



Medium term employment challenges of the Lisbon strategy

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Executive summary

Over the next decade, the EU will face multiple challenges in assuring growth and jobs, and responding will call for a re-casting of the framework for co-ordination at EU level of employment policy. Some of these challenges will arise from known drivers of change, while others will reflect the evolving nature of the EU economy. The aftermath of the severe recession that followed the 2008 financial crisis will loom large and it remains unclear whether it will have an enduring effect or prove to be an acute, but ultimately short-lived, interruption of 'business-as-usual'.

The focus of this study is the EU level and, as stated in the terms of reference, the findings are intended to contribute to the identification of reforms and policy measures which are potentially most significant for Europe to ensure growth and jobs in the medium-term. The adverse consequences of recession will be more easily surmounted in some Member States, while others will experience an enduring impact of the crisis that will call for more extensive adjustment to remain competitive and, in some cases, painful adaptation of priorities. In parallel, all Member States will have to encourage the development of new activities associated with adaptation to climate change, while also expanding services and products for older citizens

Key findings and conclusions

The exit from the crisis

The empirical and prospective analysis carried out for this study shows that, on the one hand, many of the basic challenges and drivers of change in the labour market remain: ageing, societal changes, globalisation, shift to the knowledge society, management of natural resources and the imperative of countering climate change. On the other hand, the crisis has again raised the spectre of persistent long-term unemployment and could tempt governments to question some of the reforms of the last decade that have helped to diminish structural unemployment, accentuating the risks that people leave the labour market entirely and that youths entering the labour market will find few opportunities.

The assessment of employment prospects during the period up to 2020 will now have to take account of the effects on the labour force, employment and unemployment of the 2008/2009 downturn. Consequently, employment policy will, over the medium-term, face the particularly difficult challenge of reconciling the longer-term objective with the immediate concerns with respect to the exit from and the aftermath of the crisis. In this perspective three scenarios for the next decade or so can be envisaged:

- **Limited change in underlying trajectories** in which the recession is regarded as more a 'bump-in-the-road' that has to be circumnavigated than a fundamental shift in the trajectory of employment and the economy.
- An **enduring impact of recession** characterised by a quasi 'permanent shock' to the system which could well see a 'lost decade' in employment creation.
- **New directions for the EU**, with the main response to the recession being a fundamental re-think of the nature of European capitalism and of the employment models found in different Member States.

However, the recovery of the economy and employment may not follow the same pattern in all Member States, so that effective EU level solutions to these problems will call for innovative and imaginative policy approaches that can retain enough of a common framework to justify EU-level co-ordination, yet be sensitive to national circumstances that are more heterogeneous than in the recent past.

An involving labour market

Over the next decade, there will be an upgrading of the average level of education of the working-age population and the associated boost of demand for high-skilled workers and skill-induced technological innovation. However, the demand for low and medium skilled labour will increase in the field of care and personal services.

- For the EU, and in particular for the Member States facing important adjustment problems, there will be difficult tensions to reconcile in dealing with re-emerging inequalities, pressures to raise job quality and labour market mobility, develop a consistent approach to the whole life-cycle of education, active life and retirement and to enhance human capital.
- In any single year up to 10% of total jobs change occupant in EU27, as a result of normal replacement, firing and hiring or suppression of old, and creation of new, tasks etc. The probability of getting back into employment after a spell of unemployment or inactivity in a country is therefore a highly pertinent indicator of barriers to employment. In this respect an analysis of job changes between 2005 and 2006 shows that there are large differences between various groups in the labour market (age cohort, gender, levels of education and also between Member States), depending upon the level of education, and the functioning of labour market institutions.

There is inevitably uncertainty in a period of recovery about how quickly the labour market will recover. The dilemma facing decision-makers now is whether circumstances have changed so much that a fresh approach is needed. Underlying this is a broader question about whether an EU-wide approach to employment policy, even with the substantial discretion that Member States have in implementation, remains valid.

Much of the recent debate on the labour market has put stress on the usefulness of combining labour contract flexibility and a high level of security of labour market transitions, through unemployment insurance and active labour market policy. This study presents an attempt to produce an overall estimate of the level of flexicurity in the Member States where data can be found and the results of an analysis of the influence of flexicurity on the level of employment and unemployment. The deeper analysis of the flexicurity data shows that:

- Flexicurity goes hand in hand with higher employment rates, meaning that it is successful in attracting people to the labour market. However, flexicurity has to be more broadly interpreted as not simply the balance of flexibility and security but a system where flexibility and security are inter-twined.
- Consequently, a flexicurity system goes beyond the traditional portrayal of flexibility as being in favour of employers and security an advantage for employees.
- In addition, the analysis discloses a number of advantages linked to flexicurity, with the broader analysis of the performance of the various EU Member States showing that flexicurity is an important determinant of employment and unemployment rates and general labour market performance.

However, other factors remain important, both in the short- and the medium term including: the level of education, the design and intensity of active labour market programmes, early-retirement provisions and the influences on cost competitiveness. Flexicurity is therefore not a panacea but a key element in this broader panoply of labour market policies. In particular:

- The empirical analysis of European labour markets shows that job quality and labour market performances are positively correlated. This suggests that the synergies between quantity and quality of jobs that are at the core of the Lisbon Strategy are empirically supported. More precisely, empirical results support the idea that education has a positive influence on the quality of transitions on the labour market.

- Transition analysis also reveals that some social groups are particularly at risk in terms of socio-economic security, including women, the less well-educated, and the chronically sick. These groups are most at risk of lower job quality and least likely to make transitions to better circumstances. However, the results also show great heterogeneity across countries.
- Certain Member States are vulnerable to contraction or retrenchment of previously dynamic sectors, such as construction and financial services, and will therefore need to redouble efforts to promote new activities.
- Some combinations of institutions still seem to be less favourable to job creation in times of recovery. For instance, the conjunction of high non-wage labour costs and strong employment protection might operate as a barrier to employment of young and unskilled workers. Furthermore, globalisation may hasten a process of pricing less productive workers out of the market and induce a more capital-intensive growth.
- Analysis of the evolution of cost competitiveness shows some Member States benefiting from a strong international competitiveness, due to slow growth of domestic production costs and/or exchange rate devaluation, while a number of others are facing a difficult complex of both domestic and international barriers to a rapid recovery of employment in 2010 and beyond.

Governance of the EES

Investigation of the governance dimension of the EES through a questionnaire sent to Member State officials and the findings of case studies of seven EU Member States suggests that the EES functions in a reasonably satisfactory manner from the perspective of officials who are close to it, whereas other stakeholders are less convinced of its value. However, a second key finding is that the direct effect on national employment policies is somewhat limited, although there are different ways in which the EES exerts an influence. The research also suggests that some of the mechanisms of governance need further thought, or that they have been subject to unrealistic expectations.

In general, the different facets of the EES have worked better in some countries than in others, depending largely on the national socio-political context, and is largely the preserve of a narrow “policy elite” consisting mainly of the officials most directly involved in the interface between the EU bodies and national policy making. There is not much evidence that the EES has induced significant changes in national policy priorities nor, indeed, that there is much reference to the EES in the national public debate. Instead, its influence arises more by a process of ‘osmosis’ that is nurtured by the country-specific recommendations, the need to face the scrutiny of peers and the opportunities for exchanges of practice and mutual learning.

The overall message is positive, in the sense that without the EES, the policy making process in the individual Member States would not have benefited from the comprehensive and rich exchange of information, benchmarking and learning going on within the EMCO and through the mutual learning programme. Thus, there is much that works well in the EES and, for the future, it will be important to retain and reinforce the good points rather than starting afresh. Major strengths include the coherence of the policy ‘model’ and the main elements of the policy content. The weaknesses of the EES are in its overall visibility and the fact that aspects of the policy do not live up to expectations.

Despite this broadly positive verdict, considerable scope for innovation remains with respect to the procedures adopted, as well as in the formulation, content and priorities of the guidelines of the EES. The employment guidelines are accepted as being generally valid, although there is some concern about their breadth. Mutual learning is also a key element, but one that could be enhanced to make it more effective and to allow greater

experimentation. Targets are useful, but are criticised for being blunt instruments in a context in which the circumstances of Member States are so varied.

Recommendations

Before the crisis from which the EU appears slowly to be emerging, and especially in the three years up to the middle of 2008, employment creation had been substantial in the EU, and it would have been reasonable to infer that the approach to employment policy that has been at the heart of the Lisbon strategy was well-conceived. On the whole, the evidence collected supports continuity and thus persevering with an integrated strategy for growth and jobs, but with more effort to recognise national differences.

Employment policy priorities

Some orientations are clear. First, the EES should continue to address the EU's main long term policy goals, not least adequate labour supply. There is also a strong case for persevering with an approach that is rooted in flexicurity and which enhances modernisation of social protection and education systems, while also stressing equality and non-discrimination. What would be more contentious would be if the EU-level sought to influence policies on wage bargaining and labour costs, EPL and maybe also immigration, especially if Community actions cannot make much difference.

There are good reasons to keep a common set of guidelines but to review their content. The eight existing employment guidelines are open to a number of criticisms that justify a change in approach. They range from very broad articulations of objectives and targets to much more specific orientations for policy-making. They cover various supply side and policy process issues and, to a lesser extent, some demand side concerns. Although the main focus is on inputs, some of the aims set out in the guidelines relate to outputs.

For the period after 2010 the proposal emanating from this study is that the guidelines should focus on a few clearly identified themes, each of which could be broken down into sub-themes, hence a four 'pillar' structure in which the first two are predominantly about substantive policy content, the third is about the mechanisms of policy implementation, while the fourth tackles wider expectations of the labour market. They are:

- **Labour supply and human capital enhancement (pillar 1)** with the objective of increasing labour supply for specific groups through making work pay (unemployment and social benefits) as well as undertaking reforms of pension and contractual terms that give incentives for older workers; a life cycle approach to work (including specific obstacles to labour supply like the lack of childcare or elderly care), enhancing human capital (initial and vocational training); and formulating objectives concerning immigration. The primary focus of this pillar is on raising long-term labour supply in both quantitative and qualitative terms.
- **Boosting demand for labour (pillar 2):** Job sharing and other means of spreading the available demand for labour, including the incentives for over-time; regional balance in employment creation; job creation in the social economy and other forms of labour demand; and promotion of new activities. This pillar would also embrace the determinants of labour costs, including non-wage labour costs which can act as barrier to labour demand.
- **Matching of demand and supply, adaptability and institutions (pillar 3):** this would include proposals on institutions and labour market rules, including the functioning of public employment services. It would also cover proposals on flexicurity aimed at making transitions pay by introducing appropriate incentives and encompass ideas on sharing of burdens among the individual, the employer and the state, all of which are aspects of institutional reform. It would also embrace enhancement of the role of social partners and other civil society actors.

- **Quality and sustainability of work (pillar 4).** An issue that surfaces in a number of critiques of the EES is that it has been too orientated towards quantitative increases in employment headcount, to the neglect of wider aspects of employment. The fourth pillar would bring together various aims to do with quality and sustainability of work, including equality of opportunity. Among the elements of this pillar, one focus would be working conditions, such as health and safety at work, but also promotion of innovative work organisation; fighting against low wage traps and under-employment and highlighting of the life course approach to work, including work and family/civil society reconciliation. Explicit advice on reinforcing equality of opportunity as an essential element would also feature as part of a wider notion of fairness in the labour market. Opportunity has to be seen not just in static terms but also at different stages in the life-course, and must therefore encompass education.

To complement these 'vertical' guidelines, it is proposed also to have a number of cross-cutting themes that would apply to all pillars, but for which the emphasis might shift over time. For example, using the three scenarios set out above, it may be that much more emphasis would be needed in the early years on mitigating recession as a cross cutting theme, but subsequently it would be less significant. Some cross-cutting themes such as encouraging policy innovation or experimentation would, by contrast, apply continuously.

Improving the Governance

In thinking about governance reforms, it will be important to take due account of the support expressed by practitioners for retaining much of what is in the current Employment Guidelines. For targets, the message from the study is to keep them limited and simple, but to introduce some more flexibility. Two possible innovations are worth exploring. The first would be to emphasise that the chosen number is a benchmark rather than a pure target. The distinction might sound academic, but the advantage would be to make it easier to adjust and also to use the figure to signal what is satisfactory. The second would be to propose bands or corridors to reflect the very different starting points of different Member States, with provision for tightening or upgrading and to emphasise the rate of progress towards a target, as well as the level attained.

Other aspects of governance also warrant attention. Any proposal for the EU level to steer the approach to reform is bound to be politically sensitive, both for the individual Member State and for the EU as a whole. There is scope for increasing the effectiveness of multi-lateral surveillance and for a greater role for both national parliaments and the European Parliament.

There is no easy solution to the deficiencies in the engagement of stakeholders in the EES and its application in Member States. However, options for reform might include:

- A stronger social partner role in monitoring progress, although it is important to recognise that the social partners have limited resources and that this is an obstacle to greater engagement.
- Ensuring that the input of stakeholders is visibly acknowledged in revisions to policy programmes.

The empirical findings suggest that the current mix of scrutiny by the Commission and EMCO is generally acceptable to Member States, but has only a limited impact. Again, there is no easy answer to this, other than to reiterate the message that ways need to be found to strengthen the constructively critical surveillance of Member State policies.

Other issues to consider may include

- To attempt to establish priorities within the overall guidelines, through external analysis of the Member State's circumstances. In practice, Member States already pick and choose, but typically opt for the priorities that correspond most closely to national political goals

and avoid those that are likely to be most challenging. An external assessment that drew attention to the reforms that constituted the greatest obstacles to agreed objectives, however politically sensitive, could accentuate pressures on governments to take tough decisions.

- Second, there could be more iteration between the Commission (and possibly also EMCO) in agreeing the NRP. This sort of bilateral negotiation does take place for cohesion policy, although there is manifestly a key difference in that the EU level holds the purse strings for cohesion policy, but not for the EES.
- Third, shortcomings in reform could be assessed in a similar way to excessive deficits, resulting in 'delinquent' Member States being more formally identified. More straightforwardly, the softly-softly tone of the annual country-specific recommendations could be hardened, not least as a way of motivating scrutiny by civil society.

Mutual learning is at the heart of the policy methodology inherent in the OMC; reinforcing the mechanisms of mutual learning is therefore advocated as a means of adding to the effectiveness of the EES as an ideas pool from which Member States can draw. A clear message from the empirical work reported in part B of this report is that Member States would be receptive to innovations in learning procedures. For example, benefits could also come from conducting more reviews with the same theme in different countries and to initiate decentralised processes involving for instance public employment service staff, to discuss specialised topics, such as job search assistance techniques etc. Recognising that social partners and stakeholders, too, could benefit from mutual learning activities and involving them to a greater degree could be an important consideration with respect to enlarging the consultations.

Introduction

This Final Report of a study on the medium-term employment challenges of the Lisbon strategy presents the findings of the empirical analyses carried out during the study. It then discusses the resulting policy issues and puts forward recommendations for the employment aspects of EU level policy co-ordination beyond 2010.

The specifications for the study called for three 'tasks' to be undertaken. The first (Task A) was to identify and analyse the economic employment challenges for the next decade, entailing the following main steps:

- Analysis of the current and future challenges and the main obstacles and main barriers for employment creation in Europe.
- Highlight the major obstacles and barriers to employment which exist at the current European labour markets and the risk that these persist in the next decade.
- It should address possible new challenges linked to the impact of ageing and increased globalisation.
- The aim would be to highlight where the most significant potentials are hiding for Europe to pursue growth and jobs. Although challenges vary across Member States the study would aim at presenting a European dimension of these obstacles and barriers.

The second objective of the study (Task B) was to provide a critical analysis of the political governance process which is currently in place for the Lisbon strategy. The political process falls under the open method of coordination which is based on common guidelines, targets, recommendations and a mutual learning process between Member States. The study should aim at answering the following types of questions:

- The extent to which the agreed targets and benchmarks within the Employment Strategy affected Member States policies
- Are the mutual learning processes sufficiently strong to impact on Member States policy designs?
- The extent to which the multilateral surveillance mechanisms are sufficiently efficient to influence Member States
- The extent to which country specific recommendations have an impact on policy developments in Member States
- Is the Lisbon strategy sufficiently visible in Member States and are key stakeholders actively involved?
- Do the guidelines significantly influence policy design and implementation?

Based on the findings of the first two parts, task C would then bring together current strengths/deficits with anticipated requirements in future labour markets. The work would include a set of recommendations for the employment policies in the next decade, recommendations (if necessary) for changes to the current governance of the Lisbon process and recommendations for possible new guidelines both with respect to architecture and content.

In the period since the project was launched, the economic and political environment has manifestly changed as a result of the deepening of the financial crisis and the subsequent systemic problems and pronounced aggravation of the credit crunch, followed by the dramatic decline in the real economy witnessed since the second semester of 2008. Unsurprisingly, these developments mean that there has been a sharp rise in unemployment which is expected to continue into 2010, derailing the progress made over the preceding five years in job creation. The economic downturn may, however, also presage enduring

structural effects in the labour market. From the perspective of policy, it may also lead to some re-balancing of objectives in a future Lisbon strategy and to some shifts of emphasis on the preponderance of market-friendly orientations in reform strategies.

A: Key findings from empirical and prospective analysis

A.1 The main drivers and trends

A.1.1 The longer-term tendencies

The labour market is subject to various long-run shaping factors that affect the demand for labour, the supply of labour and the organisation of economic activity. Some of these influences offer opportunities or the prospect of progress towards social objectives consistent with a modernised European social model, while others constitute threats or obstacles that may result in sub-optimal outcomes. All pose challenges to policy-makers. The main trends that employment policy has to face over the coming decade include:

- Demographic and social changes that affect labour supply;
- Changing gender roles and other social changes, that impinge on the employment model;
- Globalisation and the intensification of competitive pressures that it induces;
- The pace of innovation and the adoption of new technologies that have the potential of altering patterns of working;
- Accelerated structural change in the specialisations of economies and in the organisation of economic activity, in particular, the consequences of the transition to a knowledge economy;
- Climate change and the future of energy supply and use

Furthermore, the 2008/9 recession will have a profound impact on the labour market for several years to come and its direct effects on unemployment have still not been fully felt. Nevertheless, there are already encouraging signs that growth is returning, even though the economy in most Member States remains fragile. Once unemployment (always a lagging variable) reaches its peak, net job creation will also return and many of the longer-term structural factors that were already affecting the labour market will then re-assert themselves. It follows that future employment strategy will have to strike a balance between short-term responses to the crisis and its immediate aftermath and the medium- to longer-term effects

A.1.2 The medium-term

Even if there had not been the 2008/2009 recession triggered by the financial crisis, the long run drivers identified above are set to re-shape many aspects of the labour market even in the medium terms. Among the most significant consequences for policy-making are the following:

- Demographic change, especially ageing, has a number of direct consequences. First, it will result in a substantial decline in the ratio of active to dependent populations, and, in the absence of major shifts resulting from changes in working life-times, will impose a growing burden on a declining active population. Second, the patterns of demand for labour will shift to reflect the preferences of the 'grey consumer'. A third effect is that a much fitter elderly population will seek employment opportunities – possibly on 'atypical' terms - that will need to be managed, while a fourth is that redistribution of wealth towards the elderly will affect housing markets.
- Continuing tertiarisation of the economy, with projections on both sides of the Atlantic (BLS, 2008; CEDEFOP, 2008 and 2009) agreeing that health and long-term care, other personal services, and leisure-related services areas are likely to be the main growth areas. A key implication of this shift is that future employment policy has to treat service sector jobs as the likely principal source of employment creation and consider what it is

that encourages or inhibits the creation of such jobs. By contrast, the industrial sector cannot be expected to be a dynamic source of substantial numbers of new jobs.

- Changes will occur in the demand for a number of occupations. A steady increase is expected in demand for professional, technical and managerial staff, complemented by increased demand for personal service-related occupations, sales and other distributive occupations. Decline can, on the other hand, be expected in manual labour, administrative and clerical jobs and certain crafts. Some have referred to an hourglass model in which the growth is in occupations with high and low skills (Brinkley 2008). Furthermore, as will be shown in more detail below, it is also important to take account of the need for replacement due to retirement patterns. For some skilled trades and for clerical jobs, for example, the need to replace retiring workers may well offset the overall decline in demand.
- Feminisation of the labour market, with a number of ramifications. In many EU Member States there is still substantial scope for increasing the employment rate of women, with a pronounced potential effect on the aggregate employment rate. Here, the diversity of experience across the EU not only shows the potential, but also highlights some of the barriers and how they are affected by national models. The lack of child-care is an obvious obstacle, but there are also socio-cultural phenomena that affect immigrant women and women from certain social strata.
- Family structures have manifestly changed away from the traditional male breadwinner model and continue to change in the direction of increasing part-time work and lowering of job tenure. While it remains uncertain which model will prevail in future, there are possible repercussions for income inequality and for gender objectives. There is also a need for a fresh look at the access to part-time work both as an additional aspect of quality of work (insofar as it is a form of flexibility that workers may choose, rather than have imposed on them), and as a source of higher employment rates that eases the burden on social protection budgets.
- There is also a much broader debate about the future of work organisation which raises novel questions for employment policy. Management of human capital is increasingly a core element in corporate performance and companies have to devote substantial resources to skill development. Furthermore, as companies are increasingly judged on their corporate social responsibility and their image in relation to social and environmental goals, the boundaries between the state and the corporate sector become more fuzzy and networking is accentuated.
- Finally, there is a possibility that workers in some emerging sectors of activity in the knowledge economy will become more detached from individual employers and will organise themselves in new 'guilds' defined by specific skills or labour market functions representing their members. In this model, flexibility is accentuated, driven by workers as much if not more than businesses, and the onus is much more on individuals to invest in skill development, not least as a means of influencing earning potential.

There is a broad consensus suggesting that the development of the European labour market and the contours of employment in 2020 will be determined, in addition to the basic demographic trends and the prospective evolution of educational attainment, by the continued operation of some other basic drivers:

- Technological change in Europe tends to be "skill-biased", that is, it tends to boost demand for high-skilled workers;
- Organisational change, in response to technological change, also tends to lead to a need for high-performance work practices, boosting of executive functions and lesser reliance on the classical Taylorist (top-down) organisation of work;

- The ongoing upgrading of the educational attainment of the workforce is also expected to lead to so-called “endogenous skill-biased technological change”, that is technological change made possible by the increase in the level of education of the working-age population;
- The process of globalisation also, at least up to recently, involves a relative decline in the demand for unskilled labour as the developed world imports low-skill intensive goods from the developing and emerging economies and exports skill-intensive goods and services to those countries. However, as note above, this is tempered by a likely rise in the need for expansion of lower-skilled occupations related to the demands for services associated with an older population.
- Climate changes and pollution control not only prompts growth of new “green” sectors and jobs. They also require development of new competences and skills in more traditional sectors, such as agriculture, transport and buildings.

Consequently, between now and 2020, the share of jobs requiring higher skills is projected to increase significantly alongside the changes determined by demographic developments (departures into inactivity and arrival of new cohorts in the labour market).

More generally, and looking also beyond 2020, the drivers of change that can be expected to matter most in this regard are population, technology and innovation, as well as shifts in preferences and in market structures, and policy developments. While these drivers can be seen as exogenous in the sense that they have to be understood as being partly determined by inexorable long-term trends, they are also interlinked and these inter-linkages can shape their consequences.

Population effects are of three main types. The first is simply the net change in the population which has an important explanatory impact on aggregate demand. A substantial proportion of aggregate demand is for population-related goods and services which can be further distinguished between those that provide for basic needs (housing, food, education, health-care) and those that are more income elastic (such as leisure services or consumer electronics).

Second, population composition can be expected to alter the composition of demand and, as a derived demand, the mix of occupations and locations that are offered by employers. In this regard, the major trends in the EU are well-known and will result in a sizeable shift towards higher age groups, even over the next decade.

Third, the age profile of different occupations will affect the pattern of flows from the working population into retirement, and thus replacement demand. This phenomenon will be much more differentiated from one Member State to another depending on past waves of recruitment. Thus, in the Nordic countries, a generation that obtained jobs as a result of the large increases in public sector employment of the 1970s is now reaching retirement. A disproportionate number of these jobs have been filled by women over the years and, although there is no inevitability about replacements also being women, there is something of a presumption that more female than male recruits will be needed.

A.1.3 The recovery from recession

The assessment of employment prospects during the period up to 2020 must also now take account of the effects on the labour force, employment and unemployment of the 2008/2009 downturn.

Whereas, in October 2008, the European Commission projected a growth rate of real GDP for EU27 on average of 1.4, 0.2 and 1.1% in 2008, 2009 and 2010, respectively, the Autumn 2009 forecasts, show a downward revision to an actual figure of 0.8 for 2008, -4.1 for 2009 and 0.7% for 2010. The 2010 figure has been revised upwards by 0.8 percentage points from the much more pessimistic spring 2009 forecasts. The total accumulated shortfall of output,

nevertheless, amounts to about 5 % of GDP. For total employment, the prospective shortfall over these three years amounts to some 3.6%, or some 5 million persons. The rate of unemployment, initially forecast to reach 8.1% of the labour force in 2010, is, in the Autumn 2009 forecasts, projected to reach 10.3% on average for the year, lower than might have been feared, but comparable with the previous peak of unemployment of the early 1990s.

Despite the levelling-off of economic activity, the Autumn 2009 forecast is that employment in the EU as a whole will fall by 1.2% in 2010, before showing anaemic growth of 0.3% in 2011. This is in line with the usual lag of around 2-3 quarters between cyclical developments in economic activity and the labour market. Moreover, despite an improvement in firms' employment expectations in recent months, survey data still pointed to job reductions going forward. Although the very poor recent track-record of most forecasts invites some caution about the precise numbers, there can be no doubt that the cumulative job loss is substantial.

