, help them improve their curricula and provide training to their teaching staff. The project provided 250 000 hours of extra-curricular training and courses, involving 85 000 students and 5 000 teachers.

The shift towards a more competence- and skills-based approach in education and training is leading to a significant change in education systems, labour markets and their interaction. This has implications for the work of employment services in skills assessment, profiling, training delivery, cooperation with training providers, career guidance and counselling for employers. Collaboration between employment services and guidance centres in the field of education needs to be reinforced, so that advice better reflects labour market needs.

The European Social Fund also enables national and regional authorities to give incentives to employers, to co-invest and participate in the activities of education and training institutions, particularly those in higher education and vocational education and

training. Such partnerships can also facilitate provision of work-based learning, work placement and experience, and internships.

Starting in 2011, **European Sector Skills Councils** are being established with support from the Commission, in order to help define key trends, drivers and emerging skill needs across key sectors of the European economy. Building upon the networks of national skills councils, the European Sector Skills Councils identify the main strategic choices for meeting sectoral skill needs, analyse the implications for education and training and then develop recommendations for social partners and public authorities. The Commission will continue to support the creation of the European Sector Skills Councils when such initiatives come from stakeholders, especially from social partners.

Harnessing the potential of migration

To maximise the potential contribution of migration to employment, migrants already legally residing in the EU should be better integrated, particularly by removing employment barriers such as discrimination or non-recognition of skills and qualifications, which put migrants at greater risk of unemployment and drive them towards undeclared work or lead to a 'brain-waste', where highly educated migrants are employed in low-skilled jobs. Article 79(4) of the TFEU specifically foresees possible EU support for Member States 'with a view to promoting the integration of third-country nationals residing legally in their territories'.

In July 2011, the Commission proposed a **New Agenda for Integration of Third-Country Nationals** as a framework for integration policies of individual Member States. It includes specific recommendations on measures for improving labour market participation (language training, introductory programmes, mapping of individual migrants' qualifications and training needs, providing teachers and school leaders with skills for managing diversity, attention to specific needs of vulnerable groups, etc.). The European Fund for the Integration of Third-Country Nation-

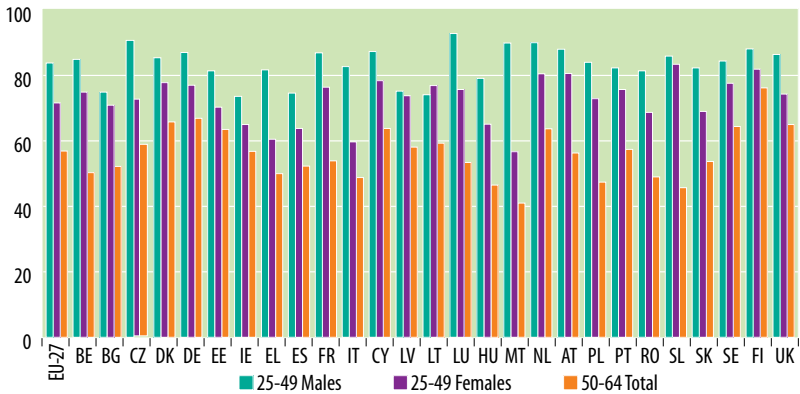
als and the European Social Fund provide important support for such measures at national and local levels. The Commission also supports European platforms for consultation and knowledge exchange on integration of migrants. It is developing a 'tool box' of measures which Member States can use and adapt to fit their specific circumstances.

By the end of 2011, the Commission will also adopt a proposal for modernising the Professional Qualifications Directive, which sets the rules for **mutual recognition of professional qualifications** between EU countries. This directive benefits all EU citizens, including those with qualifications from outside the EU, but it also makes recognition of qualifications easier for third-country nationals legally residing in the EU.

Closing the employment gaps

Building skills is crucial for increasing the employment rate, also among groups with lower employment and with larger percentages of economically inactive people. This includes migrants but also women, older people, minorities and people with handicaps. Removing obstacles to increased participation of such people in the labour market is crucial for increasing overall employment.

Chart 10: Employment rates of prime age and older workforce in 2011 Q1



Source: Eurostat

As Chart 10 shows, there are large differences across the EU-27 between the employment rates of 'prime age' male workers (83.8 % for men in the 25-49 age group) and the employment rate of **female** workers in the same age group (71.6 %). Moreover, the employment rate of **older** workers (50-64 age group) falls significantly behind those in the 25-49 age group.

Older workers represent a huge untapped workforce potential in the EU. The unfavourable development in the demographic dependency ratio (more and more people

over 64 or under 15 compared to those in working age) can be influenced only in the long term and depends on many factors. But increasing employment rates of older workers (and women and other groups), which is crucial for improving the economic dependency ratio, is something that can be achieved soon in the short to medium term through labour market and other economic policies.

It is important to keep the over-55s in work which, in many cases, will mean raising the **effective retirement age**, i.e. the age at which people

actually retire (often lower than the statutory retirement age). In order to increase the average labour market exit age beyond 60.1 years in 2002 and 61.4 years in 2009, lifelong learning throughout the working career has to be scaled up because skills and competences have to be adapted to the changing working environment. However, working environments and conditions also need to be adapted to the needs of older workers to keep them on the labour market longer. Health and safety at the workplace have to be ensured and healthy lifestyles must be promoted. Employers should also be appropriately encouraged to hire or retain elderly workers and public employment services should cater for older jobseekers. An important part of active ageing, which benefits companies and workers alike, is transfer of experience and skills from the older to the younger ones. The Commission is helping Member States implement coherent flexicurity policies that are adapted to an ageing workforce, in order to develop a 'lifecycle approach' to work. Employment of older people will be a key policy focus

also during the **2012 European Year for Active Ageing and Intergenerational Solidarity**.

Another key group experiencing an employment gap are **women**, especially after giving birth. In order to help women (and also men) reconcile family life with employment and return to the labour market as soon as possible after parental leave, the Commission encourages Member States to support flexible and secure working arrangements (e.g. flexitime and teleworking) and extend full-time day-care facilities for children, including under three-year-olds. The Commission also promotes a more equal take up of parental leave between both parents in order to minimise the negative impact of parenthood on women's labour market perspectives.

Migrants and minorities also face lower employment rates: In 2010, when compared to the overall employment rate of 68.6 % in the EU-27, the employment rate of non-EU nationals reached only 58.5 %. Although systematic data collection is lacking, the gap holds for minorities too.

Swedish Family Policy

Sweden has long provided an example of a well-developed family policy, which improves the opportunities for good living standards for all families with children, while also contributing to gender equality and higher employment. The policy aims to make it easier for parents to combine working life and family life by improving opportunities for both parents to participate in working life and care of their children when they are small. It is also designed in a way that ensures that children in financially vulnerable households, children with lone parents and families with sick or disabled children receive adequate support.

Perhaps the most difficult challenge regarding employment of minorities is the situation of the 10-12 million Roma living across Europe: in many areas of Central and Eastern Europe unemployment in Roma communities reaches or exceeds 80%. In the first half of 2011, and building upon the flagship initiative European Platform against Poverty and Social Exclusion, the Council and the European Council have supported the Commission's proposal for an **EU Framework for National Roma Integration Strategies up to 2020**. The framework is based on a comprehensive approach to Roma inclusion and outlines a

range of measures in four priority areas — employment, education, healthcare and housing. Member States will establish or revise their national Roma integration strategies by the end of 2011 and the Commission, together with Parliament and Council, will regularly monitor progress thereafter.

Creating new jobs: the challenge

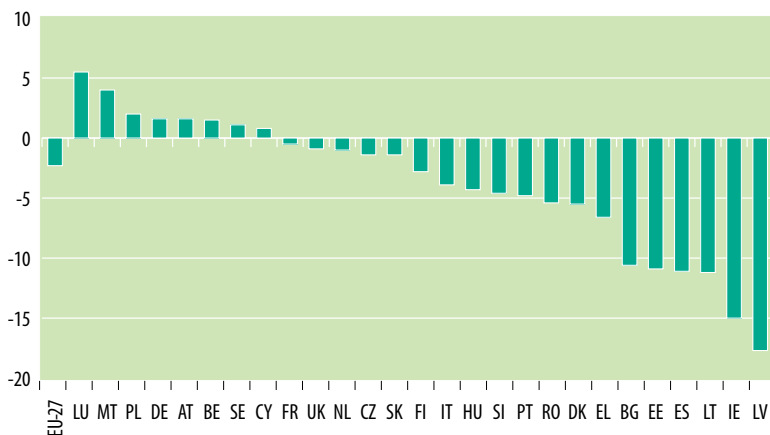
Building the skills needed for the jobs of today and tomorrow and dealing with other challenges on the 'supply side' of the labour markets is crucial to Europe's prosperity. But it is not enough. We also