Consequently, to reach the level of employment projected by the Ageing Working Group for 2019/20, and taking account of the decline in employment provoked by the recession, the total number of persons employed would need to increase not by 1 million per year from 2010 to 2020 but rather by some 1.5 million per year, raising the stakes for policy makers and labour market actors.

In this perspective, some likely policy reactions can already be discerned. First, the job shakeout is distinctly uneven and risks resulting in renewed labour market segmentation. There is certainly growing evidence that the recession is causing a disproportionate rise in unemployment in selected groups. Youths, unskilled workers, immigrants and those in precarious jobs are already identifiable as affected, with evidence from the UK showing that the fastest increase in unemployment (CBI, 2009) 'has been among unskilled workers in lower income groups, with young people the worst affected. In several Member States, males (notably in manufacturing) have fared worse – a trend referred to in one newspaper headline as a 'mancession'. Many of these groups are among the least well equipped to cope with hard times, since their job opportunities are limited. The pace of job losses has, in addition, been very different from one Member State to another (see, for example, Holland et al., 2009) with construction badly hit in countries, such as Spain, where the reverses in the sector have led the downturn.

A second, related, phenomenon is that recession can result in under-use of the stock of human capital as those with higher skills compete for jobs that, in better times, would be filled by the less skilled, with the result that the latter are displaced. This has a double, adverse effect of accentuating the weaker employability of the less qualified and 'wasting' the human capital of the more skilled. In this context dynamic effects may also arise if this 'decanting downwards' inhibits life-long learning and thereby undermines commitments to enhance human capital. There is also some suggestion that women are disproportionately vulnerable to this phenomenon and to the related one of a squeeze on low wages (Rubery, 2010).

Third, the recession could induce what is known as hysteresis, a widespread decline in the employability of those that lose their jobs. It is generally agreed that long-term unemployment accentuates hysteresis through erosion of skills, the pernicious effects of detachment from the world of work and the loss of networking contacts that facilitate job search. It follows that measures to prevent a surge in long-term unemployment are highly desirable, and may warrant a specific guideline in the employment strategy.

Fourth, there is a tension between flexibility and job security that has to be addressed. Before the crisis deepened there was already criticism of the EU's flexicurity model as being too much about the 'flexibility' and not enough about the 'security'. During a recession, the protective role of the system plainly becomes more prominent, raising questions about whether the four pillars of the flexicurity system agreed in 2007 (see below) strike the right balance in terms of both objectives and policy effort or whether new elements need to be envisaged. These tensions – at least in the eyes of some of the leading proponents of flexicurity – rest on a misconception of what the approach seeks to achieve. Thus, in a recent

paper, Bovenberg and Wilthagen (2008) assert that 'flexibility and security should not be seen as conflicting aspects of labour-market arrangements, but as mutually supportive components of a well-functioning labour market'. They reject the notion that flexibility is exclusively in the interests of employers while security is all that concerns workers, resulting in a sort of negotiated trade-off between the two. Rather their approach can be interpreted as being about redefining the contours of the employment and flexicurity models to include income and employment security along with greater flexibility in labour markets, work organisation and industrial relations. It is important, in this vein, to emphasise that there can be different configurations that achieve similar goals.

A fifth issue is that the public finance consequences of a weaker labour market may prove to be substantial, especially if recovery is slow. The pressures come from lower receipts from social charges, income taxes and other employment related tax bases, as well as from higher social expenditures and any discretionary measures designed to preserve jobs. Plainly, the exceptional nature of the crisis, notably the emergency funding that governments have been obliged to inject into the financial system, exacerbates the public finance challenges and reduces the room for manoeuvre in using public expenditure as a means of maintaining employment levels.

A.1.4 Scenarios for the exit from the crisis

To elucidate some of the potential strategic demands on employment policy and the factors that may have to be taken into account post-2010, a useful exercise is to construct a set of scenarios that capture distinctive trajectories. These scenarios are not projections; instead, their purpose is to show how different outcomes might arise, to point to the issues that policy-makers would then have to confront, and to signal the sorts of policy responses that would be appropriate. Within each scenario, there could be any number of possible permutations of causes and effects, but to keep the exercise relatively simple, they are described succinctly and sketched as being sufficiently distinctive to provide a wide range of outcomes. The scenarios are designed to capture three plausible, medium-term evolutions of the EU labour market and of the EU level approach to employment policy. The actual trajectory in individual EU Member States may, however, contain elements of the different scenarios and it is inevitable that the boundaries between them will be fuzzy. Moreover, where policy orientations or priorities are highlighted under one scenario, this need not signal that they should be disregarded in another.

In all the scenarios, the various long-term drivers of employment outlined above are assumed to be mainly exogenous, but their effects will be conditioned by their interaction with shorter-term influences and by policy preferences and responses. They all take account of the impact of the current recession, but envisage very varied consequences depending on the assumptions made about the duration and severity of the downturn and its aftermath, and the broad policy orientations that follow. An approximate time horizon is 2020. The three scenarios are:

- 1 **Limited change in underlying trajectories** in which the recession is regarded as more a 'bump-in-the-road' that has to be circumnavigated, than a fundamental shift in the trajectory of employment and the economy.
- 2 An **enduring impact of recession** characterised by a quasi 'permanent shock' to the system which could well see a 'lost decade' in employment creation.
- 3 **New directions for the EU**, with the main response to the recession being a fundamental re-think of the nature of European capitalism and of the employment models found in different Member States.

A.1.4.1 A bump in the road

In this scenario, the analysis and projections set out in the Commission Communication *New Skills for New Jobs* (hereafter, NSNJ) can be regarded as a good exposition of the probable way forward. Substantial changes in the composition of labour demand can be expected because of the effects of long-term drivers, such as ageing, urbanisation, technological change, the competitive pressures from different facets of globalisation and the various social changes that alter consumption patterns. Broad sectoral shifts will see continued growth in a range of personal services, stagnation or decline of more traditional production industries, but also a progressive expansion of knowledge industries that cannot readily be categorised as conventional 'secondary' or 'tertiary' activities. Occupations most in demand will reflect the sectors that are expanding (tempered by disparities in the rates of retirement of other occupations). The same drivers will have effects on the supply of labour that will include a relative decline in the share of labour supply of prime working-age individuals, offset by a relative growth of the contribution to labour supply from other segments of the population. The scenario will also encompass a steady increase in female employment and the emergence of a greater variety of working-time and contractual arrangements instead of a more standard model.

The NSNJ Communication was written at a time when the intensification of the financial crisis that struck in the autumn of 2008 and the shock to the real economy that followed it were becoming known, but as the introduction states added 'an exceptional degree of unpredictability'. However, in this scenario, the underlying presumption is that the major trends re-assert themselves fairly rapidly and there is at most only a minor legacy from the downturn. In practice, this would imply that what might have happened by year 't' will now only happen in year 't+1' or 't+2' and that there will be few, if any, lasting structural effects of the downturn.

The most important implication for policy is that it has both to stay focused on the medium- to longer-term transformations in the labour market and to avoid short term responses that look good briefly, but leave a negative legacy (a good illustration of the latter is the resort to early retirement in previous recessions). To the extent that this scenario is a sort of status quo, policy would be *enabling* rather than *prescriptive*, and aimed at dealing with any significant obstacles in the way of what seems the natural evolution of the economy. As can be inferred from NSNJ, adaptability will, generally, be a watchword, and synergies between economic development policy and employment policy would be crucial. Several issues can be highlighted:

- First, education systems have to adapt to the emerging skill demands and to recognise that the mix of occupations demanded will require a greater emphasis on general and transferable skills, both at the highest qualification levels and at more routine qualification levels.
- Second, the prospect of greater immigration from outside the EU as a source of labour supply will need careful consideration. On the one hand, there may be a wish to allow only the most highly qualified workers or to those that fill the most glaring skill gaps to enter. On the other hand, the EU may need substantial numbers of relatively unskilled workers for some basic service activities.
- Third, activation of segments of the labour force with relatively low employment rates will be crucial to maintain employment levels. This, in turn, will call for a fresh look at the barriers that inhibit participation, ranging from the quality and availability of child-care to the wider cultural and social barriers that stand in the way of, for example, spouses of employed immigrants or excluded youths.
- Fourth, the nature of work organisation will impinge on employment prospects.

- Fifth, the inter-play between social protection policies and employment policy will be prominent because it will have a pivotal role in influencing labour supply. The flexicurity 'turn' in social policy will therefore be central to this scenario.

A.1.4.2 Enduring impact and a lost decade

The second scenario starts from the proposition that the current recession will have a lasting effect on the labour market, with the corollary that the policy agenda will be dominated by demands for reactive and palliative measures. An example of how the recession could have an enduring effect is provided in work by the Ageing Working Group (AWG) which suggests that as a result of a 'lost decade', per capita GDP will be some 8-10% lower in 2020, a shortfall which implies some 4-5% fewer jobs, assuming the usual sort of relationship between GDP change and employment as captured in Okun's Law. Whether the shock effect remains thereafter is open to doubt (in Sweden, for example, a dynamic decade followed the protracted stagnation of the early 1990s), but the salient point is that a sluggish economy would be the backdrop to most of the post-2010 decade.

In this scenario, the policy response would be to focus primarily over the next decade in forestalling the 'lost decade' outcomes and minimising the forces that lead to permanence in the shock. The implication of this scenario would be to give much greater priority to shorter term imperatives and to preservation of existing jobs, to ensure that hysteresis effects do not take hold and to put in place protective social measures to deal with the victims of the downturn. It could also lead to a re-appraisal of the balance between flexibility and security in favour of the latter, as well as a fresh look at how social risks are managed. While long-term transformations would not be neglected, they would take second-place to the more immediate employment policy response, although there would be an expectation that where 'double-dividend' initiatives that address the short-term and the longer-term goals simultaneously could be identified, they should be favoured. From this perspective, the main policy overlaps to focus on would be between employment policy and social protection policies. Areas on which policy will have to concentrate include:

- Job sharing under various guises
- Active labour market policies that maintain employability and connection to the labour market, even if they do not necessarily lead to immediate hiring.
- A need for measures to maintain human capital, as well as to boost it
- More focus on the dangers of labour market segmentation
- An approach to immigrants that is more hostile to the entry of large numbers, and concentrates instead on shortages in narrowly defined, specialised skills

A.1.4.3 Reshaping of the socio-economic framework and globalisation

A new directions scenario would be much more open than the other two to different orientations, although the underlying impetus will be towards re-shaping the economic model to address the vulnerabilities highlighted by the recession. One strand could be, to draw on the argumentation in the Cohen-Tanugi (2008) report, to think in terms of shaping rather than submitting to, globalisation. Global governance reforms will therefore be part of the scenario and EU policy co-ordination will, accordingly, need to embrace policy areas, such as trade and immigration, that have tended to be seen as tangential to the sorts of initiatives that have been at the heart of the Lisbon strategy. A legacy of the recession and maybe a break in the previously strong growth of financial and business services, could see a switch towards 'green jobs' and, possibly, a re-balancing towards employment that reflects social needs (irrespective of whether they are addressed through public or private provision or, possibly, through social enterprise). Equally, the emphasis in the coming decade may be much more on the need to boost EU competitiveness in response to global challenges and to reinforce the trend towards knowledge-intensive sectors. It would entail renewed efforts to boost

labour productivity and to foster employment growth in sectors in which high levels of education are a key influence.

A strong policy implication of this third scenario is the need for a compelling narrative for a post-2010 strategy for policy co-ordination, with sustainable development as a possible front-runner. Policy will have to be prescriptive as well as enabling, since the underlying aim will be to change trends, rather than go with the flow. Closer integration between transformative policies (towards a low-carbon economy, but possibly also towards new interpretations of social justice that stress opportunity and incentives to a greater extent than income redistribution) and employment policies will be desirable. In this scenario, education plainly has a central role, as it creates the human capital that will be required for a major structural change. A coherent approach to transitions will be needed to ensure that incentives for change are in place. Quality of jobs will also have to be better assured, and reinforced by 'making work pay'. Under this scenario, policy priorities include:

- A sharper focus on job quality and on conditions of employment that bear on quality of life
- An emphasis on the contribution of employment policy to innovation as a driver of change
- The promotion of a capabilities approach to human capital development which, in turn, gives greater responsibility to individuals for their employment trajectories, while also countering gender or other forms of inequality
- Strong encouragement of experimentation in employment policy and in its links to other policy domains, with enhanced mechanisms for policy learning and transfer
- Stimulating occupational mobility and imaginative approaches to work organisation, while having regard to work-life balance
- Fresh approaches to 'transitions', including 'making transitions pay', to complement the more established notion of making work pay.
- Making more sustained efforts to eliminating obstacles to employment creation and hiring.

A.2 Projections of needs for and supply of labour

The broad sectoral and occupational trends were signalled above. In this section, they are presented in more detail, drawing on relevant projections.

A.2.1 Summary of the CEDEFOP projections

The European Centre for the Development of Vocational Training (CEDEFOP) has undertaken two studies of, respectively, the future skill needs (CEDEFOP 2008) and the future skill supply (CEDEFOP 2009) in Europe. The main findings of the two studies are reviewed and discussed below as the starting point for an assessment of the quantitative aspects of the contours of the labour market in 2020.

A.2.1.1 Future skill needs

The 2008 publication presents the projections of skill needs for EU25 plus Norway and Switzerland, based on the E3ME model and using national accounts data, but drawing also on European Labour Force Survey data to break down employment data by occupation and qualification.

Projections include a baseline scenario for employment developments from 2006 to 2015 for a total of 16 industries, with a presentation of projections per country for the 6 principal sectors of economic activity. Furthermore, the projections include two alternative scenarios, a high growth scenario, assuming a high level of European competitiveness "in a relatively benign global environment" and a low growth scenario assuming "poor domestic

performance in adverse global trading conditions, forcing governments to cut spending and increase taxes” (CEDEFOP 2008, page 43).

Figures for past years are provided for 1996, 2006 and projections for 2010 and 2015 and have the advantage of including estimates of “replacement demand” for the period 2006 to 2015, applying a cohort approach based on the age structure of the particular category of qualification (LFS data) and taking account of specific age related factors such as mortality and (assumptions concerning) migration flows.

In addition, the 2008 projections include a rough projection of qualification needs⁴ on the assumption of maintenance of the “historical pattern of qualifications within occupations” (page 59). The report (page 60) notes that “there is evidence that the demand for skills and formal qualifications is rising in many higher level occupations and there is some indication of increasing qualification requirements also in more elementary jobs. However, the importance of supply and demand factors in these cases remains to be established”.

As shown in Table 1, the CEDEFOP baseline scenario for skill needs (based on national accounts employment data) projected an increase in employment in EU25 (excluding Bulgaria and Romania) from some 211 million in 2006 to 217 million in 2010 and further to 224 million in 2015.

Whereas, as seen from the table, the level of employment of the lowest level of qualification had been roughly constant, at some 55 mn from 2001 to 2006, employment in this category was projected to decline to 51 mn in 2010 to around 46 mn in 2015, representing a contraction of some 2% per year from 2006 to 2015. By contrast the level of employment of medium and high qualifications (here defined, as indicated in terms of ISCED categories), were projected to increase by, respectively, 1 and 2.4% per year.

In order to allow a confrontation between these projections and the CEDEFOP projections of skill supply presented in the following section, Table 1 includes a rough estimate of levels of employment in 2020 on the assumption of the same rate of change as projected for the period 2010 to 2015. As can be seen, this would imply an increase in employment of some 7 million over these five years. As in the preceding 5-year period, the level of employment of people with the lowest level of qualifications would decline by more than 4 mn, from 46.5mn in 2015 to 42.2 mn in 2020, while employment of persons with medium and high levels would increase from 111.7 to 116.2 and from 65.7 to 73.5 respectively.

Although based on a different set of assumptions, modelling approach and statistical definitions⁵, the CEDEFOP projections, as extrapolated to 2020, in fact point to only a slightly smaller annual change in employment than the Ageing Working Group projections released in 2009.

As indicated above, the projections of the need for the three levels of qualification have been derived from more detailed projections of the potential employment of 10 basic occupations as estimated using the E3ME econometric model. These projections, thus, also include the projections for replacement needs in the various occupations and industries. Of particular importance for the assessment of future employment challenges is, in fact, not only the projected net increase in employment but also the underlying assumptions of gross outflow (replacement needs) from the various occupations and the need for gross inflow in order to arrive at the projected net stock in the end year of the projection period.

⁴ Whereas occupations are defined in terms of the nature of work, with a breakdown in 10 categories from elementary, to skilled manual, skilled non-manual and highly-skilled non-manual, qualifications are defined according to the international classification of levels of educational attainment (ISCED) in three categories: low (ISCED 0-2), medium (ISCED 3-4) and high (ISCED 5-6).

⁵ The AWG projections cover the whole of EU27 while the CEDEFOP projections cover only EU25, that is they do not include data for Bulgaria and Romania, which explains the level difference of approximately 10 million people.

Table 1. CEDEFOP projections of skill needs by qualification

Levels 000'	1996	2001	2006	2010	2015	2020 est
Low	63339	55671	55104	51209	46516	42253
Medium	89127	102799	102291	107508	111752	116164
High	40248	47374	53261	58682	65668	73486
All	192714	205844	210656	217399	223936	231902

Source: For 1996 to 2015: CEDEFOP 2008a; 2020 figures are authors' estimates, based on the same rate of change as for the period 2010 to 2015.

Table 2 shows that the needs for replacement during the whole period 2006 to 2015 is projected to add up to some 51 mn persons, or 5.7 million per year during the nine years of this period. Adding the projected 13.3 mn net increase (expansion), the total gross inflow would thus amount to some 64 million, or 7.1 million per year.

Table 2. CEDEFOP projections of occupations 2001-2015

Levels	2001	2006	2010	2015	2006-2015		
					Expans. demand	Replacem. demand	Total requirem.
Occupations							
Armed forces	1197	1215	1197	1165	-51	294	244
Legislators, senior officials, managers	16333	18405	19633	21076	2671	4362	7034
Professionals	25482	27349	29067	31111	3762	5747	9509
Technicians and ass. Professionals	31733	33952	36099	38691	4739	6857	11596
Clerks	25088	23317	22833	22044	-1273	5772	4498
Service, shop & market sales	28717	29490	30765	32017	2528	8039	10567
Skilled agricultural and fishery	8960	7789	6817	6082	-1707	2201	494
Craft and related trades	29893	28845	28650	27420	-1425	7493	6067
Plant and machine operators	17304	17314	17639	17850	536	4048	4584
Elementary	21137	22980	24699	26480	3501	6188	9689
All	205844	210656	217399	223936	13281	51001	64282

Source: CEDEFOP 2008a, based on national accounts data for employment

According to the projections, the departures and thus replacement needs would take place at an average annual rate of about 2.5% and with the rates of departures from the 10 occupations ranging from some 2.1% per annum for professionals and technicians to 3.1% per annum for elementary occupations. The higher departure rates for the latter occupations can, as indicated by CEDEFOP, be explained inter alia by the differences between occupations as regards retirement behaviour and age structure, the average age in elementary occupations being somewhat above that of medium and higher level categories.

A tentative estimate of the departures from, and net expansion in, the different occupations during the 2015-2020 period, assuming rates of departure and expansion per annum similar to those assumed in the CEDEFOP projections for 2060 to 2015, around 2.5% per year, would result in an additional need for gross inflow of 70 million or around 7 million per year for the whole period 2010 to 2020.

A remarkable feature of these projections is a projected need for a net expansion of elementary occupations (the "hourglass" hypothesis mentioned above). Notwithstanding a projected decline in other occupational categories drawing mainly on persons with low skills,

elementary occupations are projected to need a net increase of some 3.5 million or some 15% from 2006 to 2015. Given the high rate of departure mentioned above, the total required gross inflow into elementary occupations, consequently adds up to about 1 million persons per year or about 14% of the total required gross inflow of 7 million.

A key question for the assessment of employment challenges is, therefore, whether the expected supply of labour will match appropriately with the needs (and this, of course, independently of the recovery from the 2008-2009 downturn which will be discussed below). The combination of differential sectoral rates of productivity growth (partly because of technological change) and consumer preferences will mean that a trend that has long been apparent in the most developed countries will continue. This is for labour demand to grow in service industries and to stagnate in goods producing industries. It is not surprising that this trend is particularly strong in the United States, as illustrated in estimates published by the Bureau of Labour Statistics (2008).

The US figures are worth dwelling on because they offer a viable comparison for the EU, and trends in the US sometimes signal what can be expected elsewhere. They project that net new jobs in services between 2006-2016 will be some 15.7 million out of a projected total employment by 2016 of 166.2 million, up from 150.6 million in 2006. By contrast there will be a slight decline in goods producing industries, so that the 10% overall increase projected in US employment will come entirely from services. Within services, the BLS projections are that three out of every ten new jobs will be in the education and health sectors, especially in health and social assistance; a quarter will be in professional and business services⁶; and smaller increases in other branches of services. The growth rate in retail services is projected to be lower than in services as a whole, but because of its large size will still add 700 thousand jobs.

In the goods producing industries, the US manufacturing sector is projected to lose 1.5 million jobs and there will be a small decline in primary industries. By contrast, construction employment in the US is expected to increase by 800 thousand jobs, accounted for mainly by infrastructure investment. Given that the fiscal stimulus package agreed in 2008 provided for even more such projects, the increase could well be higher. The principal explanations for the continued job loss in the manufacturing sector are productivity gains and job automation, together with more intense international competition. Only in pharmaceutical and medicine manufacturing are job increases anticipated, a trend that again reflects increased life expectancy (consider, for example, the market for products to treat chronic conditions).

The BLS projections of changes in demand by occupation are much more heterogeneous. On the one hand, there are specialist occupations that demand very highly qualified personnel that are expected to see large increases in employment. Indeed, demand for 'network systems and data communications analysts' is expected to increase by more than 50% over the period 2006-16, the largest increase of any occupation. But demand for 'personal and home care aides' and for 'health care aides' – both comparatively low skill - will rise only slightly less rapidly and will exceed that for 'computer software engineers, applications', the fourth most dynamic occupation. It is also important to note that, as in the CEDEFOP projections, the lower skill occupational categories generally account for quantitatively much larger chunks of employment.

Overall, between now and 2020 the share of jobs requiring higher skills is projected to increase significantly alongside the changes determined by demographic developments (departures into inactivity and arrival of new cohorts in the labour market). However, the projections also demonstrate that some of the occupations that will exhibit the biggest net increases in labour demand call for only low or moderate skill levels, often general rather

⁶ In the US classification, this excludes financial services which were also projected to grow substantially, adding 400 thousand jobs by 2016., although it should be noted that these projections preceded the financial crisis.

than specific qualifications, and are likely to involve rather different working conditions from the norms of the last quarter of a century

A.2.1.2 Future skill supply

The 2009 CEDEFOP publication presents projections of future skill supply for 2020 with 2007 as the starting position and with intermediate results provided also for 2013. The projections are based on Eurostat's Europop2008 demographic projections and, through the introduction of model-based assumptions of the evolution of educational attainment and labour force participation of the different cohorts, arrive at projections of the labour force within the three basic qualifications based, as indicated above, on the ISCED classification of educational attainment.

As shown in Table 3, the total labour force is projected to increase by some 5 million, from 226.5 mn in 2006 to 231.2 mn in 2013 and thereafter to remain practically stable, rising only to 231.5 mn in 2020. This overall development, however, is the result of rather diverse tendencies for the three main categories of qualification, with the number of persons with low qualification set to see a strong decline, of more than 10 million even from 2013 to 2020, and with a similar rise for persons with high qualifications, combined with stability for the medium level. The trends are practically parallel for males and females. A striking feature of the CEDEFOP projections is, thus, a marked increase in highly-educated persons' share of the labour force, with the share of this category projected to increase to more than thirty percent of the total, up from 20% in 2000, while the share of persons with only low-level education is projected to decline from more than 32% in 2000 to less than 20% in 2020.

Table 3. CEDEFOP projections of labour force (15-64)

	Thousand persons				% of total	
	2000	2007	2013	2020	2000	2020
Males						
Low	38050	35289	31578	26933	31,8	21,1
Medium	57548	61024	62575	62567	48,1	49,0
High	23932	28852	33442	38247	20,0	29,9
All	119530	125165	127595	127747	100,0	100,0
Females						
Low	30977	28113	23305	18197	33,5	17,5
Medium	43234	48062	49701	49677	46,8	47,9
High	18256	25128	30624	35825	19,7	34,5
All	92467	101303	103630	103698	100,0	100,0
Total						
Low	69027	63402	54883	45130	32,6	19,5
Medium	100782	109086	112277	112244	47,5	48,5
High	42188	53980	64065	74072	19,9	32,0
All	211997	226468	231224	231446	100,0	100,0

Source: CEDEFOP 2009

The prospective evolution of the labour force is mainly a reflection of the stability of the underlying demographic development. In fact, the overall participation rates are projected to change little over the 2007-2020 period. As a result of increasing participation in higher education, the rate of participation of the age group 15-19 is projected to see a decline, while the rate of participation of the age groups 60-64 and 65+ is projected to increase. The average rate of participation will, however, also be drawn down somewhat due to an increase

in the share in the total of the higher-age groups with a lower rate of participation. In fact, as a result of this shift towards the elderly parts of the labour force, the average age of the 25-64 year-old group, is projected to increase from 39.8 in 2007 to 40.3 in 2013 and then further to 41.0 in 2020.

The CEDEFOP supply projections were finalised in late 2008 when the economic downturn was already under way. While alternative scenarios were not designed to assess the possible consequences of the crisis and other exogenous factors, the report in fact presents two alternative scenarios, using a fully “endogenous” version of the E3ME model: an optimistic scenario in which “Europe and its constituent economies benefit from higher growth rates in exports and overall world GDP, partly as a result of lower world energy prices”; and a pessimistic scenario, assuming higher world energy prices and a loss of confidence in the world economy with negative impact on global growth rates and Europe’s exports.