need to create the actual jobs, improve the demand for them and ensure sufficient opportunities for employment. At the end of the day, **more jobs are needed** to increase employment across Europe to the 75 % rate by 2020. Active labour market policies, investment in skills, lifelong learning and other 'supply-side' measures are crucial but it will be difficult to combat unemployment effectively if there are only few jobs available. If job numbers stagnate, some people may be tempted to stop looking for jobs and thus become 'inactive', breaking the

link with the world of work even more.

The total number of jobs in the EU fell by 5.1 million or 2.3 % since the dawn of the crisis, and wiped out much of the job growth from the previous decade. The impact of such job loss has been highly uneven across the EU countries as can be seen in Chart 11. The steepest declines were in the Baltic States, Ireland, Spain and Bulgaria. A number of countries, including Poland, Germany, Austria, Belgium and Sweden, have, however, experienced some job growth.

Chart 11: Change in employment in EU Member States from 2008 Q1 to 2011 Q1



Source: Eurostat, National Accounts. Data not seasonally adjusted

Amongst the larger EU countries, Spain experienced the largest job losses. Despite a deeper recession in terms of lost output, both Italy and the UK, for example, experienced a relatively smaller impact on employment. In Germany, the impact of the recession on jobs has been muted and partly mitigated by 'internal flexibility' where many firms responded by reducing working hours rather than reducing the size of the workforce. In Poland, employment actually grew during the recession.

So, how can more — and better — jobs be created and what is the role of the European Union, and the European Commission in particular, in securing more jobs? **Even though the economic crisis had an impact on job creation, some obstacles to labour demand are more structural and long term.** These need to be addressed if the recovery is to be 'job-rich' or more 'employment-intensive'. Any recovery primarily depends on economic growth. And growth depends on increased consumer spending in the EU and the world, on the EU's competitive position in those global markets and thus on exports, on research and development, on innovation, and on long-term investment. Raising productivity is key to competitiveness and sustainable growth.

The Europe 2020 Flagship Initiatives '**Innovation Union**' and '**Industrial Policy for the Globalisation Era**' set out an important package of actions for a new strategic approach to innovation and a competitive industrial base to boost economic growth, based on knowledge intensive and high added value activities, through identification of opportunities for investment and job creation. Employment is not only driven by the rate of economic growth but by the structure and balance of that growth across sectors, and the strategy and management decisions of thousands of businesses.

However, **we also need to put in place the right conditions to create more jobs from this economic growth.** The right labour market and enterprise policies can help create more and better jobs by making the business environment 'job friendly' and thus create more 'employment-intensive' growth. We need action to encourage **job creation** alongside measures to tackle unemployment (set out in Chapter 2) and mechanisms to raise skill levels and match them to labour market needs better (see earlier in this Chapter).

Creating new jobs: action

Many countries firstly need to improve their **business environment**, e.g. by improving the capacity and performance of their public administration and judicial systems, simplifying administrative procedures, whenever possible, and increasing transparency in public procurement. This would encourage more employers to take on more workers.

Secondly, the Commission is asking Member States to stimulate recruitment by shifting taxes away from labour, especially for low-skilled individuals and young people. This can be done by **reducing employer non-wage labour costs** (e.g. employer national insurance, social security or taxes on labour) which makes hiring cheaper and reduces the 'tax wedge'. **Hiring subsidies** can also encourage recruitment, but to maximise impact and cost effectiveness, they should be combined with other support measures such as job search assistance, training and career development, which should be targeted on low skill workers, especially those at risk of long-term exclusion from the labour market. For example, employer contributions could be reduced

for the first year of employment, in companies employing fewer than ten workers, or for first-timers in the labour market. High fixed non-wage labour costs discourage employment of the relatively low paid since such costs account for a greater proportion of the total costs for the employer of new recruits.

The Commission also encourages Member States to use measures that help **shift employment from the informal economy** where work is 'undeclared' to the regular, mainstream economy, e.g. in the domestic and social care sectors. Undeclared work not only reduces tax revenues but also gives rise to poor work standards and precarious working conditions. Existing tax/benefit rules need to be enforced and design of tax/benefit systems should be re-considered in order to make 'regularisation' attractive and worthwhile, e.g. through in-work benefits/credits which would help avoid 'benefit traps' where people rely on combining income from undeclared work with social benefits. A **minimum wage** also makes formal employment more attractive. **'In-work' benefits** (income subsidies/tax credits) can also increase the incentive to work, particularly for low skilled, low paid workers and can help them overcome in-work poverty.

'Dienstencheques' in Belgium

Since 2004, Belgium has operated a scheme of subsidised 'service vouchers' which private individuals can buy and use to pay other people for household work such as housecleaning, laundry, cooking or transport for less mobile people. The activities paid with service vouchers are carried out by employees working for a company that is recognised as a 'service voucher company' (this can include temporary work agencies, cleaning companies, social integration enterprises or local public sector bodies). The client pays €7.50 per voucher, covering one hour of services, and the state adds a subsidy of €13.91. The scheme motivates unemployed people to move to a regular job in a low-skill sector where undeclared work is common. The workers have an employment contract with their 'service voucher company', earn a wage corresponding to legal wage scales, accumulate social security rights and are insured against occupational accidents. Approximately 40% of the cost of the government subsidy is directly offset by a reduction in social benefits and increase in social security contributions and income tax revenues.

The Commission is also working on measures to promote **entrepreneurship and self-employment**, by stimulating creation of new businesses (which hire new people) through training, start-up grants and other improvements in access to finance, and support to new entrepreneurs, e.g. through advice and mentoring. The self-employed account for 15% of all jobs in the EU, which is a potential that needs to be harnessed in pursuit of job-rich growth. Since 2009, the **Erasmus for Young Entrepreneurs** programme enables peo-

ple who either started their own business less than three years ago or are planning to start one and have a viable business plan, to stay and collaborate for up to six months with an experienced entrepreneur from another EU country. Such collaboration benefits both sides as new entrepreneurs gain experience, contacts and possibly access to new markets, while they also contribute with fresh ideas to the development of the host entrepreneur's business. The Commission is also stepping up its support for the development of socially-focused

entrepreneurship and social economy in general, with a major new **Social Business Initiative** to be launched in October 2011.

Since 2010, the **European Progress Microfinance Facility** provides loans to those establishing and developing their own small businesses. It reaches out to prospective entrepreneurs, including those who have difficulty accessing credit because of their credit history or lack of collateral. Micro-entrepreneurs can also benefit from mentoring, training, coaching and business planning programmes supported through the European Social Fund.

Policies designed to promote job creation also need to take particular account of the contribution

of **small and medium-sized enterprises** (SMEs) to jobs and growth. Over 99% of businesses in the EU are SMEs, and they provide two-thirds of all private-sector jobs. Too few innovative SMEs grow into larger companies and there also fewer young, R&D-intensive innovative firms in the EU than, for example, in the US. Shortages in innovation, enterprise and e-skills prevent SMEs from adopting smart business models and new technologies. The EU addresses these problems by improving SMEs' access to finance through the flagship initiative Innovation Union and through financial instruments, such as the Competitiveness and Innovation Framework Programme (CIP), JEREMIE and the SME Guarantee Facility.



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Action to encourage public service employment by investing in jobs, health, education, infrastructure, transport and other parts of the economy where the public sector is a large employer is also important, whenever public finances allow. This not only provides employment but is also an investment in mechanisms to support the long-term development of the economy. **Public works** and temporary employment programmes may also be valuable as short-term mechanisms to stimulate employment. The most efficient form of public works is the one where the output is socially useful but would not be produced by private operators due to high production costs. Many environmental products and services belong to this category — these are ‘green jobs’ that can be created by the public sector. In many cases public works can be undertaken even more efficiently by private firms under state contracts and this may also help workers find ‘non-subsidised’ private sector employment.