A.2.1.3 Mismatch of demand and supply?

Since the 2008 CEDEFOP projections of ‘needs’ and the 2009 projections of ‘supply’ are not co-incidental as far as the years and period are concerned, the two projections cannot be directly compared with a view to assessing to what extent the supply will correspond to the projected needs. For illustrative purpose an attempt has, nevertheless, as already indicated, been made to reconcile key features of the two projections by a rough estimate of the ‘needs’ for three years of the ‘supply’, 2007, 2015 and 2020. The estimates have been made by simple linear “interpolation” for the years 2007 and 2013 and extrapolation as far as estimating the needs for 2020 is concerned. The latter, of course is most uncertain as the outcome would not necessarily correspond to the projections undertaken with the E3ME model. Subject to these caveats, this estimate suggests that the supply of labour in 2020 is likely to fit considerably better with the needs than in 2007.

In fact, as shown in Table 4, as late as in year 2000 the mismatch between needs and supply was considerable, with an excess supply of low-skilled of 20% and an 8% under-supply of high-skilled labour. The degree of mismatch was considerably reduced from 2000 to 2007 and by 2013 would, in fact, result in supply exceeding needs for all three categories. However, as a result of the projected further increase in needs and the stability of the labour force, there would, in fact, be approximate overall balance between needs and supply, albeit with a modest remaining over-supply of low-skilled, a small under-supply of medium-skilled and approximate balance for the high-skilled.

It should be noted in this context, that neither the CEDEFOP projection of skill needs (CEDEFOP 2008) or those of skill supply (CEDEFOP 2009) make particular assumptions concerning the rate of unemployment. In contrast, the Ageing Working Group projections combine demographic and labour force projections with assumptions concerning a decline in the rate of unemployment towards the NAIRU (the structural rate of unemployment). It is therefore comforting that the two projections coincide relatively closely. At stake is, nevertheless, whether the general macroeconomic framework conditions will favour the reduction of the mismatch and, thus, the reduction of unemployment explicitly assumed in the AWG projections and implicit in the CEDEFOP projections.

Table 4. Supply of labour as a percent of projected and estimated needs

	2000	2007	2013	2020
Low	120,7	117,1	111,3	106,8
Medium	100,7	105,3	102,8	96,6
High	91,8	98,8	104,2	100,8
All	104,3	106,7	105,1	99,8

Source: Own calculations based on CEDEFOP 2008a and 2009

Even if the overall degree of mismatch of skills is considerably reduced over the coming decade, the total gross labour market movements from 2006 to 2020 would thus not only represent a strong shift toward a more knowledge-intensive economy, but also a total gross labour market transition concerning some 100 million jobs, or more than 8 million per year. It should be noted, moreover, that this latter figure does not include the transitions from one job to another within a given category of workers and occupations. Consequently, the total volume of movements in the labour market during this period can be assumed to be even significantly higher than the gross transition of 8 million per year, amounting to an annual transition of about 10% of the total labour force.

Furthermore, whereas, according to these very tentative estimates, the overall shortage of skilled qualifications seems likely to be absorbed, this in no way excludes the possibility of there remaining a lack of scientists and engineers. In fact, enrolment in higher education by females has increased rapidly and can be expected to increase further, as assumed in the CEDEFOP projections. However, there is still a strong tendency for females to select social sciences and humanities rather than natural sciences and technical pathways. Consequently, the overall balance between needs for and supply of persons with high skills may still coincide with a lack of scientists and engineers and a certain oversupply in the field of social sciences and humanities.

The message to draw from these projections – recognising that the recession and its aftermath may well change the timing of change, and possibly also some of the relative shifts – is that labour supply and the possible obstacles to it will need to respond to net labour demand that will differ from the current composition of employment. Certainly, there will be many opportunities at the top end of the skill spectrum and these will require that education systems equip European workers to fill them. Highly qualified immigrants will also be needed and a competitive challenge for the EU will come from the fact that in some of these highly specialised occupations, the labour market is a global one.

It is therefore of utmost importance that barriers and obstacles to job creation and labour market transition are reduced and that ways are sought to smooth this transition through policies aimed at the same time at promoting flexibility and at providing the individual with appropriate employment and income security.

A.3 Empowering people through flexicurity

A.3.1 The background

The *Knowledge Society*, with the increasing role of human capital, and with the level of educational attainment and rate of innovation as the key drivers of growth and competitiveness, affords many new opportunities, but also places new demands on the adaptability and mobility of both employers and employees. A high level of education provides the individual citizen with a basic capacity to adapt flexibly to new conditions and to change easily from one job and one branch to another.

On average for the EU, about 10% of jobs change occupant every year, implying that in a single year one person in ten will be searching for a job, for ways of acquiring new skills but also be exposed to the stress unavoidably attached to the increasing speed and frequency of transition in the new globalising economy. In this environment even persons with a high level of education and, much more so, persons with a lighter educational baggage increasingly need systematic information on opportunities, as well as financial and administrative support in order to both stimulate and facilitate adaptability and acquire the new skills required for successful transition.

Among the EU Member States, Denmark has for some time already, in addition to “passive” unemployment insurance schemes, provided active assistance to the unemployed in search of a job. This situation is the outcome of a number of ambitious labour market reforms, which took place during the 1990s. The reforms significantly shortened the duration of passive

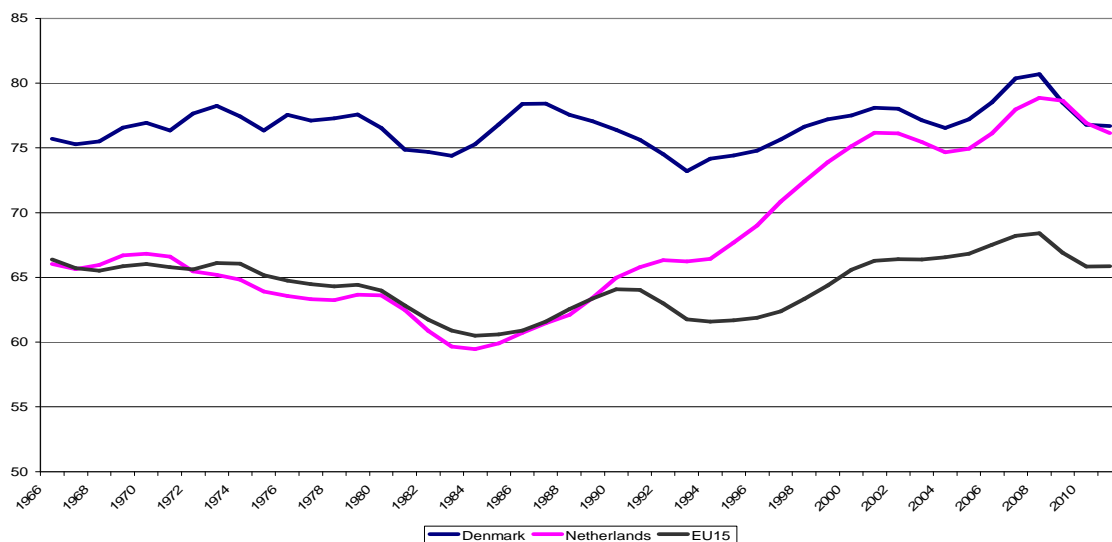
benefits and applied mandatory early activation of unemployed as a key instrument. This shift in policy is an important factor behind the fall in unemployment and the rise in the employment rate, which can be observed since the mid 1990s, also supported by favourable macro-economic conditions.

Furthermore, the Netherlands stands out as an example of an important change in the orientation of labour market policy in the 1990s, and in particular the adoption of a “Flexibility and Security Bill” that came into force on 1 January 1999. This shift in policy, combining in the same bill measures aimed at boosting flexibility and income security, presented as a significant shift in policy from protecting “jobs” towards protecting “employment”, in fact also gave rise to the concept of “flexicurity”. It has attracted considerable academic and practitioner interest, despite the fact that in some respects the empirical outcomes analysed below for the Netherlands are not exceptional.

In other respects, however, the significant shift in Dutch labour market policy appears to have had remarkable effects, not least the substantial increase in its employment rate. As shown in Figure 1, the rate of employment in The Netherlands which, from 1966 to 1990, had closely followed that of the EU average, took off in 1991 and, over the next fifteen years, moved steeply upwards. By 2008, consequently, the Netherlands had reached the Danish employment rate; providing a striking illustration of the potential of a shift in the orientation of labour market policy.

An interesting aspect of the Dutch employment policy is also the emphasis on measures to facilitate and promote part-time and temporary employment. As a result, the rise in the overall Dutch rate of employment has been accompanied by a pronounced rise in part-time employment, making it easier for women (especially) to combine child-bearing and continued participation in the labour market, thereby assuring a high degree of maintenance of human capital.

Figure 1. Employment in per cent of working-age population



Source: Eurostat

Recognising that public policy may have a role to play in assisting the individual worker and the enterprise in ensuring a smooth and efficient functioning of the labour market, Sweden and Denmark have already several decades ago introduced mechanisms with this aim in view. At the level of the European Union the Council already in 1997 underlined the potential for using Active Labour Market Policies to boost employment, and combat unemployment.

It is therefore not surprising that the Danish and Dutch experiences have attracted a considerable interest among other EU Member States and that, at the level of the EU, the Danish and the Dutch models of “flexicurity” have gained prominence both politically and scientifically. Major steps towards a more explicit application of this concept at the level of the EU were made in July 2006 with the creation of the European Expert Group on Flexicurity, the publication of the report by the group in June 2007⁷, the Communication from the Commission of July 2007⁸ and more recently an EMCO Report on monitoring and analysing flexicurity policies⁹.

As indicated in the EMCO Report (page 2) the Commission and the Member States have in fact reached a consensus that flexicurity policies can be designed and implemented across four policy components. The four components are:

- Flexible and reliable contractual arrangements (from the perspective of the employer and the employee, of "insiders" and "outsiders") through modern labour laws, collective agreements and work organisation;
- Comprehensive lifelong learning (LLL) strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable.
- Effective active labour market policies (ALMP) that can help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs;
- Modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility. This includes broad coverage of social protection provisions (unemployment benefits, pensions and health care) that help people combine work with private and family responsibilities such as child care.

The Report provides a first list of chosen input, process and output indicators and “radar charts”, based on four quantified indicators: access to flex-time, public spending on human resources as a percentage of GDP, expenditure on unemployment benefits and expenditure on ALMP in purchasing power units.

With the aim of producing a more comprehensive and condensed assessment of the degree of flexicurity achieved by the different Member States, the present report presents a first attempt to produce a *composite indicator for flexicurity*. The advantage of a composite indicator is two-fold:

- It allows an easily accessible overall estimate of the level of achievement in this field; and
- It facilitates quantitative and econometric analysis of the correlations, both within the set of indicators chosen and between the composite indicator and other indicators of economic performance.

A.3.2 Choice of an indicator for flexibility

The composite indicator presented below is composed of input and outcome indicators, following the terminology of the EMCO paper, including the following elements:

- Flexible and reliable contractual arrangements;

⁷ *Flexicurity Pathways : Turning hurdles into stepping stones*, Report by the European Expert Group on Flexicurity, June 2007.

⁸ European Commission, DG EMPL, Unit D2 : *Towards Common Principles of Flexicurity : More and better jobs through flexibility and security*.

⁹ EMCO Reports, Issue 2, July 2009 : Monitoring and analysis of Flexicurity policies.

- Comprehensive life long learning strategies to keep the labour force updated according to the necessities of the companies¹⁰;
- Effective active labour market policies to ease the transition to new jobs;
- Modern social security systems that provide income support and family facilities.

Input indicators quantify information on legislation and institutions that bears on certain aspect of flexicurity. Outcome indicators measure the extent to which each sub-indicator achieves its objectives. The composite indicator does not, however, include the process variables suggested in the EMCO Paper.

As summarised in Table 5 the flexibility indicator, on the input side, is based on the EPL index produced by the OECD and, on the output side, the length of job tenure. Admittedly this choice attributes a considerable weight to these two indicators, but examination of the alternatives suggests both that other input indicators, such as the World Bank index of the facility of doing business, on one hand, is relatively well correlated with the OECD's EPL indicator and, on the other, includes features which do not directly concern the labour market. Other indicators could be incorporated without difficulty in any extension of the approach.

On the "security" side of flexicurity, the choice of indicators is more comprehensive and the composite indicator proposed here is based, on the input side, on an average of the three features indicated in the table and, on the output side, on an average of the indicator on the risk of poverty and long-term unemployment produced by Eurostat.

It is of importance that the overall composite flexicurity indicator gives equal weight to the flexibility and the security sides and this despite the fact that more indicators are used on the security side.

Table 5. Potential sub-indicators of flexicurity

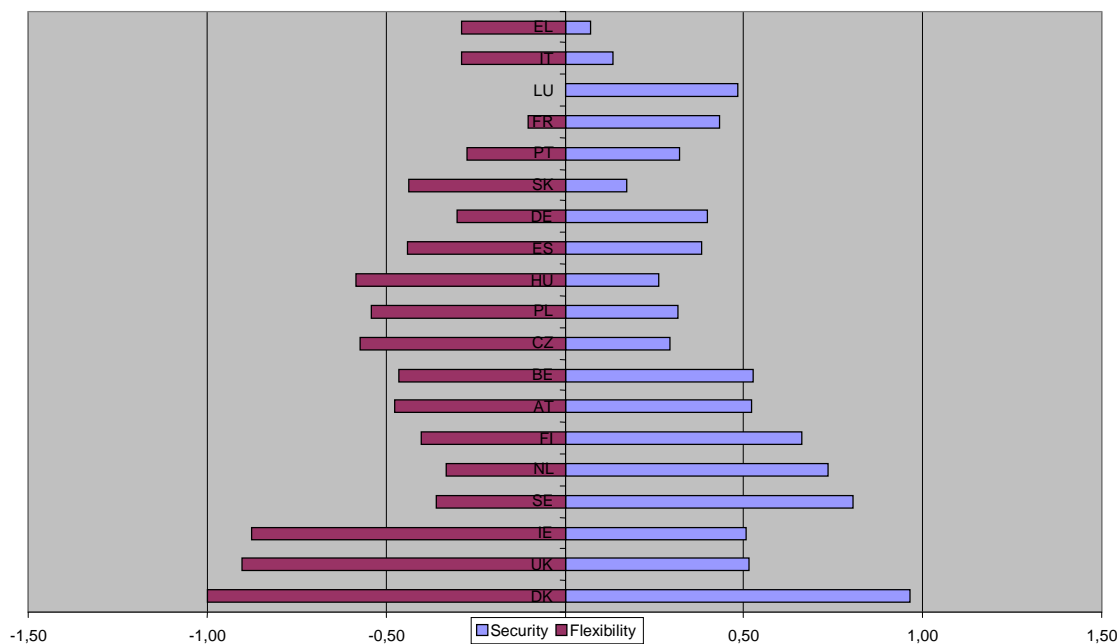
	INPUT	OUTCOME
<i>Flexibility indicators</i>		
Flexibility	EPL Index by OECD	Job Tenure
<i>Security indicators</i>		
Income security	OECD indicator of average of net replacement rates over 60 months of unemployment	Risk of poverty
ALMP	Government expenditure per unemployed person (corrected by GDP per capita)	Long term unemployment
LLL	Percentage of population that had training in the 4 previous weeks	n.a.

Source: own elaboration.

As illustrated in Figure 2, the overall level of flexicurity and the relative importance of flexibility and security on the input side show large disparities among the EU Member States included here. In the ranking of countries according to the overall degree of flexicurity, in certain Member States (Italy, Slovakia, Hungary, Ireland and the United Kingdom) flexibility clearly dominates, while in others (such as Luxembourg, Spain, Portugal, France, Belgium, Finland, the Netherlands, Sweden and Denmark), the security aspects of flexicurity seem to dominate.

¹⁰ This point is the only difference with the definition by Madsen (2002).

Figure 2. Flexibility and security balance (input version)



Source: own elaboration

A.3.3 Flexicurity as a main determinant of employment performance

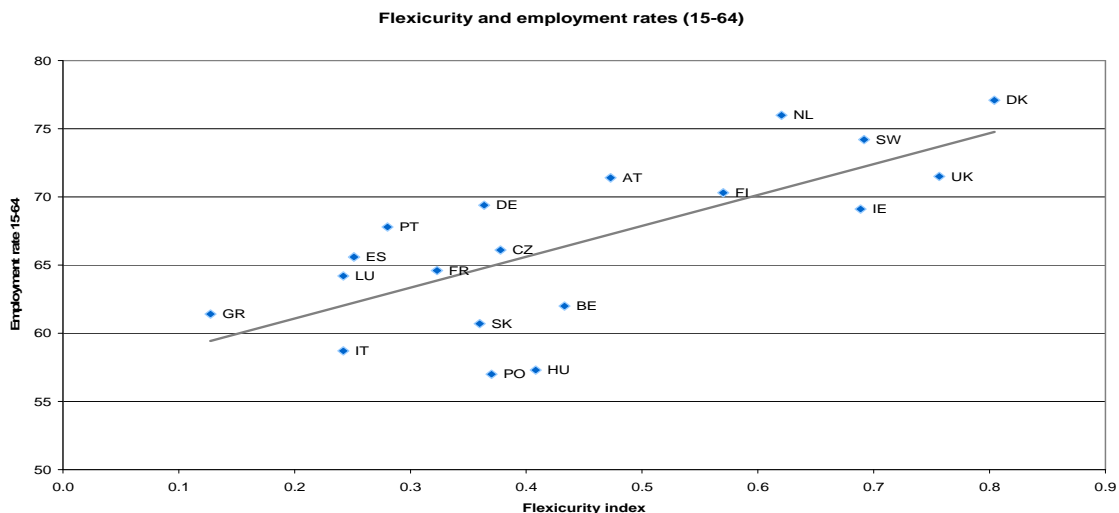
The assessment of the performance of the composite flexicurity index and an econometric analysis presented in more detail in an associated working paper confirm what recent literature has stated concerning flexibility: with the exception of certain sub-groups, the flexibility component of flexicurity, when looked at in isolation, does not appear to be convincingly and closely associated with high employment rates. Interestingly enough, the opposite is true for security: the analysis shows that it does have a positive impact on, first of all, participation rates, but also on the employment rate of older and younger workers and long term unemployment. However, when flexibility is associated with the security component in a broader quantitative analysis of flexicurity, the effect on employment is larger than the simple addition of the effects of the two components.

Consequently, flexicurity has to be more broadly interpreted as not simply the addition of flexibility and security, but as a system where flexibility and security are inter-twined. As expected, the sign of the relationship is positive: flexicurity goes hand in hand with higher employment rates, meaning that it is successful in attracting people into the labour market. This finding corroborates the proposition that a flexicurity system goes beyond the traditional point of view of flexibility being in favour of employers and security an advantage for employees. In addition to the 'both for both' argument, the analysis discloses a number of advantages for wage earners linked to flexicurity, such as a substantially greater scope for an individual to organise the life-cycle between work, inactivity and retirement.

A deeper look also reveals that the magnitude of the relationship between employment rates and the flexicurity indicator varies according to the sub-group considered. It is less strong for core workers (aged 25-54), since for them standard employment contract might actually exert a positive influence. But it doubles and triples for older and younger workers, respectively, confirming that a robust flexicurity system succeeds in attracting into the labour market categories of workers that, for different reasons, have a more difficult access to jobs. One can therefore argue that, from this point of view, flexicurity helps to increase labour supply.

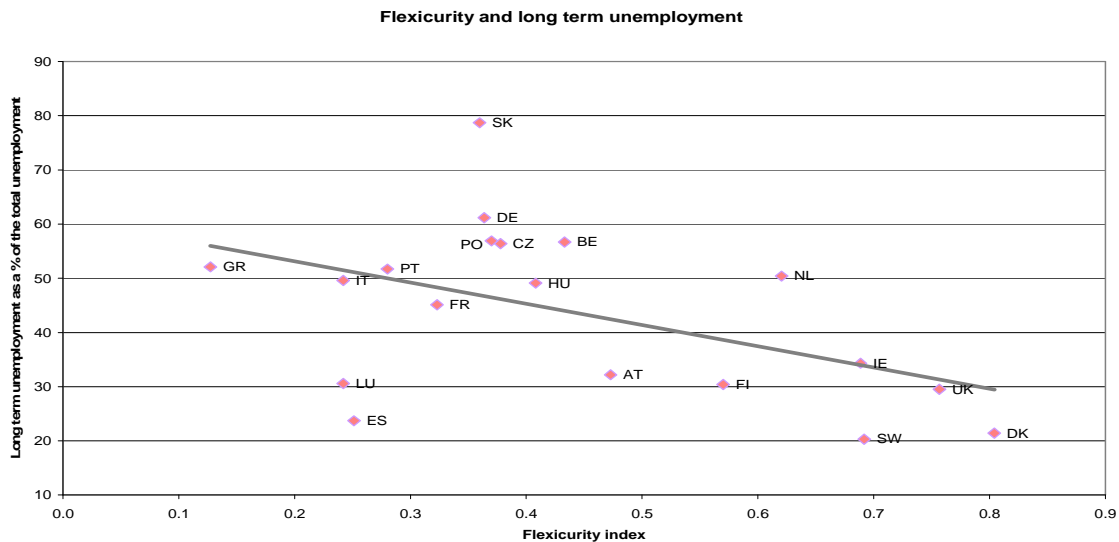
In addition to employment rates, a high level of flexicurity is clearly associated with a low level of long term unemployment: a 10% increase in the flexicurity index lowers the share of long term unemployment (out of total unemployment) by 4%. In this case however, the relationship with the security sub-indicator is even stronger (4.5%) confirming that active labour market policies play a major role in curbing long term unemployment.

Figure 3. Flexicurity and employment rates



Source: Own calculations, Eurostat.

Figure 4. Flexicurity and long term unemployment



Source: Own calculations, Eurostat.

Finally, the comparison between input and outcome measures also gives positive results: on average the performance of the outcome indicators is proportional to the input. Only Belgium, The Netherlands and Sweden show a light under-performance suggesting that better results could be achieved through an improvement of the functioning of existing institutions.

A.4 Structural features of labour market performance

A.4.1 Educational attainment and employment rates

In recent years a number of researchers, notably Romer¹¹, have argued that knowledge accumulation, while being an essential feature of economic growth, cannot be analysed only as an independent factor of production. This approach, under the name of *endogenous growth theory*, consequently, aims at identifying and analysing the reciprocity between tangible and intangible capital formation and the interaction between public policy and the market. What emerges from the analysis of Romer and others is that knowledge formation and education, while always an important factor of production, has during recent decades become the key driver of economic performance, constituting the platform on which the leading economies build the process of R&D and innovation.

However, what is less well recognised is that the level of education and skills appear as a main determinant of the rate of employment in the economy. Simply stated, those with higher educational attainment achieve higher employment rates and *vice versa*. Hence, a country with a higher proportion of the labour force with better educational levels will, *ceteris paribus*, have a higher aggregate employment rate. Conversely, if a country has a high proportion of poorly educated individuals, it will tend to have a lower employment rate. As an illustration, Turmann (2006) demonstrated that the principal explanation for the higher rate of employment observed in the US in 2004, compared with the EU, was that the US labour force has a higher proportion of persons with tertiary and higher secondary education. By contrast, the EU labour force had a higher proportion of persons with only primary education.

These proportions shift slowly over time and are gradually improving for the EU as older cohorts exit and new, better educated cohorts enter the labour force, but there are also enduring disparities in educational attainment and employment rates among segments of the labour force. In fact, as shown in Table 6, employment rates by category (gender and level of education, for the age group 15-64) in 2007 ranged from a low of 39.1% for females with only primary education to as much as 87.3% for males with tertiary education. The education gradient is particularly steep for females, with the rate of employment for females with tertiary education (80.5%) slightly more than double the rate for females with only elementary education. For males the difference is much smaller, ranging from 58.3 for males with only elementary education to 87.3 for males with tertiary education.

For the age class 15-24, differences between levels of education are even more pronounced, but to a large extent due to the fact that a large part of this generation is still enrolled in the systems of education and, furthermore, the share of this age class having already finished tertiary education is very limited. The fact that females now count for more than 50% of enrolment in tertiary education also explains the fact that, in this age group, the rate of employment for females is, at 34.2, significantly lower than for males while for those having already completed tertiary education, the rate of employment is marginally higher.

For the age class 55-64 the average employment rates for EU27 even in 2007 at 44.7 was significantly below the Lisbon target of 50%, reflecting the early-retirement provisions still in force in a number of EU Member States. But here again the education gradient was rather steep, with, for males, close to 70% and for females close to 60% of this age class still in employment.

As already illustrated above, in the presentation and analysis of the CEDEFOP projections, the average level of educational attainment is projected to rise significantly during the 2010-2020 decade, as the combined result of the higher rate of educational attainment in the generation 15-24, which during this decade will move into the prime age group of 24-54,

¹¹ Romer, P.M.: *Human Capital and Growth: Theory and Evidence*, NBER Working Paper N° 3173, 1989

while those in the age class 55-64 will have left the labour force. In addition, the recent increase in the employment rates for females in general, and for the age group 55-64 in particular, can be expected to continue, resulting, other things being equal, in an important rise in the overall rate of employment in the economy.

Table 6. Employment rates by levels of education, EU27

2007	total	ISCED 0-2	ISCED 3-4	ISCED 5-6
15-64		Elementary	Secondary	Tertiary
Total	65,4	48,6	70,2	83,8
Males	72,5	58,3	76,5	87,3
Females	58,3	39,1	63,7	80,5
15-24				
Total	37,2	25,3	48,8	61,7
Males	40,2	29,6	52,6	60,6
Females	34,2	20,3	45	62,5
25-54				
Total	79,1	66,5	80,8	89
Males	86,8	79,9	87,4	93,1
Females	71,5	53,5	73,8	85,3
55-64				
Total	44,7	35,5	47,4	65,4
Males	53,9	44,9	54,1	69,5
Females	36,0	28,4	39,9	59,9

Source: Eurostat

A.4.2 Transition between employment, unemployment and inactivity

In addition to its effect on the aggregate employment rate, education is an important determinant of mobility and employability. This section explore these dynamics.