'Road to Work' in Hungary

The 'Road to Work' programme, launched in 2009, aims to involve long-term unemployed persons with working ability in various forms of public employment so that they can get regular income and overall employment increases. It uses active labour market tools to encourage people to work rather than live on benefits, thereby decreasing undeclared work and preventing long-term unemployment. The 'Road to Work' programme includes a review of the working abilities of persons receiving regular social benefits and the preparation of an employment plan with the involvement of the local Public Employment Service. As a result, eligibility for regular social benefits has been restricted to only those that are unable to work due to ill health. Any other unemployed person receives 'availability support' and has to participate in public employment schemes organised by local governments in cooperation with the PES. Training is compulsory for those under 35 who have not completed the eighth grade of public education.



Chapter 4

The Way Ahead

The EU economy is going through the worst economic crisis since its foundation. Nevertheless, EU GDP is expected to grow on average by 1.75 % in 2011 and by nearly 2 % in 2012, and the unemployment rate is expected to fall by 0.5 % to a little over 9 % by the end of 2012. Yet prospects do vary considerably across Member States and the overall EU outlook is for a **rather modest recovery in terms of jobs**. The overall EU employment rate (for those in the 20-64 age group) actually fell in both 2009 (to 69.1 %) and 2010 (to 68.6 %). And the fall in overall unemployment almost stopped in May 2011.

One of the five targets of the Europe 2020 Strategy is to raise the employment rate of 20 to 64-year-olds to 75 % by 2020. However, as indicated in the 2011 Annual Growth Survey, if all Member States can achieve their stated national target for 2020, the EU will still fall short of the collectively agreed target by 2.2–2.6 percentage points.

The EU needs to step up its efforts to create jobs, raise skill levels and match skills to jobs.

This guide has summarised both the challenges we face and the actions the Commission is working on at the European level to reduce unemployment, increase jobs and ensure that citizens have the skills they require for the jobs that are being created. In March 2011, the leaders of the EU's 27 countries endorsed ten priority actions in economic policy for 2011 and 2012 set out in the Commission's Annual Growth Survey, including three that are central to employment policy: **making work more attractive; getting the unemployed back to work; and balancing security and flexibility in the labour market**. These priority actions do not cover all of the employment challenges faced by the EU but — given the need in many Member States to stimulate recovery while dealing with significant budgetary constraints — they focus on the most urgent challenges.

Making work more attractive

The labour market participation rate of low-income earners, young people and second earners in households needs to be addressed and it is important to ensure that unemployed and economically inactive people can materially benefit from taking up employment. Member States should shift taxes away from labour in order to encourage employers to increase the demand for labour. Flexible work arrangements and childcare facilities should be developed and tax and benefit systems adapted to improve the position of second earners. Undeclared work should be reduced both by strengthening the enforcement of existing rules and by reviewing tax and benefit systems.

Getting the unemployed back to work

Unemployment benefits need to be designed to reward a return to jobs or self-employment and prevent 'benefit traps'. Training and job search should be tied more closely to benefits, to encourage preparation for job opportunities.

Balancing security and flexibility in the labour market

In some Member States, employment protection legislation prevents increased labour market participation. This is where reforms should take place, reducing the 'over-protection' of those with permanent contracts and to give better protection to those on the edge of the labour market. More open-ended contracts could be introduced to replace existing temporary ones. At the same time, early school leaving should be reduced and better educational achievements will make it easier for youngsters to find a job.

Country-specific recommendations

Member States have prepared their National Reform Programmes (NRPs) based on the European Council's conclusions of the Annual Growth Survey. Following their analysis, the Commission, in June 2011, proposed a series of **country-specific recommendations (CSRs)** for each Member State as well as more general conclusions for the EU as a whole. These were subsequently adapted and approved by the Council and endorsed by the European Council.

Key employment-related country-specific recommendations 2011

- Review and reform the systems of wage bargaining and wage indexation (in consultation with the social partners and in accordance with national practice), to ensure that wage growth better reflects developments in labour productivity and competitiveness.
- Provide available and affordable care services and enable flexible working arrangements to help reconciliation of family and working life.
- Adapt fiscal treatment (taxes and benefits) of 'second earners' in households, so as to increase their participation in the labour market.
- Reduce the 'tax wedge' on labour, especially for low paid and low skilled workers, shift taxes away from labour.
- Phase out early retirement schemes and boost the employability of workers aged over 50.
- Improve effectiveness of employment services and other support measures, to help the unemployed find jobs and develop their skills.
- Tackle high levels of youth unemployment and early school drop-out; improve education performance and access to lifelong learning (including apprenticeships and vocational training); improve matching of education and training outcomes with labour market needs.
- Reduce segmentation in the labour market by rebalancing flexibility and security through changes in employment protection legislation.

Most of these reform measures should be implemented in the next 1-2 years and be focused on accelerating and strengthening recovery from the crisis. The Commission will contribute through new specific EU-level actions, including the EU Skills Panorama, a Communication on

a new momentum for flexicurity, a Green Paper on 'green skills' and 'green jobs', reform and extension of EURES, or the Social Business Initiative. And it will continue to drive policy coordination, support exchanges of good practices and manage EU-level policy instruments.

An agenda for 2020

But what is a **long-term vision for a future employment policy** that would help create sustainable employment growth, ensure that the EU achieves its 75 % employment target and contribute towards the other targets?

Through a dialogue between the Commission, the Member States and the European Parliament, and contributing to reinforced European economic governance, an **'agenda for an EU employment policy for 2020'** could be built using the following five strategic components:

1. Boost entrepreneurship, social dialogue and further strengthen the link between employment and economic policy

The jobs and skills required ultimately depend on the decisions of millions of businesses all over Europe — the demand for labour and the demand for skills is a 'derived demand'. Businesses, employees and public authorities need to actively work together to build the 'highly competitive social market economy, by

aiming at full employment and social progress' envisaged by the Treaty on European Union. The economy is built by companies, workers, consumers and state institutions; they together define products, services, technology, business strategy and organisation of the workplace. They all have to cooperate to create smart, sustainable and inclusive growth. It is essential that we build bridges between the worlds of work and education/training in order to boost employability. Economic and employment policies should be carefully aligned and innovation and 'business ambition' should be encouraged and stimulated. We need to create a 'virtuous circle' — economy, jobs, skills, prosperity — that mutually reinforces positive behaviour, takes businesses up the value chain, stimulates quality highly skilled jobs and creates a high added value economy.

2. Increase productivity of the workforce

Growth and competitiveness depend on how **productive** the workforce is. Human capital investments are particularly

needed and should be driven by coherent policies on education and training (including vocational). Raising skill levels is crucial, as is ensuring that those skills are then effectively used by good management and human resource practices to create 'high performance' workplaces. Employee engagement and strong social partnership are central to this agenda.

3. Encourage employment-intensive growth

To gain maximum employment impact from economic growth, we need an economic structure that is 'job-rich'. This must be based on efficient functioning of labour markets and a right balance between flexibility and security. We need to reduce barriers to hiring and employment, e.g. by reducing employer non-wage costs, setting wages so that they correspond to productivity, reducing labour market segmentation, improving employment services and developing flexible working arrangements which enable reconciliation of work and private life. We also need to encourage self-employment.

4. Good quality jobs for all

High levels of employee involvement within a company, in terms of information, consultation, and participation, as well as adequate pay are central to the quality of paid work. Working environment must be healthy and safe.

5. Build inclusive labour markets, with opportunities for all

Measures to ensure equal opportunities for access to employment, training and promotion are important to ensure fairness, build 'social capital' and maximise the potential of the workforce. This is particularly relevant for young workforce and people from disadvantaged backgrounds who are often forced to accept precarious positions. Non-discriminatory practices and environments on the grounds of gender, ethnicity, nationality, religion, disability, sexuality or age are vital.

Taken together, and with ownership of social partners and political leaders, these components could form a good basis for future employment policy across Europe.



Interview

Sándor Czomba

Minister of State for Employment Policy,
Hungary

EU employment policy in the eyes of the Council Presidency

What does the Hungarian Presidency see as the biggest challenge facing the EU on the employment agenda?