A.4.2.1 A high rate of movements in the labour market

According to EU-SILC data for 2005-2006, rates of transition (movements from employment to unemployment or inactivity or vice-versa) show a high degree of disparity within the European Union: the annual transition rate from unemployment to employment varies between 20% in Slovenia and 50% in Latvia and Sweden, and the rate of transition from inactivity to employment ranges between less than 2% (France) and more than 8% (Latvia).

As can be seen from 0, for the EU as a whole, close to 92% of persons employed in 2005 were still in employment the following year (among whom 9.5% declared having changed job since the last year), 2.8% had moved to unemployment while 5.3% had moved into inactivity. Among those in unemployment in 2005, more than half (52%) were still in unemployment in 2006 and 15.7% had moved into inactivity. Among those, who were inactive in 2005, as many as 94.6% were inactive also in 2006.

Despite a high level of heterogeneity which makes it difficult to summarise information on countries' relative situations, some distinctive country-groups appear. Nordic countries (Norway, Sweden and Denmark) are characterised by higher transitions from non-employment (unemployment and inactivity) to employment. Latvia also belongs to this group, and the UK stands quite close to these good performers. Judging by Laeken indicators, this contributes to good job quality in these countries. France, Belgium and Italy exhibit different profiles: the probability of remaining in employment (for people already employed) is high, but the probability of experiencing a transition from inactivity (and even unemployment) to employment is below the EU average. These results are consistent with the idea that the risk

of durable exclusion is higher in continental and southern countries. On the whole these results are in line with usual comparative outcomes on European labour markets, despite the fact that the NMS display very heterogeneous performances in terms of transition rates, and cannot be considered as a discrete group. Some specificities are also quite remarkable, like the importance of inactivity in the Netherlands and in Hungary: the probability of transition from employment to inactivity is the highest in Europe in these two countries (over 10%, against an average of 5.3%).

Table 7. Labour market transition, 2005 to 2006

Status in 2005	E 2006	U 2006	I 2006
Total			
Employed	91,9	2,8	5,3
Unemployed	32,3	52,0	15,7
Inactive	4,0	1,4	94,6
Men			
Employed	93,2	2,8	4,0
Unemployed	35,1	52,9	12,0
Inactive	3,6	1,2	95,2
Women			
Employed	90,3	2,9	6,8
Unemployed	29,7	51,1	19,2
Inactive	4,3	1,5	94,2

Source: EU SILC and own calculations.

In explaining the general transition process from one labour market status to another, there are marked gender differences around the role of inactivity: We observe higher female transition rates towards inactivity (from both employment and unemployment), and consequently also a lower likelihood of staying in employment.

A descriptive analysis of Labour Force Survey and transition matrices, compiled on the basis of the EU SILC database with respect to the probability of moving from one status to another in the labour market, shows a high level of disparities between individuals, according to their levels of education, age, marital status and health. In particular, the econometric analysis (a multinomial logistic model¹²) presented below shows that the level of educational attainment of the individual constitutes a key determinant of good quality transition between the three main statuses: employment, unemployment and inactivity.

A.4.2.2 The level of educational attainment as a determinant of transition

As indicated, the level of education of the individual constitutes one important determinant of both the likelihood of changing and the direction of the transition. Typically, an employed person with only elementary educational attainment is much more likely than persons with a high level of education to become unemployed or inactive; when unemployed, less likely to return to employment and more likely to move into inactivity; and when inactive less likely to get back into activity. Thus, for a person with Education level 5, the “risk” of becoming unemployed is much lower than for persons with a low level of education. Similarly, the risk of moving into inactivity for a person with a high level of education is much lower than for persons with a lower level (Table 8).

¹² Detailed results are available on request.

Table 8. Determinants of labour market transition

	From employment to		From unemployment		From inactivity	
	<i>To unemployment</i>	<i>To inactivity</i>	<i>To employment</i>	<i>To inactivity</i>	<i>To employment</i>	<i>To unemployment</i>
Educllevel2	-	ns	+	Ns	++	+
Educllevel3	--	--	++	Ns	+++	++
Educllevel4	--	--	++	Ns	+++	++
Educllevel5	---	--	+++	Ns	+++	++
Woman	+	++	-	++	+	+
Age 15-24	++	+++	+	++	+++	++
Age 55-64	-	+++	--	++	--	--
Couple	-	+	+	+	+	ns
Illness	+	++	-	+	--	--

How to read the table: + and – indicate positive and negative coefficients, i.e. positive or negative effect of a given individual characteristic (other things being equal) on the probability of experiencing a transition (rather than staying in the same labour market status). This effect is a relative effect that should be understood by comparing to a “reference person”, who is here a low educated male (level education 0 or 1), aged 25 to 54, single, without declared health problems. The number of – or + indicates the intensity of the effect (reflecting the value of the coefficient). “Ns” stands for non significant, which corresponds to the absence of impact of the corresponding characteristic on the transition probability.

Source: EU SILC and own calculations.

Furthermore, for a person with a high level of education the “likelihood”¹³ of moving from unemployment into employment is, as shown in column 4, higher than the likelihood of moving from unemployment into inactivity, which is very small and statistically insignificant. Conversely, for a person with a low level of education, the likelihood of returning to employment is much smaller than for the former category. With respect to moving from inactivity, the transition for persons with a high level of employment is also much more favourable than for persons with a low level of education. As column 6 shows, the likelihood of moving to employment is much higher for education level 5 than for persons with only level-2 education.

A.4.2.3 Gender, illness and family status as determinants of transition

Independently of the level of education, transition for women is clearly of much lower quality than for men. Thus, for women the likelihood of moving from employment into inactivity is significantly higher than for men. Women are also more likely than men, on average, to move from employment to unemployment (column 1) and, if unemployed, are also less likely to return to employment (column 4) and more likely to move into inactivity (column 5).

However, as shown in columns 6 and 7, women are more likely than men to move from inactivity to employment and unemployment. This phenomenon is probably due to the fact that it is much more common for females to take some time off for parental leave and then, while still in the active age classes, take steps to get back into gainful activities.

¹³ “Probability”, “risk” or “likelihood” are used synonymously. It is calculated under the hypothesis that other characteristics stay equal, so it measures the specific effect of a given individual characteristic (which is not possible with descriptive statistical analysis, as in the previous paragraph, where the role of different characteristics cannot be isolated). In this econometric procedure, all results must be interpreted as compared to the reference situation (staying in the same job from one period to another) and to the reference person/characteristics (see table for details)..

Notwithstanding the high likelihood for females to move from employment into unemployment, persons living in a couple have a lower likelihood of becoming unemployed than persons not living in a couple. They are also more likely to move from unemployment or inactivity into employment. Nevertheless, unemployed persons living in a couple also have a high likelihood of moving into inactivity.

As could be expected, the health status of a person also exerts a strong influence on labour market transition. Thus, persons in employment reporting ill health in 2005 had a higher likelihood of being inactive the following year. Consequently, it is not surprising that inactive persons in ill health had a low likelihood of moving out of inactivity and into either employment or unemployment. Persons reporting ill health also had a lower likelihood of moving from unemployment or inactivity to employment.

A.4.2.4 Age as a determinant of transition

It is not a surprise that labour market transitions for the younger age groups and the elderly follow different patterns and that transition also, for each of these two age groups, is rather different from that of the prime-age groups, in the age class 25-54. Strikingly, nevertheless, the age group 15-24 shows a high degree of mobility in all "directions". In general, compared to the 25-54 group, young persons show a higher likelihood of moving from employment to unemployment or inactivity, from unemployment to employment or inactivity and from inactivity to employment or unemployment. A more detailed analysis would, however, reveal that the concept of "inactivity" as far as this age class is concerned, could correspond to a phase of higher education or adult training and thus in reality would constitute a period of preparation for a new job search. This age class therefore, as shown in column 6, has a higher probability of moving from inactivity to employment.

The mobility pattern of young persons contrasts strongly with that of the elderly, with the latter characterised by a high degree of incapacity to find employment after a spell of unemployment or inactivity. Compared to the middle-age group, the elderly show a high likelihood of moving from employment to inactivity, while the likelihood of moving into unemployment is smaller. Once unemployed, the elderly are highly unlikely to move back to employment and are highly likely to be inactive the following year (column 4 and 5). Once inactive, the likelihood for the elderly to return to employment or even into unemployment is far lower than for prime-age workers.

A.4.2.5 Country-specific determinants of labour market transition

The probability of returning to employment after a spell of unemployment or inactivity can be taken as a strong indicator of barriers to employment and, notably, an indicator of a low degree of flexibility combined with an insider-outsider phenomenon. In this respect, there are huge disparities between the EU Member States (see table 9). Taking Germany as a reference, the probability of getting back to employment in 2006 after a spell of unemployment in 2005 was higher in Cyprus, Denmark, Estonia, Latvia, the Netherlands, Sweden and the United Kingdom, but lower in Belgium, the Czech Republic, France, Greece, Ireland, Italy, Poland, Slovenia and Slovakia.

In addition, barriers to a return to employment from a spell of inactivity seem to be higher than the German case in practically all Member States, with the exception of Denmark and, to a lesser extent, Finland. Furthermore, in most of the countries where the probability of getting back in employment in 2006 after being inactive in 2005 is very low, the probability of moving into unemployment is higher, notably in Belgium, Spain, Italy, Luxembourg, Portugal and Slovenia.

Table 9. Determinants of the transitions from employment, unemployment and inactivity, including countries dummies, 2005-2006

	From employment		From unemployment		From inactivity	
	To unemployment	To inactivity	To employment	To inactivity	To employment	To unemployment
Educllevel2	-	-	ns	ns	+	++
Educllevel3	--	--	+	ns	+++	++
Educllevel4	---	--	++	-	+++	+++
Educllevel5	---	---	++	ns	+++	++
Woman	+	++	-	++	+	+
Ag15_24	++	+++	+	ns	+++	++
Ag55_64	-	+++	--	++	--	--
Couple	--	+	+	++	+	ns
Illness	+	+	-	+	--	--
Austria	++	+	ns	ns	-	ns
Belgium	Ns	-	-	---	--	++
Cyprus	+	--	++	ns	ns	ns
Czech Republic	Ns	ns	-	ns	--	ns
Denmark	Ns	ns	++	ns	+	ns
Estonia	+	ns	+	++	-	ns
Spain	+++	ns	ns	++	-	+++
Finland	+	ns	ns	ns	ns	+++
France	++	--	-	---	---	ns
Greece	++	--	ns	ns	--	+
Hungary	++	++	+	+	--	ns
Ireland	Ns	-	--	ns	--	ns
Italy	+	-	-	+	--	++
Lithuania	+++	ns	ns	ns	--	ns
Luxembourg	Ns	--	ns	++	--	++
Latvia	+++	ns	++	ns	ns	+++
Netherlands	Ns	++	++	+++	-	ns
Poland	++	-	-	-	-	ns
Portugal	Ns	--	ns	ns	ns	++
Sweden	++	-	++	++	-	++
Slovenia	++	--	--	ns	---	++
Slovakia	++	--	-	--	--	++
United Kingdom	-	ns	++	+++	ns	ns

Results from multinomial logit model, authors' computation. Data: EU-SILC, N= 119833

See note to Table 8.

It should be recognized, however, that the 'country-specific' barriers to employment do not "over-ride" the factors already outlined above, such as the importance of the level of educational attainment. Thus, the degree of statistical significance of the variables expressing educational attainment, which are very high in general, is not reduced by introducing country-specific dummies, with the notable exception of the dummy for the lowest level of education. In fact, without the country-dummies, the probability of moving from unemployment into employment is significantly lower for persons with a low level of educational attainment. However, when country-dummies are introduced, the coefficient for the lowest level of education is no longer statistically significant, suggesting that for this category of workers, barriers to employment are determined to a much larger extent by country-specific conditions than for the persons with a higher level of education. Put differently: in certain member states (notably, and not surprisingly, the New Member States)

a low level of educational attainment constitutes less of a barrier to employment than in many of the old Member States.

A.4.2.6 Transition from one employment status to another

The key role of educational attainment as a determinant of the quality of labour market transition between employment, unemployment and inactivity is also revealed by the analysis of transition from one employment status to another, that is, between part-time, full-time, temporary and permanent employment. Table 10 shows that the likelihood of moving from part-time to full time employment is considerably higher for a person with top-level education, than for a person with a low-level education.

An even more interesting finding is that the likelihood for a woman to move from part-time to full-time employment is higher than for men, suggesting, not surprisingly, that moving between part-time and full-time employment and back is a more integrated part of the female life-cycle than for males. Similarly, as might be expected, the likelihood for young workers (15-24) to move from temporary to permanent employment is higher than for the 25 to 54 group, whereas for elderly workers (55-64) the opposite emerges. Being in ill health also considerably reduces the likelihood of moving to full-time or permanent employment.

Table 10. Determinants of the transitions from part time employment towards full time employment and from temporary to permanent employment, 2005-2006

	From part-time to full-time employment	From temporary to permanent employment
Educllevel2	++	Ns
Educllevel3	++	-
Educllevel4	+++	-
Educllevel5	+++	-
Woman	++	Ns
Ag15_24	ns	++
Ag55_64	-	-
Couple	+	-
Illness	-	Ns

Results from binomial logit model, authors' computation. Data: EU-SILC, N= 14700, N= 10694.

See note to Table 8

A.5 Job quality and labour market performance

A.5.1 The background

As demonstrated in the preceding sections, the most successful employment strategies have achieved a high rate of employment and good performances in terms of labour market mobility. They have done so through policies aimed at obtaining flexibility through measures providing a high degree of income security combined with strong activation measures and measures aimed at facilitating and promoting part-time and temporary employment.

However, in addition to measures promoting flexicurity and activation, successful strategies also include policies aimed at promoting a better balance of supply and demand through various measures to enhance the option value of work through improvement in the "quality" of jobs, that is, working conditions and work intensity, on-the-job training opportunities, work

and family life reconciliation and so on. Enhancement of job quality was already central to the Lisbon Strategy (“more and better jobs”), and, at the international level, the ‘Decent Work Agenda’ of the International Labour Organisation and programmes of the OECD.

A.5.2 Introduction: How to define job quality?

In 2001, the European Union created a set of job quality indicators in order to monitor and compare performances of member states in this field. These indicators are known as Laeken indicators and they are composed of key indicators, on the one hand, and context indicators on the other. However, a disaggregated approach to job quality, considering four constitutive dimensions, is very useful to get a more comprehensive picture of job quality in the EU. This four dimensions’ definition was first proposed in the annual report *Employment in Europe* in 2008. It includes a dimension on socio-economic security that is composed of indicators on wages and contracts, but also of some subjective indicators such as job satisfaction. Another dimension is about education and training, and gathers indicators on both initial and continuous education. A third dimension is for working conditions (accidents, work intensity, long working hours, health at risk etc.). The last dimension encompasses indicators on gender equality (such as gender employment gap and pay gap) and on work-family reconciliation (childcare structures etc.). Each of these four dimensions comprises some Laeken indicators, but also some complementary indicators to illustrate some dimensions of job quality that were missing in the Laeken definition.

A.5.3 Mapping job quality in the EU27

In order to map job quality in Europe, that is to distinguish some groups of countries that present differentiated characteristics, we use a methodology based first on Principal Components Analysis and second on classification¹⁴. Figure 5 maps job quality in Europe in the first two dimensions of the PCA. Furthermore, the cluster analysis divides the 27 EU Member States into four clusters. Figures 6 and 7 show the position of each cluster according to some main indicators of job quality.

A *northern* cluster includes Sweden, Denmark, Finland, the Netherlands and the United Kingdom. A *southern* cluster is composed of Spain, Italy, Portugal, Greece and Malta. A *continental* cluster groups Germany, France, Belgium, Luxembourg, Austria, Ireland, Slovenia and Cyprus. The *New Member States* (NMS) are thus mainly in a fourth cluster composed of Estonia, Latvia, Lithuania, Czech Republic, Slovakia, Poland, Hungary, Bulgaria and Romania.

In contrast to the standard results encountered in the institutionalist comparative literature (Amable, 2003, Esping-Andersen, 1990),¹⁵ the so-called liberal model disappears: the United Kingdom is included in the *northern* cluster, while Ireland joins the *continental* cluster. This counter-intuitive result reflects the existence of functional equivalences across different institutions and/or policies that are equally successful in improving job quality.

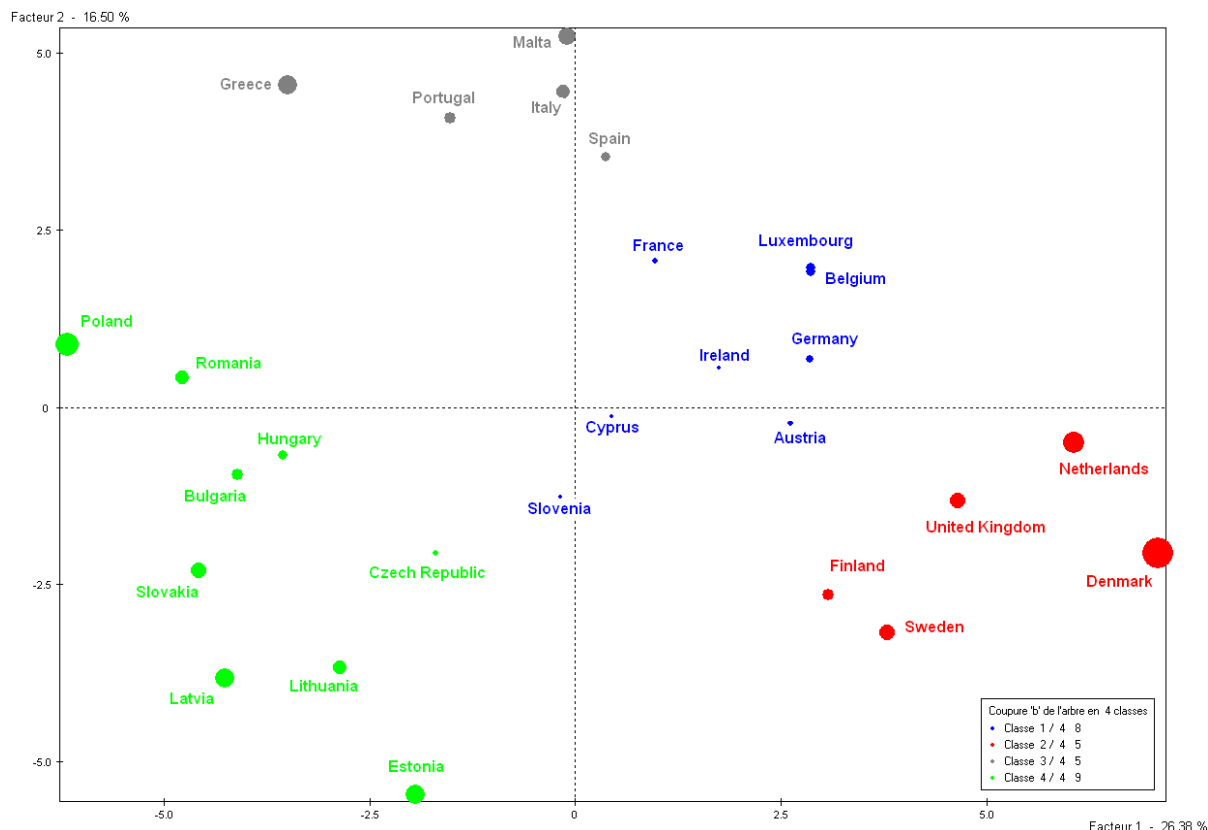
The *northern* cluster is on the right hand side of Figure 5, being characterised by high participation rates in education and training and high employment rates, already close to (or even above) the EES targets for 2010. Mean wages are relatively higher than the European average and job satisfaction is also higher than in other countries: almost 90 per cent of workers are satisfied with their working conditions. Childcare facilities are very well developed in these countries compared to the rest of Europe and part-time work is more developed in this cluster, particularly in the Netherlands. These characteristics are illustrated

¹⁴ The list of indicators used to implement this methodology can be found in the appendix

¹⁵ Esping-Andersen’s typology distinguishes three main clusters: the liberal model, the social democratic model, and the conservative model. Amable’s typology, which is based on a larger set of variables, identifies five models of capitalism: Liberal, Nordic, Continental, Mediterranean, and Asian.

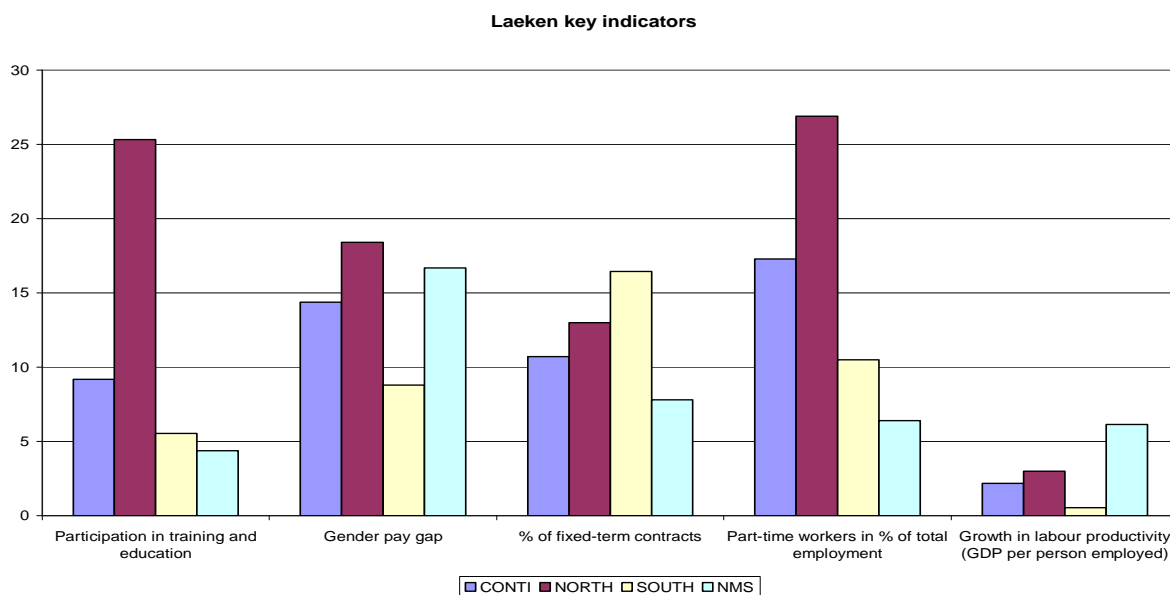
by the descriptive figures presented below. However, there is one specific point on which countries from this cluster are slightly worse-off compared to EU average: the intensity of work (tight deadlines, very high speed) is higher than in other clusters.

Figure 5. A map of job quality in the EU27 (2005-2006)



Source: LFS, *Employment in Europe 2008*, chap 4

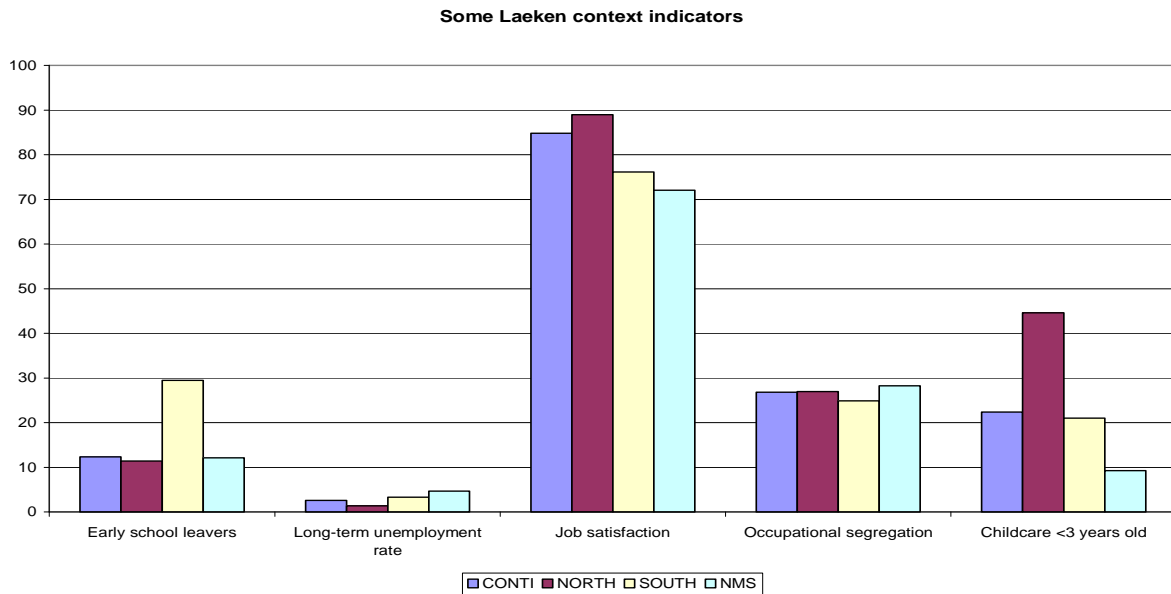
Figure 6. Some Laeken key indicators



Source: Eurostat, LFS

The *southern* cluster is characterised by a high proportion of early school leavers (figure 7). These countries exhibit wide male–female employment gaps (except Portugal) but little segregation, and narrow gender pay gaps. Their relative performance on education and training is poor, though Spain does somewhat better in this respect. Southern countries are also characterised by a relatively high in-work poverty risk and a lack of dialogue between employers and workers on work organization.