The biggest challenge is the employment outlook itself, namely, the much needed stabilisation and subsequent recovery of labour markets. The recently emerging signs of economic recovery and the economic growth forecasts however are not very reassuring. Unemployment persists at high levels. Long-term unemployment is on the rise and youth unemployment — already high before the crisis — is steadily increasing. While jobless growth is a real danger, we should not only strive for a general increase in employment and decrease in unemployment but attention should also be paid to avoiding structural unemployment. It is also important — particularly in times of fiscal consolidation — to address the situation of the most disadvantaged groups in the labour market such as the youth or the long-term inactive people, through well-targeted measures. On the subject of scarce budgetary resources in the fields of employment, social protection and education, ‘to do more with less’ is also crucial in order to face the labour market challenges.

What can the EU do to best help reduce unemployment?

Effective coordination of Member States’ economic and employment policies plays a key role in stabilising and reinforcing European labour markets. Following the first European Semester, Member States have identified, in their National Reform Programmes, the policy measures and reforms which are considered vital for a successful

recovery, including those for managing unemployment and boosting employment. All of these plans now have to be fully implemented by Member States and EU-level initiatives should complement these efforts. More effective, targeted utilisation of Structural Funds, especially the European Social Fund, is key in this regard while better functioning of the Internal Market, especially the free movement of workers and improvement of EURES services, are also important from the perspective of unemployment reduction. Sharing best practices and enhancement of mutual learning could also contribute to better integration of job-seekers into the labour market.

What can the EU do best to upskill EU citizens and prepare them for existing and future job vacancies?

According to the EU's projections, the 'skill intensity' of jobs has increased recently and this is expected to be a continuing feature of newly emerging jobs as well. Therefore EU citizens need to be equipped with the right skills and competences so that they can meet labour market demands. In this respect, well functioning skill forecasting and anticipation systems should be established at EU and Member State level, together with development of sufficient training capacities so that EU citizens can adapt to the rapidly changing labour market needs. All of the planned EU policy actions such as the Skill Panorama, the Vacancy Monitor, the European Skill Passport, etc. are highly relevant to this objective.

What has been the greatest employment achievement of the EU under your Presidency?

In the first half of 2011, the greatest achievement in the employment field — even if it had little to do with our Presidency — was that unemployment fell (even if only slightly) from a two-digit number to a one-digit one, to be precise from 10.2 % to 9.4 %, while showing a great diversity in the performance of Member States. As for employment policy, the Hungarian Presidency has highlighted the issue of youth employment because younger cohorts are finding it more and more difficult to enter the labour market. Another key topic was fostering job creation.

The recent crisis showed that without stable labour demand, employment policies alone cannot assure an adequate level of employment in the longer term. Moreover, and perhaps the greatest achievement of our Presidency, is the EU level coordination of employment policies and the successful completion of the first European Semester which proved to be a challenging task but the Presidency rose to the challenge.

What are the key challenges for the EU in the area of employment policy over the next six months?

Six months is quite a short time span in terms of employment policy and therefore the key challenges are not likely to change significantly. The stabilisation of labour markets, re-integration of the unemployed with special attention to the youth and other disadvantaged groups will require at least the same efforts in the next six months. The EU also has to face the problem of unfavourable demographic prospects. The issue of an ageing workforce poses significant challenges with regard to employment perspectives and the sustainability of pension and health care systems — which need to be addressed urgently. Discovering new and better ways to raise the effective retirement age and to increase adaptability of the workforce is a significant prerequisite to reaching the 75 % EU employment rate target. In addition, the implementation phase of the European Semester will also take place. Governments will have to deal with their commitments both in terms of targets and the announced reforms in their NRPs. Last but not the least, the discussion on the future EU budget and its multi-annual financial framework will also come to the forefront since it will greatly influence the conditions and policies behind EU funds throughout this decade and will pose key questions in the field of employment policy.



Key challenges for EU employment policy

While the European Union has not yet recovered from the financial, economic and social crisis and weak economic growth prospects limit the possibilities for job creation and employment normally driven by gross output, EU employment policies face two major challenges: bringing people back work or into work for the first time and ensuring the quality of the jobs created or maintained.