Figure 7. Some Laeken context indicators



Source: Eurostat, LFS

The *continental* cluster comes close to the EU average on most of the indicators considered. For example, the countries in this group have average values for participation in education and training, the proportion of early school leavers, and the proportion of people who have attained the ISCED3 level of education. Furthermore, this cluster is characterised by relatively good performances in terms of wages (through both objective and subjective indicators). High productivity and significant differences in employment rates between older people and the rest of population are also remarkable in this cluster. However, there is also some heterogeneity within this group of countries. For example, Austria tends to be closer to the *northern* cluster. This can be explained by its relatively high participation rates in education and training compared to those of the other *continental* countries. Slovenia falls in the *continental* cluster in this PCA because of its relatively good performances on employment rates, and education and training, compared to the other new Member States.

Although Ireland and the United Kingdom have many common features – such as low rates of long-term and youth unemployment, limited use of fixed-term contracts and high job satisfaction – they do not belong to the same group. This is due mainly to their markedly different performances on education and training: the United Kingdom is characterised by a high rate of participation in training, at 26.6 per cent, as against only 7.5 per cent in Ireland.

In the *New Member States*’ cluster, working conditions are rather poor (long working days, health at risk because of work) even if the intensity of work is less high than elsewhere in Europe. Socio-economic security measured through wage levels and perception of “being well paid” or having “some good prospects for career advancement” is low. Contrary to older member states, new forms of employment such as part-time work and temporary contracts do not contribute to explain socio-economic insecurity as they are not very developed in NMS. Rates of participation in training are low and long-term unemployment is particularly high in some countries (Poland, Slovakia). New Member States are also characterised by very low levels of productivity alongside high rates of productivity growth, which is typical of

countries engaged in a catching-up process. Workers in this group of countries are less satisfied than their counterparts in other countries.

As regards initial education, the performance of the new Member States is very good: they have a low proportion of early school leavers and a rather high proportion of people who achieve the ISCED3-level of education. Bulgaria and Romania, however, perform less well on this indicator than the other countries in the group.

Table 11. Job quality and some public policy indicators, by cluster

	Job quality Index	Education expenditure in% of GDP	Training effort in companies	LMP: training expenditures in % of GDP	Social protection expenditure: children and family (% GDP)	Childcare
South	0,89	4,49	4,00	0,17	1,25	0,15
Conti	1,24	5,74	7,40	0,25	2,42	0,13
North	1,59	7,34	8,33	0,42	3,27	0,37
NMS	1,12	4,90	4,67	0,03	1,60	0,07

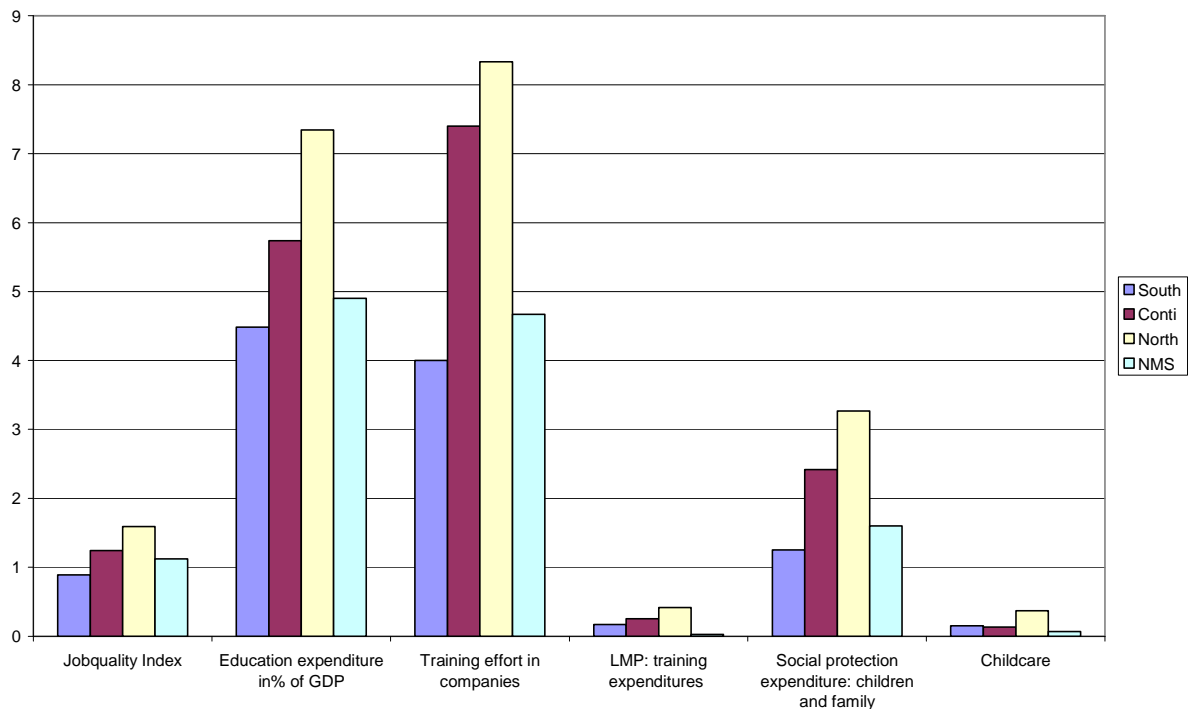
Notes : Training effort in companies= hours invested in vocational training per 1000 hours worked; Childcare= percentage of children aged under 3 cared for outside the family for more than 30 hours a week/ Source: Eurostat; Compendium, authors calculations

All considered, this analysis confirms that there is a significant degree of heterogeneity across the EU27 as regards job quality, which can be summarised in terms of five distinctive models. As suggested by the institutional complementarity framework (e.g. Amable, 2003), different institutional settings can at times lead to similar performances, i.e. there might be functional equivalence. For instance, the United Kingdom is close to Nordic countries despite having different institutions. This suggests that there are two pathways to high job quality, which is consistent with the findings of other recent analyses of labour market performance, based on more quantitative indicators (OECD, 2006). Of course a more detailed analysis of the different components of job quality would show differences between the UK and the Nordic countries. The level of social protection is higher in the Nordic countries, wage inequalities are lower, whereas in the UK there are higher inequalities between social groups, as well as more poverty in work. Nevertheless, these results show that several institutions may lead to a rather good level of job quality. Besides, it is also clear from these clusters that job quality and employment performances are positively related: over the 1990s and beginning of the 2000s Nordic countries as well as the UK have experienced decreasing unemployment and high employment rates, whereas Continental countries have more mitigated labour market outcomes.

The results of the synthetic index proposed in Davoine, Erhel, Guergoat-Larivière (2008), and in the *Employment in Europe* report (European Commission, 2008), confirm these differences in job quality between countries and clusters. They are likely to be explained by some particular policies or institutions, like education and further training policy, childcare, social dialogue,...In order to test this hypothesis, we have tried to relate the job quality index to some policy indicators that are available: the level of education expenditures, variables of vocational training effort, and indicators of investment in childcare and family policy. This analysis was done on the basis of the clusters presented above. The results confirm that job quality seems to be positively influenced by education and further training policies, as well as by childcare effort¹⁶.

¹⁶ These results have to be considered carefully, as they are based on a few observations.

Figure 8. Job quality and some public policy indicators, by cluster



Source: Eurostat; Compendium, authors' calculations

A.5.4 Job quality and job quantity: Is there a trade-off?

Above this close relationship between employment performances and job quality clusters, there are both theoretical and additional empirical arguments linking positively job quality and employment rates or more general labour market performances. As far as economic literature is concerned, such a positive relationship operates through several channels:

First, there are a number of well-known arguments linking human capital and economic growth. Endogenous growth models show that human capital accumulation increases the growth rate (Lucas, 1988). Investment in training and education yields increasing returns, generating positive externalities, i.e. a higher level of education increases not only individual productivity, but also the productivity of co-workers. There are also network effects, making a given amount of training all the more effective as there are positive spill-over effects affecting other workers in the network.

Second, there are also some links between workers' security and economic growth. Security must be understood here in a broad perspective, including job protection, but also safe working conditions, fair wages and access to social protection. All these components of security in work may increase productivity and labour market participation, and therefore favour growth and labour supply. In addition, many security mechanisms work as automatic stabilizers, which are particularly helpful during economic downturns. Increasing economic security in general – and that of workers, in particular – can foster productivity growth. Thus, the various dimensions of job quality can increase workers' productivity and have a positive influence on economic growth and employment creation.

Our empirical results tend to validate this positive view of the link between job quality and quantity. The correlation between employment rate and some components of job quality is positive and significant when longitudinal European data are used (see Table 12). In particular, the employment rate is correlated with participation in education and training

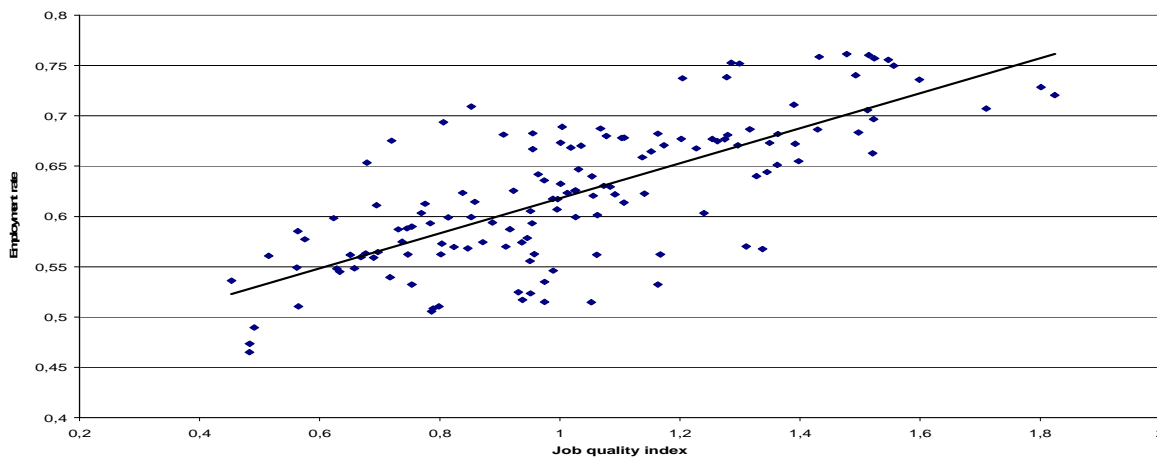
through the life cycle, as well with a small differential between male and female employment rates. The correlation rate with the synthetic job quality index that was constructed in a previous study (Davoine, Erhel, Guergoat-Larivière, 2008; European Commission, 2008) is also positive and high, as confirmed by Figure 9.

Table 12. Correlations between quality indicators and the employment rate for EU countries, 1983-2004

Correlation with employment rate	
Training rate	0.67
Part time rate	0.59
Temporary employment rate	0.03
Long term unemployment rate	-0.14
Percentage of the population achieving secondary level education	0.45
Shift work rate	0.02
Evening work rate	0.07
Night work rate	0.25
Saturday work rate	-0.44
Sunday work rate	0.33
Occupational segregation	0.40
Senior employment gap	0.13
Gender employment gap	0.77
Employment quality index	0.74

Source: Davoine, Erhel, Guergoat-Larivière (2008b), LFS 1983-2004, authors calculations, 138 observations (one observation corresponds to one year for a given country; annual data, number of countries included depending on data availability, 6 in 1983 to 21 in 2004).

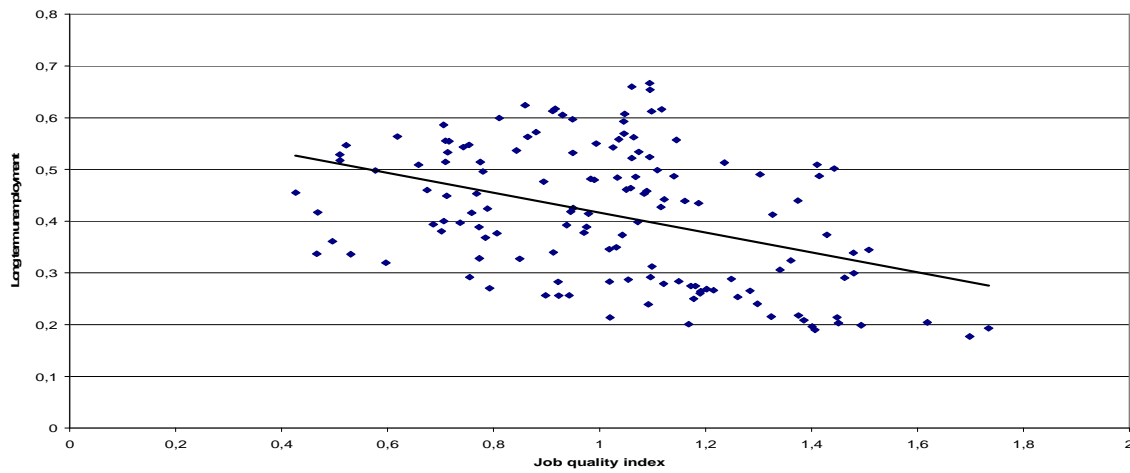
Figure 9. Job quality index and employment rates, EU countries, 1983-2004



Source: LFS 1983-2004, authors calculations; one observation corresponds to one year for a given country,.

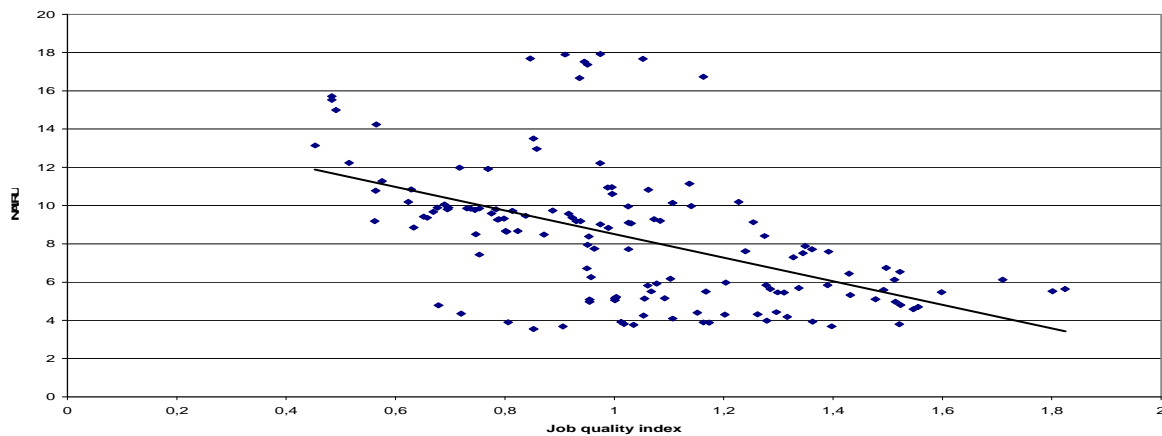
The job quality index is also related to other labour market indicators, like the unemployment rate. We provide two figures representing the relationship with long term unemployment (Figure 10) and with the NAIRU (Figure 11). A higher level of job quality is associated with lower long term unemployment and a lower NAIRU.

Figure 10. Job quality index and long term unemployment rates, EU countries, 1983-2004



Source: LFS 1983-2004, authors calculations; one observation corresponds to one year for a given country.

Figure 11. Job quality index and NAIRU, EU countries, 1995-2004



Source: Eurostat, LFS 1983-2004, authors calculations; one observation corresponds to one year for a given country,

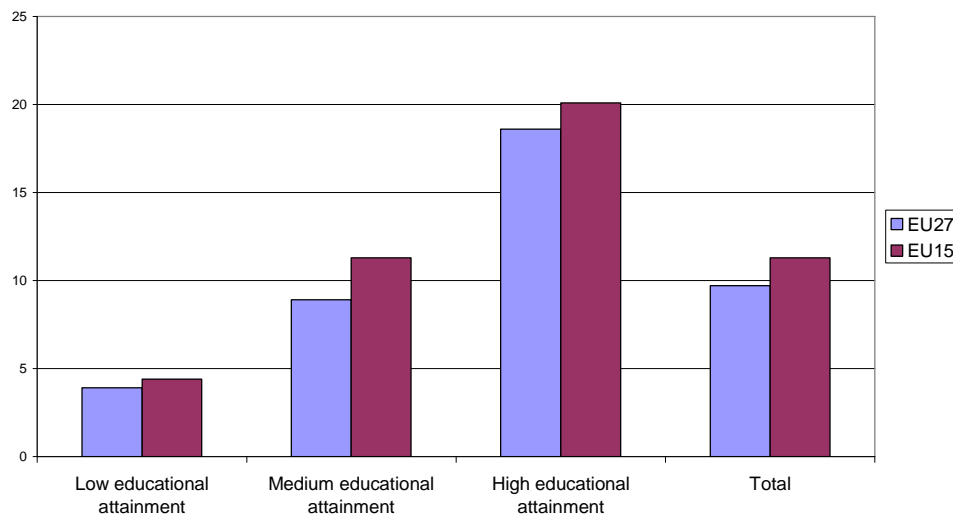
A.5.5 The heterogeneity of job quality by social groups

Above the general result that promoting job quality should be favourable to labour market and economic performances, empirical analysis of indicators also suggests some priority targets for labour market and training policies (figure 12). Indeed, comparisons based on potential criteria of heterogeneity (gender, age, education etc.) point out the most fragile groups in terms of job quality, namely the groups who accumulate bad job characteristics. Fighting against such inequalities is important in a perspective of social inclusion and general social welfare.

Low-educated people are the most at risk of being in low-quality jobs. They experience low socio-economic security through being paid low wages and having more unstable jobs. Moreover, they have less chance to be trained, so that they are not able to move out of this unfavourable situation. On average young people are also disadvantaged: they have low socio-economic security (small wages, temporary contracts and part time work) and suffer more from asocial working hours. On the other hand, they have more chance of receiving

training than older workers. However, this group is likely to be quite heterogeneous itself. It may include at least two different kinds of people: those who suffer from low-quality jobs because they are young and unskilled for whom there is low probability of improvement; and those who have reached high levels of education (or may even not have finished their studies yet) who experience lower-quality jobs mainly because of their 'youth' (combination of work and studies, or lack of experience on their first job) and who will get out of it later.

Figure 12. Access to further training by education level (% of employees)



Source: Compendium (2009)

Women can also be considered as a disadvantaged group in terms of socio-economic security: they get lower wages and are more likely than men to work part time involuntarily. This situation might be related to conciliation issues that lead women to work part time. However, women seem in a somewhat better position than men for training and partly for working conditions (night work).

A.5.6 Conclusion on job quality

The Lisbon Strategy was based on the assumption that there are synergies between job quality and employment creation. Empirical analysis of European labour markets seems to confirm this view. Both in a comparative and time series perspective, there is a correlation between labour market performances and quality indicators: Nordic countries display good results in terms of job quality (especially good job satisfaction, gender equality, low involuntary part time, high participation to further training...), and are also characterized by high employment rates. Over the last 25 years, a synthetic job quality index appears positively correlated with employment rates across the EU.

Our results also suggest some policy priorities to enhance job quality. According to this chapter, but also to the transitions analysis presented in section A.4, education and training should be a policy priority, as they favour good transitions both between non employment and employment, and within employment. Childcare policies also seem crucial to enable women to participate to the labour market and to reduce gender employment and wage gaps. More generally, life course policies of the sort that are more developed in Nordic countries would be useful to promote a high level of participation throughout the life cycle. As a key element of job quality, the issue of working conditions and sustainability of work should not be forgotten: concerning in-work accidents, or exposure to some risks, the level of

heterogeneity between EU countries is indeed very high, and some social groups tend to be more exposed than others.

A.6 Drivers of and obstacles to job creation

A.6.1 Preparing policy changes through lucid diagnosis

As demonstrated in the descriptive and econometric analysis presented in the preceding sections of this chapter, the employment performance of a country is determined by a complex array of factors. Some of these factors are of a long-term nature, such as the level of education of the working-age population or the ongoing structural changes in the economy. Other factors are of a short-term nature, notably cyclical effects on employment and unemployment or more severe shocks, such as those occurring as a result of the economic downturn in 2008-2009. Moreover, the general macro-economic framework, including such key variables as government debt and budget deficits of a country, as well as globalisation of trade and payments, exerts a profound influence on labour markets.

However, no country needs to be confined to adjusting passively to the movements of the socio-economic “tectonic plates” or to the changes resulting from the macro-economic conditions or globalisation. As convincingly demonstrated by both the Danish and the Dutch policy experiences presented above, appropriately prepared and designed policy innovations have the potential of engendering significant changes in the level and structure of employment. But the Dutch experience also shows that a lucid and non-complacent diagnosis of the barriers and obstacles to modernisation of the labour market rules, regulations and institutions constitutes a key condition for successful policy innovations.

The obstacles to job creation were extensively analysed in the report from the Employment Taskforce (Kok, 2003: 11) which argued that “the EU’s success or failure in meeting the employment targets - and by extension the overall objective of the Lisbon Council - hinges on its response to the twin structural challenges that it currently faces: economic transformation and demographic ageing. In the medium term, it is also being tested by the cyclical shock of the [2000-2001] economic downturn and by persistently high levels of long-term unemployment in many Member States”. The Report argued that these issues demanded that Member States review the way they use and develop their human resources, so as to ensure that short-term responses to the economic slowdown are compatible with policies to address the underlying and more important structural changes.”

According to the Report there are relatively few main obstacles and barriers to employment creation which should be reconsidered and removed,:

- Administrative and regulatory obstacles to the setting up and subsequent management of new business;
- Obstacles to the setting up and development of temporary work agencies;
- Obstacles to part-time work for employers and workers;
- Financial disincentives to the participation of women, notably in relation to wages and taxation, including the gender pay gaps.

One major constraint may, nevertheless, be a certain internal contradiction between the overall objectives of the recommendations in the Kok Report and, more generally, in the European Employment Strategy, such as the potential effects on labour productivity of bringing more females and elderly into gainful employment. As clearly illustrated by comparative statistics on productivity, in some Member States which have succeeded in attaining a high rate of employment of females and elderly, such as Denmark and Sweden, the level of output (value-added) per employed person is significantly lower than in countries like Belgium and France, with approximately similar levels of GDP per capita. Whether, a high level of employment, but with correspondingly lower levels of productivity and lower

rates of leisure, is to be preferred to lower rates of employment offset by higher productivity for those employed and more leisure may depend not only on purely economic assessments, but also on social preferences and the assessment of the option-value of leisure as compared to income from work.

This feature may need to be kept in mind in assessing the calls for elimination of barriers to, and the promotion of, policies to enhance, the rates of employment in a number of Member States. It is also important to recall that there have been shifting explanations for the labour market problems that the EU has experienced – for a cogent summary, see box 1.

Box 1 Barriers to employment or drivers of unemployment?

Blanchard (2006), in an analysis of European unemployment identified three broad periods in the history of the last three decades in which different explanations were in the ascendancy.¹⁷ While he acknowledges that unemployment rates do not tell the full story and that it is therefore important also to look at activity rates and employment rates, he makes the empirical point that ‘in general, depressed labour markets have shown not only higher unemployment, but also lower participation and employment rates’. Thus, while any single explanation of unemployment does not tell a complete story about the labour market, it is reasonable to apply much the same reasoning to an examination of employment and the obstacles to it.

An obvious distinction highlighted by Blanchard is that shifts in unemployment rates can be the result both of changes in the rates of **inflow** and **outflow** of workers from jobs and changes in the **duration** of unemployment. It follows that:

- A transitions-based analysis can be merged with an in/out-flow analysis
- One likely problem for the future is a decrease in the duration of jobs, to the extent that the model of the tertiarised economy points to more frequent job changes, while life-long learning implies more frequent episodes of retraining

Blanchard argued that the period from the mid-1970s was one of major shocks that interacted with rigidities in nominal and real wages. He states that: ‘despite largely similar shocks, different countries experienced different increases in unemployment. A smaller increase in unemployment could be due to smaller real rigidities, resulting in a smaller increase in the natural rate; or it could be due to larger nominal rigidities, allowing policy makers to achieve, through the use of inflation, an unemployment rate below the natural rate; or it could be due to a more aggressive use of monetary policy, leading to higher inflation and an unemployment rate below the natural rate’. He claims that differences in collective bargaining structures were a key part of the story.

A second phase, from roughly the mid-1980s focused on persistence mechanisms that caused unemployment to stay high. Blanchard highlights several, including

- inter-plays with capital accumulation (Bean and Dreze)
- insider outsider (Lindbeck and Snower)
- hysteresis arguments (Layard and Nickell)

Then, work by Pissarides and others that emphasised institutional structures became influential. If the institutions were poor at matching demand and supply of labour, the unemployment rate would be higher. A question is whether institutions have become less employment friendly. Specific elements include the tax wedge (i.e. non-wage labour costs) and EPL. (see further in the main text).

¹⁷ In *Economic Policy* Vol 21, issue 45, 2006

A.6.2 Structural obstacles to rapid employment recovery

Several features of the current socio-economic situation, as well as of perceived and declared policy priorities, lead observers to expect significant structural changes in the economy, both in the near future and in the medium- and longer term:

- Certain countries, which have experienced a considerable expansion of construction, both for housing and business, are now experiencing a brutal contraction of this sector and must expect its activity to remain at a lower, if more sustainable level.
- Several countries have experienced a severe contraction of the branches of financial services directly or indirectly related to the housing boom and, again, must expect the activity in these branches to remain at a more sustainable level.
- More generally, the economic downturn has led to an accentuation of calls for structural changes in demand, supply and employment, with the aim of responding to the needs for a substantial reduction of the emission of green house gases during the coming decades in line with the objectives of the Kyoto resolution and, more likely, the forthcoming conclusions of the December 2009 Copenhagen conference.

In themselves these features constitute, at the same time, obstacles to a return to the trends experienced during the most recent decades and indications of new opportunities for employment, both within and among the existing branches of the economy. They point towards certain new activities and the need for the building up of new skills needed, for example, to obtain energy saving in all areas of the economy. At the same time the needs for such structural changes imply that, as suggested in the CEDEFOP projections, demand for more traditional skills will be dampened, as in the more distant past, employment in agriculture etc.

A.6.3 Minimum wages and early-retirement provisions

As already underlined by Stock and Wise (1988) and later by Gruber and Wise (1999) in their seminal report on the series of studies of retirement behaviour in a number of OECD countries, retirement behaviour in the various countries is largely explained by the financial incentives to retire. In fact, various estimates of the relative value of work and leisure have clearly confirmed that, in a number of countries, early-retirement schemes provided a strong incentive to retire after the age of 55, notably for low-skilled, low-paid workers.

To some extent to counter these incentives, but also no doubt to reduce inequalities, many countries have introduced or reinforced various minimum-wage arrangements or wage subsidies. In fact, as underlined in a recent OECD working paper by Immervoll and Pearson (2009), policies to make work pay do not “solve” the problem of low employment and low wages of those with low skills. In the case of low-skilled labour, the most direct way of addressing limited earnings potential and employability is to improve the skills and human capital of this group. Yet, any policy that has empirical evidence supporting claims that, in certain circumstances, it could promote *both* efficiency *and* equity by fostering employment and decent levels of family income deserves to be considered in countries facing such problems.

The objectives of in-work benefits (IWBs), minimum wages, and targeted wage subsidies paid to employers are closely related. Ultimately, they all aim at promoting self-sufficiency among individuals with limited earnings potential. As a result, considering different *combinations* of these instruments provides additional policy leverage to tackle the dual challenge of high rates of non-employment and in-work poverty. Where wage inequality is high, there are good reasons to believe that all three types of policies can complement each other, resulting in a more effective overall make-work-pay package. These potential complementarities are important. Costs are associated with all make-work-pay measures individually, but the overall costs can probably be reduced when they are employed in combination. While, on the face of it, the effects of different policy combinations may appear

similar, it is important to recognise that their mechanics generally turn out to be significantly different for some of the groups benefiting from or paying for these measures.

One possible concern with the evaluations of IWBs summarised in the OECD paper is that they have mostly taken place in a context of relatively strong labour markets and have tended to focus on labour supply while mostly ignoring demand-side restrictions. In the current context of severe economic downturns, weakening labour markets and higher rates of involuntary unemployment, demand-side constraints are becoming much more important. In this situation, in-work support that addresses supply-side issues should not be expected to create higher employment. At given earnings levels, the equity-efficiency trade-offs of IWBs are therefore likely to be less favourable when the economy is weak.

A.6.4 Employment protection legislation

According to the OECD (2004), employment protection legislation (EPL) does tend to limit firms' ability to fire workers. At the same time, EPL reduces the re-employment chances of unemployed workers – thereby exerting upward pressure on long-term unemployment. Indeed, in deciding whether to hire a worker, employers will take into account the likelihood that firing costs will be incurred in the future. In sum, EPL leads to two opposite effects on labour market dynamics: it reduces inflows into unemployment, while also making it more difficult for jobseekers to enter employment (i.e. lower outflows from unemployment).

A rough, first-hand, confrontation of the OECD composite indicator of the strictness of employment legislation and activity rates for the main categories of workers shows that, for all categories, a high level of EPL goes hand in hand with lower rates of activity. However, as shown in Table 13, the negative effects are stronger for youths and for the elderly, and the statistical significance considerable higher than for the age group 25-64. For females the correlation is also clearly negative, with the correlation co-efficient and its statistical significance a bit higher than for the age group 25-64.

Table 13. The effect of EPL on key activity rates in EU countries, 2008

Dependent variable	Effect	Significance
Activity rate 25-64	Close to zero	Low
Activity rate 15-24	Highly negative	Moderate
Activity rate 55-64	Moderately negative	Moderate
Activity Females	Moderately negative	Moderate

Source: OECD EPL data base (2008) and own calculations

Differences in the strictness of EPL for regular and temporary jobs may be an important element in explaining the rise in the incidence of temporary work for youths and the low skilled (this is less the case for other groups, notably prime-age men). This means that facilitating the use of temporary work arrangements, while not changing EPL on regular employment, may aggravate labour market duality. It may also affect career progression and productivity of workers trapped in temporary forms of employment, which are typically characterised by weak job attachments and limited opportunities for upgrading human capital.

Any overall assessment of EPL has to weigh costs against benefits and, as the extensive literature on EPL shows, there are continuing disputes about whether it is the mere fact of tough EPL or the manner in which it is implemented and the way different components of the system inter-act that most affects outcomes. EPL may foster long-term employment relationships, thus promoting workers' effort, co-operation and willingness to be trained, which is positive for aggregate employment and economic efficiency. However, as already underlined above, the longer-term tendency towards a looser relation between employer and

employee and “individualisation” of the labour market life-cycle will also tend to weaken arguments in favour of EPL.

In particular, the high degree of flexibility of the Danish labour market seems to go hand in hand with a very high level of adult training. Thus, according to Eurostat, in 2007 in Denmark a total of 863,000 persons participated in adult training activities, or more than one third of the 2,400,000 persons participating in such activities in France, with a population about ten times that of Denmark. The relatively low tenure of employment in Denmark, thus, does not constitute an obstacle to training, but this training is no doubt more likely to be organised by the labour market organisations and take place in the context of transition from one job to another.

Nevertheless, by promoting firms’ social responsibility in the face of adjustment to unfavourable economic circumstances, a reasonable degree of employment protection could be welfare-improving, i.e. it can help balance concern for workers’ job security with the need for labour market adjustment and dynamism. Thus, some recent studies suggest that an optimal policy would combine some EPL with effective re-employment services and active labour market policies aiming at counteracting the negative effects of EPL on firms’ hiring decisions. Another response may be to compensate liberal hiring and firing rules, such as in Denmark, with a high level of active labour market policy and of personal mediation. A combination of a low level of EPL and a high level of ALMP, including adult training is probably the best option to avoid segmentation and fragmentation of the labour market¹⁸.

A.6.5 Activation through active labour market policies

While a number of EU Member States have a long history of policies aimed at protecting employees and jobs through various measures aimed at limiting the freedom of employers to fire workers or establishing a strict regulatory framework for employment contract, other countries have relied more on policies aimed at assisting workers in transition from one job to another or into employment from a spell of unemployment or inactivity. The initial conceptualisation of ALMP took place in the 1960s in Sweden, drawing on the work of two trade union economists, Gösta Rehn¹⁹ and Rudolf Meidner. It comprised a policy of activation of the adaptability and mobility of the individual worker rather than measures aimed at protecting workers in their current job.

The main objective of the Swedish ALMP was to facilitate matching of demand and supply in the labour market through measures promoting professional and geographical mobility, but also to some extent ensuring a certain degree of “sheltered” employment for disabled persons and other persons considered unable to satisfy the conditions in the free labour market. While the conceptualisation of ALMP took place mainly in Sweden, neighbouring Denmark also early on relied heavily on policies aimed at activation and mobility rather than protection. And the change in the Dutch labour market policy in the 1990s constituted a significant shift from ELP to ALMP. This shift also involved putting greater emphasis on activation measures such as training and promotion of professional mobility as an alternative to passive allocation of unemployment allowances. As a result of the policy shift, The Netherlands in 2007 had joined the “club” of countries (DK, SE, BE) spending more than 1% of GDP on activation policies.

Spending on ALMP covers six categories: training, job rotation/sharing, employment incentives, supported employment and rehabilitation, direct job creation and start up

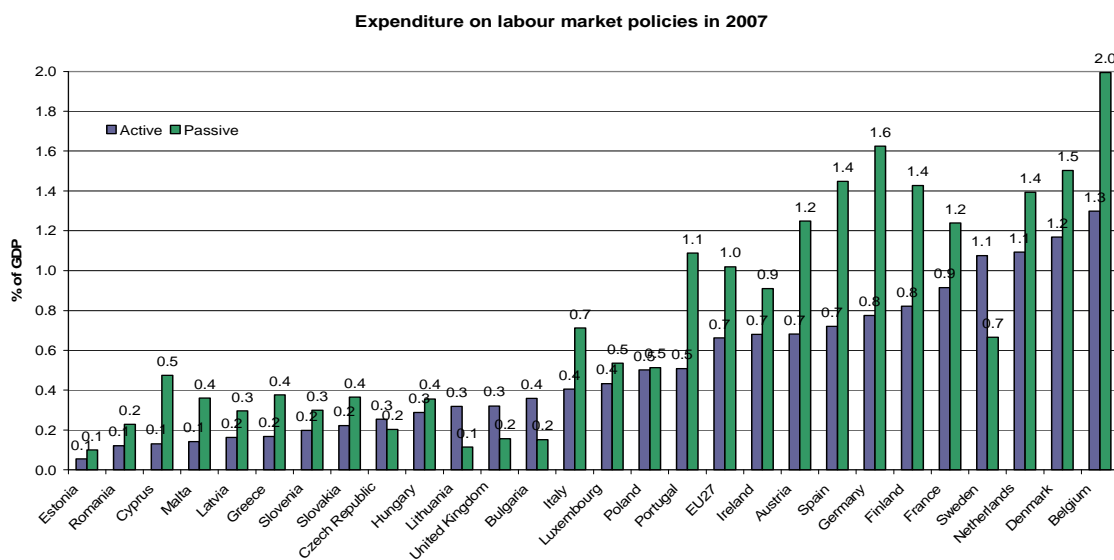
¹⁸ In this perspective a recent paper by Bovenberg and Wilthagen (2008) *presents interesting proposals for reforming unemployment insurance and offering new opportunities for an individual organisation of the cycle of activity and learning.*

¹⁹ Gösta Rehn later became Director of the Employment Department of the OECD Secretariat and thus moved into a position where the idea of activation moved into the OECD agenda.

incentives. Funds for labour market services enter in a separated category. At EU aggregate level, training absorbs around one third of the resources. It includes: workplace training, institutional training (that is provided by a school, college, training centre, etc) and special support for apprenticeship. Employment incentives constitute the second most popular measure with an allocation of one fourth of total resources. They account for all measure aimed at facilitating the recruitment of unemployed or help to ensure the continued employment of individuals or group at risk of involuntary unemployment (Eurostat 2006). They normally take the form of a contribution to labour cost for open market jobs and, therefore, have to be distinguished from direct job creation. The latter concerns additional jobs which would not exist without public intervention and are usually developed in the context of projects of community interest.

According to a study of the effectiveness of ALMP policies undertaken for DG EMPL by RWI, Essen in 2005 the effectiveness of ALMP policies is, due to the substantial institutional diversity within the EU, difficult to assess on a comparative basis. Interestingly enough, they find that traditional public training programmes have only a modest impact on employment prospects of the individual. Relative to these programmes, private sector incentive programmes, public services and a policy of sanctions in case of refusal of job offers show a significantly better performance. They also find, however, that programmes aimed specifically at young workers fare significantly worse than programmes targeted at adults.²⁰

Figure 13. Spending on labour market policy in EU member states



Source: Eurostat

However, a first attempt to analyse, in a cross-section regression, the correlation of ALMP spending and employment rates, suggests that, looked at in isolation and for all EU Member States, spending on ALMP measured as a % of GDP does relatively little to explain differences with respect to employment rates. In fact, as illustrated in Figure 14, the correlation is rather weak, and several countries in fact combine a very low level of ALMP spending and relatively high rates of employment. Further examination reveals that this group of countries is composed of most of the New Member States. During the first decades of transition, preparation of accession and finally EU Membership, the evolution of employment in this group has, no doubt been determined more by the external environment,

²⁰ RWI Essen: *Study on the effectiveness of ALMPs*, Research project for the European Commission, DG Employment, Social Affairs and Equal Opportunities, December 22, 2005.

expenditure is financed through taxes. Among the other EU members of the OECD, non-wage labour costs ranged from some 10% in the United Kingdom to 28% in Greece.

Furthermore, in several EU Member States, labour market regulation may impose rigorous restrictions on the right of employers to fire workers hired under a “permanent-employment” contract, implicit leading to a high level of firing costs. Such rules constitute a “shadow” barrier to employment. In a country like France, where such restrictions exist, they have been countered by recourse, for a large number of employees, to temporary employment (TE) or, as a first step, to employment contracts with limited duration (LDE). The effects of such firing costs, consequently, are not necessarily reflected in a higher level of employment costs but in a shift in the structure of employment towards TE or LDE. Consequently, the degree of labour market flexibility in countries with a high EPL index may not necessarily be lower than in countries with a low EPL index, and arises mainly through changes in employment patterns (see further below).

The combination of minimum wages and high payroll taxes can act as a barrier to the employment of young and unskilled workers. For this very reason, certain countries (such as Hungary and the Slovak Republic) have taken measures to reduce non-wage labour costs for those on minimum wages. Even so, non-wage labour costs in those countries and in Austria, Belgium, the Czech Republic, Greece, Finland, France, Italy, Portugal, and Sweden may still constitute an important barrier to employment creation in general and to a recovery of employment after the 2009 downturn.

Table 14. Making work pay (tax wedge as % of gross wage)

Total tax wedge (including employer's social security contributions and income tax, but excluding indirect taxes)	
<i>100% of average wage</i>	
10-20%	Cyprus
20-30%	Ireland, Malta
30-40%	Bulgaria, Luxembourg, Poland, Portugal, Slovak Republic, Spain, United Kingdom
40-50%	Austria, Czech Republic, Denmark, Estonia, Finland, France, Greece, Italy, Latvia, Lithuania, Netherlands, Romania, Slovenia, Sweden,
50-60%	Belgium, Germany, Hungary

Source: European Economy 8/2009, *Labour market and wage developments in 2008*.

Admittedly, social expenditures must be financed and even if they are not financed through payroll taxes, the resulting tax pressure may still introduce a wedge between gross and net wage income, equivalent to the wedge occasioned by social contributions. However, the financing of social spending through income taxes or through a value added tax will weigh in a more balanced way on capital and labour income, and can be expected to result in a lowering of the tendency to save on labour. Thus, whereas France and Denmark have about the same overall level of social expenditure in proportion to GDP, the French system of financing social expenditure mainly through payroll taxes is probably one of the main economic reasons for the much lower level of employment than in Denmark.

A regression analysis of the effect on employment rates has the following main findings:

- The level of non-wage labour costs exerts a strong and statistically significant negative effect on the rate of employment of the 15-64 year old workers in general, and a particularly strong negative effect on the employment rate of workers aged 15-24;
- When proxy variables for security and flexibility are included, the impact of NWLC is reduced in face of positive effects of security variables and the correlation coefficient increases, suggesting that active labour market policies may help to some extent to compensate the negative employment effects of high non-wage labour costs.

Globalisation can exacerbate the consequences of high payroll taxes, because it limits the scope for taxing mobile tax bases and therefore puts pressure on governments to raise taxes on immobile bases such as lower-skilled labour. This, in turn, prices more low productivity workers out of the market and may induce capital for labour substitution. The problem is well understood, but may be of greater salience over the next decade because of the conjunction of more open markets, greater pressures from financial markets and a growth in service sector jobs.

A.6.7 Regulations on health and safety and working-time

Regulations on health and safety and working-time may also act as a barrier to employment in countries, notably the New EU Member States, which, due to the application of EU directives, are obliged to enhance the degree of protection of health and safety and working-time regulation to a level not hitherto respected. Such regulation may add to production costs in the short run, including also unit labour costs, and reduce the degree of competitiveness of the economy, already discussed above.

However, while recognising that application of EU directives may increase production costs, the introduction of such regulation and legislation has, during the existence of the European Community, been considered a key condition for ensuring a "level playing field" and for avoiding a race to the bottom in terms of social protection and general living conditions. In addition, in the longer run, there will be benefits for the New Member States, both with respect to well-being in general and with respect to enhancing the "quality" of jobs and retaining human resources at all skill-levels within the economy. It is, indeed, essential for the New Member States to avoid being trapped in a framework of "low-skilled" occupations and therefore also to strengthen efforts to reduce the rate of accidents at work through improvements in the organisation, the safety at work and the skills of those with a low level of educational attainment.

A.6.8 International competitiveness

A.6.8.1 The euro area as a whole

Competitiveness of firms and nations is a complex phenomenon, determined by a broad range of factors, ranging from endowment of natural resources, location, human capital endowment, productivity, to relative price levels and cost performance. In a regime of flexible exchange rates, the external competitiveness is also influenced by changes in the "effective" exchange rate, that is the level of the exchange rate with respect to a weighted average of other currencies or, in the case of the eurozone, with respect to the non-euro currencies, whether inside or outside the EU.

For the EU countries the complexity of the competitiveness issue is aggravated by the fact that the EU Member States outside the euro-zone, in theory, observe a regime of floating exchange rates but in most cases with the notable exception of the Pound Sterling, actually tend to manage their currency as close as possible to the euro with a view ultimately to joining the euro zone.

In general there are strong reasons to assume that the process of globalisation has enhanced the salience of cost competitiveness, as measured by the level of, and changes in,

production costs relative to other more fundamental elements of international competitiveness. In the short run, with only marginal changes in the more fundamental determinants, changes in international cost competitiveness are determined by three factors:

1. Changes in the nominal wage cost per person employed;
2. Change in the output per person employed; and
3. Change in the exchange rate with respect to an average of the currencies of trade partners (the “effective” exchange rate).

A more condensed version of labour costs may be obtained by subtracting the percentage change in output per employed person from the percentage change of wages per employed person, resulting in a measure of labour cost per unit of output, also called nominal unit labour cost. In economic analysis of domestic economic developments, the change in unit labour cost is normally considered one of the fundamental determinants, although certainly not the only one, of the rate of inflation.

Moreover, since the EU Member States have not all adopted the euro, changes in the “effective” (the weighted) exchange rate of any individual Member State can be expressed either relative to the euro-zone, EU27 as a whole, or the full set of other trading partners in the world. Depending upon the purpose of the measure, the cost competitiveness of EU27, the eurozone or any individual Member State may thus be measured by means of several different indicators.

As shown in Table 15, nominal unit labour cost in the euro area rose by 0.9, 1.3, 1, and 1.6% in the years 2004 to 2007 respectively. However, expressed in “real terms”, deflated by the GDP deflator, ULC in fact fell in each of these four years. In each of these years the euro area’s international competitiveness was also influenced by changes in the exchange rate of the euro vis-à-vis other countries. The nominal “effective” (trade weighted) exchange rate fell by 1.1% in 2005, after an increase of 3.% (equivalent to a revaluation) in 2004, but then rose again by 1.2 and 3.3% in 2006 and 2007 respectively. Consequently, in comparison with the rest of the industrialised countries (and taking account of the rise in unit labour cost in these economies), the overall cost competitiveness of the euro area, despite the decline in real domestic unit labour cost in 2007 (106.4), was only slightly better than in 2004 (106.9) and, measured by the relative change in the deflator of GDP, actually slightly worse.

Table 15. Elements of international cost competitiveness, euro area

Euro area	2004	2005	2006	2007	2008
<i>Different measures of wage/labour cost</i>					
Compensation per employee	2,2	2	2,3	2,6	3,1
Compensation of employees per hour worked	1,9	2,5	2,7	2,9	3,6
Hourly labour cost (Eurostat)	2,5	2,4	2,5	2,7	3,6
Negotiated wages (Euro area only)	:	:	:	:	:
Nominal unit labour cost	0,9	1,3	1	1,6	3,2
Real unit labour costs deflated by GDP deflator	-1,1	-0,8	-1	-0,7	0,9
<i>Nominal effective exchange rate (trade weighted)</i>					
Vs the rest of 36 Industrial. Countries, 1999=100	112,8	111,6	112,9	116,6	121,4
Change over previous year, %	3,0	-1,1	1,2	3,3	4,1
<i>Real effective exchange rate, (REER) 1999=100</i>					
GDP deflator, vs. 36 industrial countries	105,7	103,8	103,7	106,2	109,4
Unit labour cost, total economy	106,9	104,6	104,4	106,4	110,5
US\$/Euro exchange rate	1,2439	1,2441	1,2556	1,3705	1,4708
Yen/euro	134,44	136,85	146,02	161,25	152,45

Source: Eurostat and European Economy

In 2008, unit labour costs in the euro area, due to a sharp decline in productivity and a continued increase in hourly wage costs (3.6%), rose by as much as 3.2%. In addition the

nominal effective exchange rate rose by 4.1%, so that, despite an increase in ULC in the trading partners, the real effective exchange rate based on ULC rose from 106.4 in 2007 to 110.5 in 2008. During 2008 and 2009, fluctuations in the US dollar have been quite strong, but as a result of the weakening of the US dollar over that period (and of currencies pegged to the dollar), the relative cost position of the euro area in October 2009 was slightly less favourable than on average in 2008.

A.6.8.2 Individual euro zone members

According to a protocol to the Maastricht Treaty²², accession to the euro area is conditional on a Member State having a rate of consumer price inflation not exceeding by more than 1 ½ percentage points that of the three best performing Member States. According to the Commission's autumn 2009 forecasts, most euro area Member States experienced consumer price increases broadly in a range only marginally outside the Maastricht criteria in the period 2007-2009. However, this relatively satisfactory inflation convergence has been associated with a more pronounced divergence of the change in unit labour costs, ranging in 2008 from an increase of 2.1% over 2007 in Germany to 7.9% in Slovenia.

Table 16. Grouping of EU member states, US and Japan according to the evolution of REER

A: Euro area countries	
<i>State of cost competitiveness in 2008 compared to 1999</i>	
Significant improvement (5-10%)	Germany, Austria
Deterioration in the range of 5-10%	Belgium-Luxembourg, Greece, France, Finland, Slovenia
Deterioration in the range of 10-20%	Spain, Italy, Cyprus, Malta, Netherlands, Portugal,
Deterioration of more than 20%	Ireland, Slovakia
B: Non-euro area countries	
<i>State of cost competitiveness in 2008 compared to 1999</i>	
Improvement, more than 10%	United States, Japan
Improvement 0-10%	Sweden, United Kingdom (x)
Deterioration in the range of 5-10%	
Deterioration in the range of 10-20%	Denmark
Deterioration of 20-40%	Bulgaria,
More than 40%	Czech Republic, Estonia, Latvia, Lithuania, Hungary, Romania

(x) Further strong improvement in 2009 (see text).

This tendency for divergence of ULC to be more pronounced than for consumer prices in several of the euro area Member States has, at the same time, allowed real wage increases for employees in the countries with a large wedge between ULC and CP, offset by a

²² Protocol on the convergence criteria referred to in Article 109j of the Treaty establishing the European Community, 7 February 1992.

deterioration of international competitiveness. Other Member States have, by contrast, experienced an increase in ULC well below the rise in consumer prices, with the result that real wages have increased only little or actually declined, but with genuine gains in international competitiveness (see Table 16).

A.6.8.3 Individual non-euro area Member States, the US and Japan

For the non-euro EU Member States and non-EU countries, international competitiveness is influenced by the same factors as for the euro area countries. In addition, their exchange rate may fluctuate with respect to the euro, in some cases compensating for domestic cost developments, though in other cases – due to a real effective revaluation – resulting in a loss of cost competitiveness.

As seen in Table 15, changes in the cost competitiveness among non-euro currencies from 1999 to 2008 have ranged on average from significant improvements in the United States and Japan to deterioration in excess of 40% in the Czech Republic, Estonia, Latvia, Lithuania, Hungary and Romania, with Romania in a class of its own, having experienced an increase in relative unit labour cost of more than 120%, most of which occurred since 2004. Whether a relative effective cost increase of this order of magnitude in some of the New Member States, and notably in Romania, now constitutes an important obstacle to further development is, however, determined also by the absolute level of production costs and prices relative to those of partner countries. Only a deeper analysis of the market exchange rate in relation to the “purchasing power parity”, that is the relation between the level of prices of a basket of currencies in the various countries, can provide an additional measure of the outcome.

Within the group of non-euro EU Member States, reactions to the recent turmoil in financial markets have, in any case, been highly diversified. By far the most important of these currencies, Sterling, experienced nominal exchange rate devaluation against the average of 36 other industrial countries of 13% in 2008 and another 13% in 2009. With, in addition, a small decline in unit labour cost in both years, the cost competitiveness of the UK at the end of 2009 was some 30% better than in 2007. According to recent estimates by the European Commission²³, Sweden, Hungary, Poland and Romania also experienced effective devaluations between 10 and 20% and the Czech Republic about 5% in 2009. The currencies of Denmark, Bulgaria and the Baltic countries have been broadly pegged to the euro and have experienced modest effective revaluations in 2009. The three Baltic countries are in a particularly difficult position with respect to adjusting domestic labour costs to the new international environment²⁴.

The broad conclusion from the analysis of relative cost developments is that there is a highly differentiated picture, with a strong international cost competitiveness offering some Member States a relatively comfortable margin of manoeuvre for economic and social policy, while other countries are facing a difficult conjunction of both international and domestic barriers to a recovery of employment in 2010 and beyond.

A.6.9 Effects of capital movements

The 2008/2009 financial crisis had been preceded by a surge in international capital flows. According to a recent review of capital flows²⁵, a number of European countries experienced

²³ European Economy 8/2009: Labour market and wage developments in 2008.

²⁴ As frequently stressed, the particular problem for these countries (and also of Hungary) is the high level of external indebtedness in euro and which significantly reduces the scope for using exchange rate adjustments in the process of recovery of employment and output.

²⁵ Reinhart, Carmen and Vincent: *From capital flow bonanza to financial crash*, Vox (www.voxeu.org), 23 October 2008.

a significant above-average inflow of capital during the years 2006-2008. This was the case for Bulgaria, Iceland, Italy, Latvia, Romania, Slovenia, Spain and the United Kingdom, leading the authors to expect these countries to be particularly vulnerable to a drying up or even reversal of capital flows.