Following Article 9 of the Lisbon Treaty, any investment in the EU should be screened for its sustainable and decent job creation capacity. Against this background, the Annual Growth Survey and the framework provided by the European Semester are crucial tools for the enhanced coordination of economic policies and, therefore, an important part of the Union's response to the crisis, provided employment issues

are not made secondary concerns after fiscal consolidation. If the Europe 2020 goals are to be met, the interaction between employment, social and other policy areas, in particular macroeconomic, R&D and innovation, education and training policies, needs to be increased. The European Semester should set the annual framework for this interaction. However, these tools should be employed in a manner which respects democratic processes and the principles of subsidiarity and social dialogue, notably in the field of wages and pensions.

One of the major challenges concerning employment in Europe, but also on a global scale, is the integration of young people into the labour market and the prevention of a whole generation from being deprived of a future. This requires education and training budgets to be maintained — if not increased — despite the current fiscal consolidation trend.

But we also have to ensure that jobs remain decent and pay off. Cases where European and national legislation are bypassed, notably with respect to restructuring and migrant workers, or loopholes used to undercut labour and social rights and to exert dumping and unfair competition have to be fought. Policy-makers must ensure that legislation is enforced. To this end, labour inspections of Member States should be coordinated at European level and a permanent European platform for cross-border cooperation among government agencies, together with trade unions, should be put in place to fight abusive employment practices. Furthermore, unionisation of workers should be promoted at national and European levels in order to enable workers to understand and demand the respect of their rights.

Further Information

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Glossary of Terms

Activity Rate

The number of people in the labour force (employed and unemployed) as a proportion of the working age population, expressed as a percentage.

Decent Jobs

Jobs characterised by high degrees of job security, good level of pay, good quality of working conditions and adequate social protection.

Employment Rate

The number of people employed as a proportion of the working age population, expressed as a percentage.

Flexicurity

The European Union's approach towards the labour market, which seeks to balance the need for labour market flexibility with the need for workers' economic security.

Gross Domestic Product (GDP)

The market value of all final goods and services produced in an economy in a given year.

Inactivity Rate

The proportion of the population of working age who are not in the labour force. Often referred to as the 'economically inactive'.

NEETs

Those not in employment, education or training. Usually refers to the number, or proportion, of young people aged 15-24 in that position.

Productivity

Gross added value, usually measured per employee or per hour worked.

Segmentation

A labour market characterised by the existence of distinct, non-competing groups with limited prospects of mobility between them. This characterisation can take the form of those on temporary employment contracts vs. those on permanent ones. Other forms of segmentation include ethnicity, gender, and skill level and may occur in internal (within a firm) or external labour markets.

Social Dialogue

The dialogue between representatives of management (employers) and labour (trade unions) which is a key pillar of the European Social Model, involves both sides being committed to find consensual solutions on issues of common interest, and where collective agreements are negotiated.

Structural Unemployment

Unemployment resulting from a mismatch between the demand for workers and the supply of workers required. It arises as a result of the structure of the labour market, where workers do not have the skills they need, or are in the 'wrong' place to access job opportunities. It may also arise because there is insufficient incentive for workers to take up the jobs available. Its extent, and change over time, may be characterised by the unemployment/vacancy ratio or by the 'Beveridge Curve': the relationship between the rate of unemployment and the vacancy rate through time.

Tax Wedge

The difference between the total labour costs to the employer and the net take-home-pay of employees. Usually measurable as the total of employer and employee social security contributions, pay roll taxes and employee income tax, minus benefits, as a proportion of total labour costs. It varies between 18% and 49% across EU Member States.

Unemployment Rate

The proportion of the unemployed labour force (employed and unemployed), expressed as a percentage.

Unemployment Rate (long-term)

The proportion of the labour force, unemployed for a continuous duration of 12 months or more, expressed as a percentage.

Forthcoming Guides

- Social Dialogue (December 2011)
- Ageing and Pensions (June 2012)
- Labour Law and Working Conditions (December 2012)
- Social Economy (June 2013)
- ESF and other Funding Instruments (December 2013)
- Social Inclusion (June 2014)

European Commission

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