The IMF, in its Spring-2009 World Economic Outlook, confirms these assessments for the countries in Central and Eastern Europe. Net private capital flows into this group of countries (which includes both EU Member States and other countries in Eastern Europe), which amounted to 173.6 billion US\$ in 2007, were projected to decline in 2008 and to become negative to the tune of 38.3 billion in 2009, with only modest recovery in 2010. The drying up of private capital flows to developing and emerging countries may also be a consequence of the macroeconomic fall-out of the financial crisis: according to the IMF's spring forecasts, the deficit on the current account of the balance of payments of the European Union may have doubled from 2007 (102.9 bn\$) to 2008 (196.5 bn) and further in 2009 and with only a small improvement foreseen in 2010.

The drying up of direct investment and other international capital movements in the wake of the financial crisis, if not rapidly reversed, can be expected to exert a dampening impact on employment creation in several new EU Member States which, during recent decades, have been in a position to run large current balance deficits and thus finance a large part of domestic fixed capital formation and general government budget deficits. A similarly and possibly more severe effect on employment could arise in Member States, such as Spain and Ireland, which have been surfing on a wave of direct investment from abroad financing a large part of house building and associated construction works.

The drying up of direct investment and the resulting severe limitation of the scope for financing of new fixed capital formation will therefore create new barriers to a return of the newly unemployed persons to their previous jobs, while the insufficient international competitiveness of these economies, as stressed above, will hamper the growth of branches in the economy which would be in a position to take up the "employment slack". A key issue, in this area is to what extent and speed the direct investments will recover, but there is clearly a risk of a more permanent lowering of capital flows for financing of construction and associated investment.

A.7 Summary of findings of empirical and prospective analysis

A.7.1 Main thesis and principal labour market trends

The empirical and prospective analysis shows that, on one hand, the bulk of the basic challenges are the same as before the recession, but that, on the other hand, the crisis has revealed important old and new adjustment problems to be faced by an innovative policy approach.

- Despite the crisis the main drivers and medium-term challenges remain: ageing, societal changes, globalisation, shift to the knowledge society, management of natural resources and the fight against pollution and climate change.
- The contours of the labour market in 2020 will be determined, in addition to the main drivers, by the upgrading of the average level of education of the working-age population and the associated boost of demand for high-skilled workers and skill-induced technological innovation. However, due notably to the shifts in consumer demand and social provision resulting from a doubling of the 65+ population, the demand for unskilled labour will increase in the field of personal services.
- While economic growth is likely to continue the recovery witnessed at the end of 2009, unemployment is forecast to rise through most of 2010, and there is a high risk that structural unemployment will remain high and that many elderly persons will withdraw from the labour market.

- However, the recovery of the economy and employment may not follow the same pattern in all Member States. For some Member States, the recession will be more easily surmounted than in others (the “bump-in-the-road scenario, as explained in section A1.4), while others will experience an enduring impact of the crisis (“a lost decade” – scenario 2), with important external and internal adjustment problems and a long-lasting and painful adaptation of priorities.
- Given that the average level of education of the working-age population is projected to increase significantly during the period from 2010 to 2020, the mismatch between the needs for, and the supply of, skills is likely to be significantly reduced. Furthermore, the inherent mobility of the working population will be rising in association with the higher level of education.

A.7.2 Balancing flexibility and security

With respect to assessing the potential of flexicurity and activation policies, both Denmark and the Netherlands stand out as examples of important changes in the orientation of labour market policy in the 1990s, and one associated with a remarkable reductions in unemployment and increases in the rate of employment. Furthermore, an interesting aspect of the Dutch employment policy is its emphasis on measures to facilitate and promote part-time and temporary employment. As a result, the rise in the overall rate of employment in the Netherlands has also been accompanied by a substantial increase in part-time employment, making it easier for women (especially) to combine child-bearing and continued participation in the labour market, thereby assuring a high degree of maintenance of human capital.

It is therefore not surprising that the Danish and the Dutch experiences have attracted a considerable interest among other EU Member States and that, at the level of the EU, the concept of “flexicurity” that draws on the models from these two countries has gained prominence both politically and scientifically. It is also noteworthy that the promotion of employment flexibility in a context of a certain degree of income security has been on the agenda of the EU for at least the last decade, was underlined in the Lisbon strategy and continues to be at the heart of the EU approach.

The present report presents a first attempt to produce an easily accessible overall estimate of the level of flexicurity in the Member States where data can be found, and the results of an analysis of the influence of flexicurity on the level of employment and unemployment.

This deeper analysis of the flexicurity data shows that:

- Flexicurity goes hand in hand with higher employment rates meaning that it is successful in attracting people in the labour market. However, flexicurity has to be more broadly interpreted as not simply the balance of flexibility and security, but a system where flexibility and security are inter-twined.
- Consequently, a flexicurity system should go beyond the simplistic conception of flexibility being in favour of employers and security an advantage for employees. In addition, the analysis discloses a number of advantages linked to flexicurity.
- Flexicurity succeeds in attracting into the labour market categories of workers who, for different reasons, have a more difficult access to jobs. One can therefore argue that from this point of view flexicurity is a successful labour supply policy.
- Flexicurity also has a positive impact on long term unemployment, confirming, in particular, that active labour market policies play a major role in curbing long term unemployment.

A.7.3 Transitions in the labour market, job quality and mobility

In any single year, about 10% of jobs change occupant in EU27, as a result of normal replacement, firing and hiring or suppression of old and creation of new, tasks etc. The

probability of returning to employment after a spell of unemployment or inactivity in a country is therefore a highly pertinent indicator of barriers to employment. In this respect an analysis of job changes between 2005 and 2006 shows that there are large differences between various groups in the labour market and also between Member States:

- The higher the level of education, the lower the likelihood of becoming unemployed and the higher the likelihood of getting back into employment from a spell of unemployment or inactivity. In addition, the higher the level of education, the higher the likelihood of moving from part-time employment to full-time employment.
- The likelihood of moving from employment to unemployment or inactivity or vice versa is, as could be expected, high among young people and females, while for the elderly there is a high likelihood of moving from unemployment into inactivity.
- With respect to labour market mobility, there are huge disparities among the Member States of EU, even after controlling for given levels of education, gender and age. These differences between Member States manifest themselves with respect to the likelihood of a return to employment after a spell of unemployment or inactivity and the likelihood for an employed person of becoming unemployed or inactive.
- With the recent accession of countries with a relatively lower level of educational attainment, the disparities within the EU in this respect have increased, rendering the future enhancement of the overall level of educational attainment in the New Member States an urgent and pressing task.

New work undertaken for this study confirms a correlation between job quality and the number of jobs. A key finding is that the employment rate is correlated with participation in education and training through the life cycle. There is also evidence that lower unemployment is associated with higher scores on a composite index of job quality, and that there is less long-term unemployment where job quality is higher, reinforcing the message that job quality and good labour market performance are linked. The Nordic countries display markedly better results in terms of job quality (especially good job satisfaction, gender equality, low involuntary part time, high participation to further training...), and are also characterized by high employment rates.

A further connection is between the quality of jobs and levels of education. Individuals with lower educational attainment are most likely to fill low quality jobs and are less likely to obtain training, thereby limiting their job mobility. Young workers are generally more prone to have low quality jobs, but are more heterogeneous in their probability of being trained.

The findings point to possible policy priorities to enhance job quality, most obviously by emphasising that education and training should be a policy priority, as they favour good transitions both between non employment and employment, and within employment. Childcare policies are also shown to be crucial to enable women to participate to the labour market and to reduce gender employment and wage gaps. More generally, life course policies along the lines of those most developed in Nordic countries would be useful to promote a high level of participation throughout the life cycle.

A.7.4 Drivers of and obstacles to, transition and job creation

Before the recession, the thrust of the European Employment Strategy was to lessen obstacles to job openings as the one of main aims of employment policy. Although the lowering of key obstacles remains important, there are other significant drivers and determinants of transition which will play an increasingly central role:

- The contraction in some member states of certain sectors, such as construction, may constitute an obstacle in the short run to a return to business-as-usual, but may also offer new opportunities for job creation in other branches of the economy.

- A high level of non-wage labour cost continues to constitute an important barrier to employment in general, and in particular, to access to employment of youths. The financing of social expenditure through payroll taxes in a number of countries seems to have induced a process of substitution of labour by capital and thus a lower employment intensity of economic growth. Globalisation may be a factor aggravating the negative employment effects of non-wage labour costs.
- Active labour market policies, measures of life-long learning and other similar policies are shown to exert a strong and significant positive effect on the rates of employment in general and for all age groups and females. Moreover, countries which combine a high level of NWLC with activation measures appear to have some success in reducing the effects of NWLCs.
- A high level of Employment Protection Policies does not seem to exert a strong negative impact on the rate of employment of prime-age workers. However, youths are an exception to this general rule, as a high level of EPL clearly has a strong negative impact on employment of this age group.
- Numerous studies show that the level of educational attainment and skills of the working age population exerts significant influences on the employment performance. In particular, a low level of skills, depending upon the general socio-economic framework and cost competitiveness, may constitute important barriers to employment creation. In particular, activity rates depend significantly on the level of skills of the age group. Thus for the age groups 25-64, the activity rates for EU27 as a whole in 2008, amounted to some 63% for persons with the lowest level of educational attainment, 79% for those with a medium-level of educational attainment and 88% for those with the highest educational attainment.
- A number of the eurozone partners and most of the new non-eurozone EU Member States have experienced a considerable deterioration of their international cost competitiveness during the last four-five years. This will be a major barrier to overcome over the coming years, and since this "hurdle" cannot be overcome by currency devaluation and protective measures, dampening of domestic cost pressures and boosting of productivity will constitute the only open road towards a more buoyant economy and employment creation.

B: The EES assessed: institutional analysis

The second part of this report presents an overview of the findings of research into the political and policy-making processes behind EU-level employment policy, and the assessment of the EES by different stakeholders with an interest in the outcomes. The first main purpose of this section is to provide an assessment of the functioning at EU level of employment policy and how well-suited it is to meet anticipated developments in labour markets. In addition, it tries to identify the areas in which reform of the EES is most needed. It draws on a wide range of academic studies, policy evaluations and other literature on different facets of the EES.

The empirical analysis consisted of a questionnaire sent to Member States officials and case studies conducted in seven, diverse Member States. The work has benefited from a 'brainstorming' seminar bringing together experts from different backgrounds who provided valuable insights and comments on provisional findings presented by the research team. Because this work has drawn on the knowledge and work of 'insiders' (whether as practitioners or students of it) in the policy process, there is some risk that the findings will be subject to bias, possibly favouring the familiar and the status quo. In making use of these findings for the policy recommendations presented in part C, the study team has taken this possible bias into account.

B.1 Key features of the current governance model

There is an extensive academic literature that tries not only to conceptualise the open method of co-ordination as a mode of governance, but also to assess its impact and this, in turn, can be used to arrive at an understanding of what might be expected of the EES if it conformed fully to the governance model.

B.1.1 The EES as a governance mode

There are several elements at the core of what the EES does procedurally as a form of governance. First, it establishes an ideal-type as a model for policy, which has ramifications for how policies are chosen. Essentially this is the application of the open method of co-ordination (OMC) in which common goals and targets interact with national preferences and mechanisms of governance and administration (for recent assessments, see de la Porte, 2008; Heidenreich and Zeitlin, 2009). Second, it has a range of procedural aspirations. These encompass:

- The encouragement of coherence across government departments and agencies within the Member State
- Policy integration across levels of government
- Engagement of actors from civil society in policy formulation, monitoring and (within reason) implementation
- Fostering the capacities of non-state actors
- New government structures to co-ordinate policy across these diverse actors
- Less explicitly, a wish to involve national parliaments and to stimulate discourse

Some of the relevant academic research focuses on the legitimacy of the OMC methodology. The need for a high degree of consensus makes it increasingly difficult in a larger EU to arrive at European solutions via legislation and this, in turn, pushes the solution of problems that might reasonably be laid at the door of the EU back to Member States. As Scharpf (2009) points out, there is a double barrier in that it is hard not only to adopt an EU legislative solution, but also hard to undo one that is not working. Soft law can, therefore be seen as a

more flexible policy instrument and one for which it is easier to attain output legitimacy by showing that it works.

An open question about the EES is the degree to which it is intended to promote convergence in policies. Such convergence is likely to be of three distinct types: in the objectives of policy; in the policy methods employed; and in the outcomes of the policy. In practice, the EES has shared objectives and a long-term goal for convergence of outcomes, and it calls for common procedures for shaping strategies, but leaves the mix of policy instruments to the Member States. This then prompts the question of whether more convergence in instruments is desirable and, if so, what might encourage it. It is also important to recall that a key element of the OMC model - policy learning - is partly intended to provide a form of policy competition in which successful policies flourish while under-performing ones wither. It follows that receptiveness to policy learning is a key element in the policy framework. Research has sought to ascertain the extent of policy convergence and the impact of the EES on policy substance, although it is almost impossible to prove the latter because the influence is often below the surface and, tellingly, will not always be admitted to by the decision-makers if it is a success. It could be argued that it does not matter if successful reforms occur.

But the associated difficulty is ascertaining which aspects of the EES yield benefits and which only have marginal effects or even impose burdens (for example reporting obligations that add no value). There is a methodological challenge in all of this which, as (Zeitlin, 2009b: 8) observes, is that 'many of the sources of controversy about the OMC's national influence are conceptual as well as empirical. Researchers disagree not only about the magnitude of the OMC's impact in different countries and policy fields, but also about what types of influence should count as significant, and through what causal mechanisms they might be generated'.

There are, in addition, wider questions about whether employment policy and/or labour market policy lends itself to policy co-ordination. One standpoint is that if there is a blurring of responsibilities between the EU and the Member State levels, it can become an obstacle to reform rather than a catalyst (Sapir, 2005). Certain economists have argued, too, that national sensitivities are much greater in the labour market and welfare arenas than in product market regulation, making co-ordination less appealing.

B.1.2 The EES in practice

There is a striking dichotomy between those Member States which use the EES process largely to report what is already in progress and those that use the obligation to draft strategies as a way of re-thinking policy approaches. Indeed, de la Porte (2008) suggests that the OMC has been used more as a reporting device rather than one that is predominantly to do with policy development. Her work also suggests that although social partners are, typically, formally involved in the EES, it does not become a vehicle for confronting and resolving differences. She also asserts that the EES has been rather detached from national policy cycles. It may, on occasion surface – perhaps opportunistically – in certain debates, but de la Porte concludes that the OMC 'has not been a strong resource through which to develop comprehensive reform programmes'.

Yet although the 'reporting' approach can slide into being perceived more as a chore than a contribution to better policy-making, there is also evidence (pointed to in Zeitlin, 2009a) that the NAP/NRP is mainstreamed into major national policy strategies. Zeitlin stresses, in this regard, the use of the process as a means of enhancing the steering capacity of the national administration, including through better use of statistics. Depending partly on the constitutional framework, there can be more systematic approaches to engagement between levels of government, including how important agencies such as a public employment services are run. However, Zeitlin's view may be flattering to the EES. An interesting comparative study covering four Member States by Mailand (2008) finds that although a

general conclusion is that the influence of the EES has been limited overall, it has had significantly less influence in the UK (and Denmark) than in the other two countries studied, Poland and Spain. Moreover, the author finds that since 2005, even this limited influence has been diminishing.

The evaluation report on the Integrated Guideline Package (hereafter, IGP report) provides a succinct overview of the general expectations of the governance of the Lisbon strategy (Eureval/Ramboll Management, 2008). It points to a range of features intended to foster good governance of the strategy. First, there are two kinds of relevant pressure, labelled as 'peer' and 'public'. Peer pressure, as explained in the IGP report, functions through the combination of the review processes conducted by the Commission and the fact that they are subject to the scrutiny of their peers, motivating them to unblock reforms. The notion of public pressure relies on public discourse legitimating reforms, obliging policy-makers to be more responsive. It is, however, a moot point whether these two channels actually function as foreseen and, indeed, whether they are really comparable.

The IGP report is positive about the relevance of the Integrated Guidelines and generally supportive of the reporting procedures, but notes some problems of comparability between Member States and of establishing how what is reported relates to the guidelines. The report also finds that Member States consider the guidelines to be readily understood and to have achieved a suitable balance in being general enough to provide a framework for policy-making, but not so detailed as to interfere with national discretion in operational aspects of policy. There is also evidence that some guidelines are effectively given greater priority than others, suggesting that in choosing *à la carte*, Member States may be seeking to favour politically attractive guidelines while playing-down the more contentious ones.

Learning manifestly does happen, with Member States aware of both providing lessons for others and finding new solutions in what others have done. It is, though, open to question how far this goes and whether such learning as occurs stems directly from the Lisbon process or would have happened anyway. Peer review certainly also occurs, but the IGP report raises doubts about whether its effect is to change policies in the Member State subject to the review, or whether instead it is just the official concerned who is exposed to any criticism, with little or no follow-up. An obvious difficulty is that unless there is a follow-up of the points made, there is no obligation on the Member State to adapt its approach.

Public pressure seems only to have an effect sporadically and with uncertain consequences. The IGP report finds that naming/shaming/faming continues to be opposed by Member States and is likely to lead to grandstanding or outright opposition. As a result, unblocking of reforms is not visibly advanced. Other points in the report include:

- Policy integration at Member State level is another area where the ideal is more evident than the reality
- Some areas are given more priority than others and, for these, the IGP report suggests that the Commission should become more engaged in framing them.
- Integration could be improved by overcoming balkanisation of policy-making
- Mutual learning processes could be enhanced
- Recommendations could be made more effective, and may suffer from being produced too rapidly

B.1.3 The interaction of the EES with national systems

Clearly, institutional structures differ enormously from one Member State to another and, in particular, there is no Economic and Social Council (or similar body) in a sizeable minority, an absence which can make it harder to assure organised consultation of civil society. In a report addressed to the 2008 spring European Council, the European Economic and Social Council examines the contribution of civil society to Lisbon governance, complementing an

earlier study presented to the 2006 spring European Council. In the 2006 study, some fairly sharp critiques of the approach of the national government consultation were articulated for Member States as diverse as the Netherlands, Sweden and Portugal. For the Netherlands, the evidence collected for the 2006 report by the EESC from civil society organisations somewhat contradicts the impression given by the NRP that consultation was extensive and had an impact.

According to the 2008 report from the Liaison Group between the EESC and European civil society organizations and networks, the extent of engagement with civil society in the governance of the Lisbon strategy is still unsatisfactory, despite the efforts that have gone in to promoting wider 'ownership'. The Group expresses its judgement as follows:

Despite all the efforts undertaken to ensure that European citizens espouse the goals of the Lisbon Strategy, it continues to be **little understood (often owing to inadequate explanations), or even a total mystery to the majority of Europeans.** The lack of any real political debate on this issue at national level is also to be deplored. In 2004, Wim Kok, former prime minister of the Netherlands, submitted a mid-term review of the Lisbon Strategy to the European Commission²⁶. This report recommended that emphasis be placed on the participation of the social partners and that efforts to communicate with citizens be stepped up so that they felt more involved. The Lisbon Strategy is still conspicuously absent from national electoral programmes and debates,

The report argues that engagement with the social partners is not enough and that there should also be more systematic efforts to take account of the views of civil society organisations, arguing that the latter are the bridge between citizens and institutions

What the 2008 exercise reveals is that, on the whole, the extent of consultation has increased, but the EESC still maintains that it could go further, especially in involving representatives of bodies other than the social partners. One way of expressing this is that a 'civil dialogue' is needed as well as a social dialogue. Several of the Member State responses stress the importance of informal contacts between the government bodies responsible for drafting NRPs and civil society interests. The EESC works points to the following factors as being salient, some of which require a qualitative judgement:

- The fact of consultation and how formalised it is.
- The timing of consultation and whether it affords a real opportunity for the bodies consulted to alter NRPs.
- Whether informal channels are exploited to bring in social partners.
- Whether informal channels are exploited to involve other civil society actors.
- Whether the consultations led to meaningful changes.
- The role of social partners and civil society actors in monitoring the employment component of the Lisbon strategy.
- How public awareness is promoted.

A factor that bears on the relevance of consultation is the nature of the national plan. The Danish response to the 2008 EESC enquiry, for example, describes the channels for consultation, but finds that it has little impact on the NRP because the latter 'serves as a digest of the reforms and initiatives already launched by the government. The Lisbon contact committee is therefore not a policy forum in any real sense'. The implication is that the usefulness of consultation is bound to be limited where the NRP is more of a report than a strategic plan.

A further influence on the consultative processes is how important the employment component of the Lisbon strategy is seen to be in national policy-making. A possibly extreme

example is, again, Denmark where the DI (employers) states in its response to the EESC that the employment guidelines are systematically ignored in debates on labour market policy. The extent to which social dialogue and what might be termed civil dialogue is stimulated by the EES is open to question (Zeitlin, 2009a, suggests that it has been more visible in the social OMCs than in the EES).

B.1.3.1 Deliberation

A key part of the idealised EES is the spur it gives, or is intended to give, to deliberation. Yet many of the academic studies suggest that it has fallen short in this respect, even though one leading commentator (Zeitlin, 2009b) is quite sanguine about it. At its most positive, OMC has the potential to reconcile the development of policy responses and strategies at EU level with the diversity of national circumstances. Some have argued that OMC is, in addition, a means of entrenching EU values and is, therefore, a cognitive and heuristic tool.

What seems to have happened is that rather than opening policy formulation and promoting transparency, what the EES has done above all is to establish 'new possibilities for supranational, highly professionalised and bureaucratized co-ordination of national reform projects. This "expert deliberation" has contributed to the creation of a new epistemic community' (Heidenreich and Bischoff, 2008: 503).

B.1.4 How does the EES exert pressure for reform.

An aspect of the EES that is difficult to appraise is how it shapes policy ideas. There are several channels through which the EES influences national policies, but these are subject to quite wide variation among Member States. The two categories of pressure cited in the IGP report represent one channel. They function somewhat haphazardly and rely on the receptiveness of the Member State and on whether the government departments and the sections within them responsible for liaison with 'Brussels' are or are not central to policy-making. Another feature that characterises it is the indirect nature of the EES's influence.

The (rather positive) interpretation is that there have been subtle transformations of ideas that reflect the influence of the EU processes. In this context Denmark is an interesting case. Thus, increased awareness of Denmark's relative position in the context of European labour markets and the widespread use of indicators and benchmarks has played an important role in creating a common understanding among the national actors of the strengths and weaknesses of the Danish employment system. The present endorsement of the Danish flexicurity model by a broad range of national political actors and the social partners is also strongly underpinned by the EES and the Lisbon process. The EES can be shown to exert a form of leverage in which, even if EU processes are not acknowledged in public debate, the directions for change are affected. Nor are all employment initiatives necessarily related to European orientations: in France, for example, measures to reduce social charges emanate from internal pressures²⁶. A willingness to look at the experiences of other countries may, nevertheless, be credited to the EES.

The interaction between hard law and soft law is also important, though prone to be neglected. Pochet (2009) argues that contrary to presumptions, the use of hard law in shaping EU social policy has not diminished since 1997, although he notes that it has evolved. The resort to soft law in the EES has been compared with forms of co-ordination that have long been used by the likes of the OECD as a means of promoting policy transfer. But others argue that the EU approach is distinctive in emphasising much more than benchmarking as a policy tool. In addition, the EES uses peer reviews of different sorts and has, latterly, adopted the Mutual Learning Programme as a systematic way of fostering policy learning.

²⁶ Integrated Guideline 22 does, however, mention non-wage labour costs

There is, however, an inevitable dilemma for the EES around the issue of political ownership, which is that governments will often be unwilling to refer to it as a positive influence, especially if there is credit to be gained from policy initiatives. Conversely, some governments may use the EES as an external stick with which to beat their stakeholders. It can be argued that popularity in this regard is beside the point, insofar as what matters is that desirable reforms occur. The link between budgets and the EGs warrants attention. Member States exhibit great differences in their funding of, for example, ALMP, but this is partly to do with the diversity of approaches to employment and labour market policies

B.2 Strategy and actors in the current governance system

Employment policy at the EU level has been through a number of phases since the launch, over a decade ago, of the Luxembourg process. Over time, these changes have resulted in its closer integration with economic policy, culminating in the Integrated Guidelines and the Lisbon programmes at national and community level. It is worth reiterating that it is, at EU level, primarily an exercise in policy co-ordination, so that an important initial question is whether it is (still) economically relevant to have some degree of coordination in employment policies at the EU level. Several justifications can be used: to facilitate workers' mobility through harmonisation and coordination of their rights; to avoid externalities related to labour market policies that have purely domestic objectives, but have cross-border effects; to promote the diffusion of efficient programmes (see theories of fiscal federalism as well as the OMC and policy learning literatures); to facilitate the implementation of a single monetary policy; and also to contribute to the wider structural reform agenda.

B.2.1 Strategic approach

It can be argued that the philosophy behind the 2005 re-launch of the Lisbon strategy, with its integration of economic and employment guidelines, is one which reflects the need for EU policy co-ordination simultaneously to address the Union's international competitiveness and to support a high level of employment. These are fundamental Treaty aims and therefore at the heart of EU governance. As van Ark et al. (2009) put it: 'economies need to create more productive jobs that will lead to an improvement in average living standards. Productive jobs are also the primary mechanism by which the gains from productivity growth can be widely distributed across the economy - to consumers through lower prices and to workers as higher rewards. These same gains provide the resources for new investments and a sustainable growth path'. It follows that if the connections central to the Lisbon strategy had not been made, they would need to be, and the conclusion to draw is that an **integration of economic and employment policies remains valid**.

A concern, though, is that even if such integration makes good sense in theory, the balance of policy effort will tend to be on the 'productive' jobs, while the social dimension of employment is neglected. If it looks as though scenario 2 comes closest to describing the aftermath of the recession, the social dimension may well figure more prominently. However, this dichotomy does not have to be so stark, and the evidence from the analysis in part A.5 of this report suggests that quality jobs are often productive jobs. Quality, nevertheless, also has to be seen from the standpoint of the worker and not just as a factor influencing competitiveness. There is still a risk that, in an integrated strategy which is geared towards international competitiveness, employment will receive less attention from policy-makers and that initiatives with more overtly social objectives will be stifled. On balance, the issue for employment objectives may be less whether there is any systematic bias, than whether a sufficiently compelling narrative can be articulated to ensure that jobs are kept high on the policy agenda. Rising unemployment provides such a narrative for the short-term and would be much more influential under Scenario 2, as set out above.

B.2.2 Emerging new challenges

The crisis has shaken many of the foundations of the post-Maastricht economic and social governance settlement in the EU. It has also exposed a paradox of policy action which is that faced with a collective challenge and despite repeated assertions of the need for concerted responses, many national leaders and policy-makers look first to what they can do to mitigate the crisis within their own jurisdictions. In so doing, they can easily be tempted into actions that have negative repercussions for other Member States. Even so, a standard reaction has been to condemn any hint of protectionism and, for the most part, EU Member States have avoided the more egregious forms of such responses, even though a number of high profile initiatives have sailed very close to that particular wind.

Nevertheless, an obvious concern for governance is how to ensure that this potentially fragile discipline continues to hold, especially if the crisis endures or leads to a surge in unemployment in politically sensitive sectors or localities. In this context, the integrity of the single market is frequently held up as one of the abiding achievements of the EU and thus as a bulwark against back-sliding. Yet it is undeniable that many of the seemingly well-intentioned actions of governments – bail-outs, soft loans, cash injections and so on – are ultimately contrary to single market principles. For the Commission, especially, this has led to uncomfortable episodes when it has tried to restrain the resort to such state aids.

In the employment policy arena, actions that are protective in this way tend to be much lower profile and thus less likely to attract hostile scrutiny. Indeed, actions of this sort are generally applauded by citizens and social partners concerned to push governments to ‘do something’. Yet there is a fine line between praiseworthy initiatives to forestall job losses and measures which preserve jobs in one Member State at the expense of another. The Commission has a prominent role in enforcement of single market rules, led by DG Competition, but has a more uncertain role in relation to employment measures that nevertheless deserves attention. As with the Stability and Growth Pact, what Buti and Pench (2004) have called ‘preventive’ functions (surveillance and recommendations aimed at deterring Member States from adopting wrong policies in the first place) and ‘dissuasive’ functions (finding ways of unwinding them after they have been adopted) might be considered valuable. These governance functions are essentially disciplining forms of policy co-ordination aimed at limiting negative spillovers from one jurisdiction to another.

However, co-ordination (more so than ever in a severe downturn) is also about positive spillovers and ensuring that Member States are not put off policy action because they will be unable to appropriate the benefits of their actions fully. The US bailout of AIG, for example, is widely claimed to have been of benefit not just to US citizens and financial intermediaries, but also to their counterparts in many EU countries. Equally, some Member States have hesitated to implement fiscal stimuli because of the prospect that some of the stimulus will leak across borders. The macroeconomic benefits of co-ordination of fiscal responses are recognised, but there is a case to be made that co-ordination of employment measures can also lead to a collective response that can be greater than the sum of its parts in countering job losses and rising unemployment.

What is less evident, however, is how to embed such a ‘positive spillover’ co-ordination in the EES/Lisbon strategy. As the crisis unfolded in 2008-9, several Member States appeared to put structural reform on hold, looking instead for a toolkit to deal with the threat of rising unemployment. Part of the problem is that many structural reforms do cause dislocation – ‘pain before gain’ could be the watchword. But there is also an awkward question about whether the EU level should play a central or marginal role, a question that has become more pointed during the crisis. Thus, in an essay on the challenges for the EU, the former Belgian Prime Minister Guy Verhofstadt (2008) encapsulated the concern when he posed the rhetorical question: ‘where has Europe been in recent weeks and days? Why the deafening silence from the Berlaymont?’.

In the present general political and macroeconomic context, policies adopted in the pursuit of other objectives could also be designed in such a way as to contribute to enhancement of key socioeconomic objectives, notably the furthering of flexicurity as a policy paradigm. One such example is provided by the current discussion of the introduction of a carbon tax in France. The aim of such a tax is to contribute to slowing down the carbon emissions through a lowering of the energy intensity of consumption and production, with the latter already subject to the European Emission Trading System. Given, however, that the tax would (ideally) be designed to be fiscally neutral by leaving the aggregate fiscal burden unchanged, decisions must be taken to use the additional tax revenue to lower other taxes, such as, for example, payroll taxes, already at a very high level in France.

There is a growing consensus that the post-Lisbon strategy will have to place climate change at the top of its list of priorities, and one of the arguments often heard is that 'green jobs' offer the prospect of a new and substantial net contribution to labour demand that should be supported by policy initiatives. If scenario 3 applies, this would be especially relevant insofar as it presumes that policy will have a prescriptive role in re-shaping the EU economy. Yet even if the thrust of policy is accommodating, as implied by scenario 1, rather than prescriptive an alluring element, for policy-makers is that 'green' jobs can be portrayed as yielding a double dividend by combining job creation and action on climate change. Some caution is needed here to avoid hyperbole. What constitutes 'green' is not as obvious as it sounds, and arithmetically the number of net new jobs at stake needs to be kept in perspective. Certainly, there are studies and projections that show impressive growth rates²⁷, but these are typically from a low base, and it has to be recalled that many such jobs are substitution (for example, from fossil fuel production to bio-fuels or even high to low consumption cars) that could lead to double-counting. Nevertheless, a recent study has highlighted the range of opportunities in sectors such as renewable energy, construction, public transport and in the recycling of materials (UNEP, ILO, IOE and ITUC, 2008).

B.2.3 Actors

In the governance of employment policy at EU level, the responsibilities and functions of different actors are reasonably clearcut, but in exploring whether they could be improved, it is necessary to ask, first, what flaws or gaps warrant attention and, second, whether they matter much.

There are two simple reasons for social partners and other civil society actors to be less engaged than might be hoped in the ideal form of the EES. A first is that they either lack the capacity to do so and find the expectations of them unrealistic in terms of providing input to the development of strategies or to the monitoring of implementation. The second is that it may just be more productive to engage directly in national policy-making, especially where the EES appears only to have a tangential influence. A much less positive view of what the EES achieves is offered by Gold et al. (2007) who find that the EES has, to some extent, shifted social dialogue as conventionally understood to what they call a form of 'managerialism' in which the social partners are called on to be reactive to, and to help to deliver, an agenda set elsewhere (for example in relation to targets), rather than setting priorities themselves. Gold et al. argue that the result may even be to alienate the social partners if they do not perceive a sufficient link to the sectoral issues that are their bread and butter.

A large survey of EES actors conducted by OPTEM (2007) finds a number of positive attributes of the EES from the perspective of these actors, although it notes significant national variations in how the EES is perceived and on what impact it has had. Not surprisingly, the survey finds reluctance on the part of national actors for any extension of

²⁷ UK Government forecasts suggest that 400,000 new jobs will be created in low-carbon industries over the next decade, in addition to the 880,000 jobs that are estimated already to exist in the sector.

recommendations, whereas EU-level actors take the opposite view. Confirming the message that emerges elsewhere, the survey finds, though, that the EES has not percolated downwards to 'national Parliaments, nor regional decision makers, nor a large number of social partners and representatives of civil society with the exception of those "specialised"'. The main directions sought for reform are to governance, processes and implementation, rather than content.

Other possible concerns are around the following:

- Legitimacy, insofar as there is a view that the European Parliament, the European Economic and Social Committee and the Committee of the Regions have, at most, only marginal input into the formulation of the Employment Guidelines or the monitoring of the EES.
- Systematic multi-lateral surveillance, engaging other Member States as well as the EU institutions and specialist Committees (EMCO, EPC) in exercising pressure on Member States to live up to the commitments they make.
- Whether recommendations for policy reform or for better implementation of reform programmes, based on different forms of scrutiny, are formulated and disseminated in a way that stimulates policy changes
- The extent of 'ownership' of reform programmes
- Whether the rejection of naming and shaming weakens discipline in keeping to programmes and whether indicators that could informally be used to draw up league tables are a sufficiently robust alternative

B.3 Empirical analysis

The previous sections of this part of the report point to some of the areas in which there is robust debate on what the EES does and does not achieve. This section presents new empirical findings that look further into these issues, based on summarising and interpreting the results of a questionnaire sent to Member State officials, together with insights from case studies conducted in seven countries by the study team. More detail on the conduct and findings of these two exercises is presented in appendices to this report.

The questionnaire sought information on the experience, up to now of, the employment elements of the Lisbon strategy (hereafter EES) and on the future of the EES beyond 2010. It was in two parts, the first of which covered the past and current operation of the EES, while the second was about reform. Questions were of two main types: 'tick-box' ones which asked the respondent either to select among a number of options or to give an ordinal rating; and open-ended ones that gave the opportunity to elaborate on a tick-box answer or to comment more generally. The main objective of the case studies was to examine in more depth the ways in which EU governance process affect policy in the Member States and to identify the reforms that different stakeholders would like to see.

Although offering different perspectives and, on occasion, yielding contradictory views, the combination of the survey of Member State officials and the case studies helps to deepen understanding of how the EES has functioned and to pinpoint priorities for its future. This section therefore presents a synthesis of the findings from the two exercises and, in so doing, distinguishes between issues that attract broad agreement and those that are contested.

B.3.1 The functioning of the EES and its influence on national policies

The operation of the EES was explored from a variety of perspectives. A balanced overall interpretation of the answers to the survey is that the EES functions in a reasonably satisfactory manner from the perspective of officials who are close to it. However, a second

key message is that the direct effect on national employment policies is somewhat limited. The latter finding was reinforced in the case study results, especially from the standpoint of other stakeholders (including the social partners), suggesting that there might be unrealistic expectations about the direct benefits of co-ordinated employment policy. A further point to emerge emphatically from the case studies is not an unexpected one, namely that the EES is largely the preserve of a limited number of members of policy 'elites'.

Even so, the findings also suggest that there are different ways in which the EES exerts an influence, and the evidence from the case studies is that the EES has widened horizons and pushed Member States to be more receptive to new themes and ideas in employment policy. This is especially true for countries like Poland which have been induced to develop a broader conception of employment policy, although for the likes of Denmark and the UK (both of which had employment policies already fairly well-aligned with the aims of the EES) the impetus to change was noticeably lesser. The case studies confirm flexicurity as a framework that has gained traction and, in several Member States, there are clear indications that activation has become more prominent as a policy priority, highlighting the 'push' coming from the EES.

Various shortcomings were identified from responses to the survey, again reinforced by the case studies. They include the fear that trade-offs between economic and social/employment policy are not sufficiently recognised, and that integrated guidelines are not always as well integrated as the term implies. There is a related concern that Member States do not give sufficient priority to increasing employment within the Lisbon Strategy, and a sense that economic imperatives seems to dominate over employment, let alone social cohesion goals. The case study findings suggest that many of the expectations of the EES have not been attained, notably the well-known shortcomings in ownership, visibility and consultation.

Within the range of policy priorities in the EES, most Member States find some inspiration to enhance national policies. Some interlocutors referred to specific objectives, such as active ageing, work-life balance or raising the employability of target groups, while others mentioned institutional development, such as initiatives to modernise public employment services, and there was wide endorsement of flexicurity policies. The Mutual Learning Programme was seen as a strength and the facilitation of network building as valuable. The EES may also help to draw attention to externalities and thus to deter policies that could be deemed to be 'social dumping' in the sense of having adverse effects on other Member States. The cognitive elements of the strategy, notably the scope for finding out about what peers do and being pushed to consider a wider range of options, are important. Yet the case studies reveal a nagging doubt that Member States tend to see the EES more as a reporting mechanism and a light steer in certain directions than a core component of policy-making.

B.3.1.1 Process

Although the procedures at the heart of the EES appear to be accepted, criticisms surfaced about the nature of reporting and evaluation, with (perhaps inevitable) calls for simplification. Issues raised included whether exchange of best practices most relevant for Member States could be improved. Questions on EMCO elicited the response that it can be a valuable forum for exchange of experience, but that the potential benefits of this function could be enhanced by better preparation of meetings and by fresh thinking on how to share experience. Other stakeholders reported only marginal connection with the EES process, and many interviewees indicated that they were not really aware of the expectation that the EES should engage them.

Several Member State officials express reservations about targets, suggesting that they are too general and need some flexibility to take account of national circumstances and practices. The key is correct policies and there is need to recognise that what may be a problem for one country should not be presented as a problem for the the EU as a whole. Regarding ownership, the case studies confirm the difficulties, yet struggle to identify ways

forward unless politicians are willing to show more of a lead, giving the impression that the EES is on the sidelines of national policy discourse. Its image is of being a highly technical, administrative process which is rarely visible in the political sphere and mostly absent from political debates, while media interest is scant.

Examination of National Reform Programmes reveals that countries differ in the extent to which they refer explicitly to country-specific recommendations, while interviews with various stakeholders suggest that there is not great awareness of these recommendations, even among those close to policy-making circles. It is difficult to know whether policies are actually changed as a result of recommendations or, instead, whether they are paid lip-service. Here again, countries for which the orientations provided are more of a novelty seem to be more receptive than those which have long had employment policies consistent with the EES. Social partner engagement seems to reflect national traditions, although even in Member States in which the social partners have an established role in socio-economic governance, their involvement with the EES can be limited.

In relation to mutual learning, comments suggest that officials can find it useful to learn about what other Member States do, but also that the more emphasis could be placed on translating the lessons into practice. A concern articulated by other stakeholders was, though, that the formal mutual learning mechanisms only reach a fairly narrow range of labour market actors.

B.3.2 The future of the EES and possible reforms

No Member State official was opposed to the continuation of the EES, which can be interpreted as a vote of confidence in the benefits of EU level co-ordination of employment policy – even allowing for the fact the respondents are ‘insiders’. However, opinions diverged in some respects on what should or should not be retained and on where changes were needed. Mixed views were expressed by officials and by other interlocutors interviewed as part of the case studies about the merits of a closer integration of social inclusion. For some, clear and limited objectives are vital, while others consider that social aspects cannot be separated, especially in current circumstances.

It is difficult to draw unambiguous conclusions from these responses about the future of the EES. Certainly, an inference to draw is that the EES should continue, and that features such as the National Reform Programmes and the Integrated Guidelines are needed, but reservations about more extensive use of targets are also noteworthy. A possible conclusion is, at least for those most directly implicated in the EES, that a post-2010 EES should not change much from the current framework and that there would be resistance to reforms, such as more open peer reviews, that might be advocated as a means of raising the visibility of the policy process.

B.3.2.1 Consequences of recession

Three principal strands of opinion could be discerned in the survey responses to questions about the impact of the recession, of which much the most frequent is the emphasis on the importance of reconciling short-term and longer-term actions. A second, related point is a concern that some of the advances of recent years risk being undone as countries seek ways to mitigate the effects of the recession, while the third is that exchange of experience still has an important role in these more troubled times. A speculative finding from the case studies is that a ‘regime change’ associated with the current financial and economic crisis could raise pressures for efforts to look for European solutions. But it might, conversely, engender a retreat to national policy-making, reflecting tensions arising between national pressures ‘to do something’ and the common good of an enhanced EU labour market.

B.3.2.2 Guidelines and targets

Although guidelines are recognised to be vital in establishing a common framework for employment policies and establish sound principles for action, there is an evident concern about their breadth and 'suit-all' character. A general message is that much of what is already in place needs to be continued, notably an emphasis on: ALMP and employability, including better targeting of disadvantaged groups; integration of vulnerable groups; training, upskilling and LLL; and certain areas considered to be neglected by the market, such as gender equality and quality of work. Flexicurity and modernisation of social protection and education systems were repeatedly stressed by those consulted. However, caution should be exercised in areas which are best dealt with at the national level, such as wage bargaining, EPL, family policy and immigration, and where Community actions cannot make a difference, with some interlocutors opposed to their inclusion in the guidelines. Ensuring that the guidelines continue to address the EU's long term main policy goals, including adequate labour supply, is seen as vital, but there should be some means of taking account of differences in national starting points in the interplay between guidelines and targets.

B.3.2.3 EES processes

There was support from survey respondents for a reinforced role for the Commission regarding the development and monitoring of Member State policies, possibly through more bilateral meetings, and while the annual assessment should be kept, some thought should be given to timetables. Better co-ordination between EU committees and improved alignment of common strategies to the national shared objectives were also advocated. More visible linking of peer review outcomes and country-specific recommendations was suggested – a change that might also prompt some reflection on how the reporting cycle and peer review can best be linked.

Member States have changed substantially over the last decade in their policy approaches and receptiveness to new ideas, implying that key mechanisms such as mutual learning should focus more in future on practical matters, rather than issues of principle. Some widening of inputs into, and the reach of, mutual learning would be justified, a sentiment that was echoed strongly in the comments of stakeholders interviewed for the case studies. More generally, many of those consulted implied that the scope for policy learning could be enhanced.

From the perspective of officials, one way to simplify the structure should consist in the identification of few politically relevant objectives, such as flexicurity or active ageing policy, at Community level combined with country pathways. In this way, the EES would be identified with an unambiguous objective, while, at the same time, countries would have a clear guidance on how to reach the goal. Yet the social partners, especially, were wary of a process that relied too narrowly on governmental actors.

B.3.3 Implications of these findings

Although the questionnaire and the case studies have their limitations, they help to identify a number of areas in which the EES could be improved. Responses about the mutual learning programme and the country-specific recommendations suggest that, while they are seen as worthwhile, they have at best only an indirect effect on national policy-making. This can be interpreted either to mean that these mechanisms of governance need further thought, or that they have been subject to unrealistic expectations. It should nevertheless be recalled that there are diverse forms of learning that can be promoted by the EES and they are certainly not limited to direct policy transfer (Zeitlin 2009a). A good example is the result that a majority of respondents felt that they had been pushed to look at previously neglected areas of employment policy.

The elite-driven nature of the EES can mean that intricacies of the OMC and the changes that have taken place in the governance of the EES/Lisbon strategy neither excite nor

motivate other stakeholders. Unsurprisingly, attempts in the case study interviews to draw out suggestions for reform elicited at best general orientations, rather than specific proposals. However, the absence of frequent direct references to the EES and the Lisbon process in the public debate should not be taken as evidence that there is no influence at all from the European level on employment policy. A notion of *influence by osmosis* is, consequently, one that deserves to be stressed as a key contribution of EU level policy co-ordination. It suggests that attention should be paid to 'policy marketing' in the sense of ensuring that labour market actors are made aware of the underlying principles and goals, as well as the more immediate prospects of adapting and adopting policies from other Member States.

The fact that flexicurity has moved up the agenda in several of the case study countries can arguably be at least partly explained by the doors opened by the EES. Yet a clear finding is that neither the Lisbon strategy nor the EES (whether within Lisbon or when it was a separate 'process') has any real visibility or salience in national policy debates. This has been noted in all cases and a variety of explanations are offered: in France, a suggestion is that it is because of the French political system, which encourages a form of 'localism' that leads most French politicians to be more interested in local matters than in European policies. According to Cohen Tanugi (2008), this might also be related to the size of the country: because France is a large country, the degree of internal heterogeneity is high, which makes it more difficult to build a consensus on common guidelines. There is a tendency, as in Slovakia, to go through the motions of preparing documents 'for Brussels' and it is by no means only in the UK that euro-sceptical tendencies militate against greater engagement with OMC-based processes. There is also some suggestion that the EES and the operation of the European Social Fund are not seen as integrated.

A limitation, however, is that there are always going to be specific high profile priorities in any Member State and these will, understandably, dominate policy thinking and the attention of decision-makers. In Poland, current pre-occupations include reform of the Employment Service and ageing, while, in Slovakia, addressing long-term unemployment has been a main concern; in the UK closing the perceived skills gap is prominent, but in France activation has been a more consistent theme; and so on. A conclusion from the French case study sums up what the others find: the ambition to enlarge the political and democratic legitimacy of European policies through a better diffusion of the Lisbon Strategy has had very limited effects up to now.

Governments have a natural tendency to take credit for what works well and it may be that the EES will always struggle to demonstrate that it is the source of policy innovation. In any case, the findings of the case studies suggest that the bulk of the benefits of the EES arise not because of the grand vision or strategy, but accrue from a wide variety of effects on policy thinking, pressures to implement change and opportunities to learn about possible ways forward. For the next round of the EES, a credible conclusion is that it is important to build on this rather piecemeal approach instead of dwelling on grand designs.

B.4 Key messages about the governance of the EES

The research done for task B gives an overview of what works well, not so well or badly in the co-ordination of employment policy. In some respects, the findings are neither original nor surprising, but it is worthwhile to summarise the 'state-of the art'. Some of the conclusions drawn are, moreover, open to contestation, because it is in the nature of the forms of governance under investigation that different stakeholders have different expectations of them and might consequently have conflicting interpretations of the same phenomena or outcomes, depending on their policy preferences. This sub-section briefly summarises the strengths and shortcomings of the EES today, thereby providing a backdrop to the reform proposals outlined in the next part of this report.

B.4.1 The main strengths of the system

Drawing on the research done for this study and the wider evaluation and policy literature, a number of features of the EES can be identified as strengths:

- There appears to be wide support for the underlying model of co-ordination and, broadly, for the policy objectives set.
- A broad acceptance of the specific goals and, at least on the surface, a reasonably convincing Member State commitment to pursue national reform programmes. The overarching targets, for example for employment rates, are considered to be useful, even though they are open to the criticism that they are appropriate for the EU as an aggregate, but less useful for any individual Member State.
- The coherence of reform programmes has improved and there are encouraging signs that national economic strategies are tilting more towards 'compliance' with the Lisbon agenda.
- Mutual learning as a means of enhancing the quality of policy seems to be well-regarded as a policy tool.

B.4.2 Less satisfactory features

Although its strengths are by no means negligible, there are many respects in which the EES does not live up to expectations and, as a result, does not function as effectively as its architects hoped. They are:

- A continuing lack of visibility and ownership in national policy-making and policy discourse.
- The fact that the integrated guidelines are so broad that they enable just about any policy mix to be consistent with them.
- Implementation, despite the fact that some improvements can be seen, remains patchy and there is still a propensity to comply with form rather than substance.
- A dichotomy in approaches, with some Member States presenting forward-looking reform programmes, while others largely report what has been done.
- In some Member States, very limited engagement of civil society in the governance of reform in what remains an elite dominated process.

C: Recommendations for reform

The current recession has had very uneven consequences for national labour markets and there is a marked contrast between countries experiencing a very quick increase in unemployment, like Spain, Ireland or Latvia, and countries where its growth so far has been limited (France, Germany). Policy responses exhibit common many trends, including: maintaining workers in employment through adjusting working-time arrangements and reduction in non wage labour costs; promoting activation through strengthened employment services; training and temporary direct jobs creation for hard-to-place individuals; and supporting the income of the unemployed through unemployment insurance or social benefits (see OECD, 2009, *Employment Perspectives*, chapter 1). But there have also been differences and such differences in labour market trends and policy responses make it more difficult to define common priorities in formulating future strategies, both for the exit from the crisis and for the longer-term. The great dilemma for employment policy is how best to mitigate the effects of the recession and its aftermath, without compromising longer-term objectives. Governments will be making hard choices about budgetary measures as the emergency stimulus packages are unwound, so that a full appreciation of alternative ways of proceeding will be helpful.

C.1 Introduction and main themes

The purpose of this section is to set out some of the main orientations for reform of the EES/Lisbon strategy that follow from the analysis undertaken in the context of the study and presented in the previous sections. It therefore draws on the findings from the empirical work presented in previous sections, as well as on the foregoing assessment of how the governance of the EES functions.

Throughout, the possible implications of the three scenarios outlined in section A.1.4 are considered. It is in the nature of scenarios that they provide a stylised description of possible developments rather than a prediction, so that, in relation to recommendations, their purpose is to shed light on the 'what if' questions that could arise and the corresponding solutions that could be envisaged. It is also likely that the outcome will be a combination of different parts of the scenarios, and that there will be differences over time and among Member States, rather than a single story-line that fits all. Scenario 1 or 3 would best describe the likely policy context and choices if the more positive economic news of recent months builds a renewed momentum for growth rapidly, whereas Scenario 2 could well apply if the 'hangover' from the crisis lasts for three or four years rather than a further two or three quarters. Similarly, there are disparate explanations for the EU as a whole falling into recession and the current problems facing individual Member States, while uncertainties surround possible trajectories for recovery. Those Member States which have had a conjunction of excessive credit growth and a runaway construction boom cannot be expected to recover in the same way as countries which have been hit primarily by the weakness in export markets.

Moreover, as Bosch et al. (2007:263) put it: 'focusing only on the institutions that have traditionally been seen to constitute national employment models provides a very shaky foundation for any attempt to explain patterns of change and development in employment. In any future employment policy there will be both national policy issues to confront and a need for Community level action. It is also noteworthy that the 2004 and 2007 enlargements of the EU have manifestly increased the diversity of employment (and social) models and are likely to have increased the range of economic challenges that any strategy has to cover.'

C.1.1.1 An underlying narrative

The balance of opinion derived from the various qualitative exercises done as part of task B and summarised in section B.4 favours retaining the EES within a re-invented growth and jobs strategy. Changes of emphasis are, though, likely to be on the agenda, so that in considering possible reforms of the content of the EES, some thought needs to be given to the underlying aims. The default position is likely to a widening of the 'more and better' jobs theme already at the heart of the Lisbon strategy/EES, to embrace a fairness and security agenda, with the fallout from the crisis reinforcing the salience of this third element. In this regard, the notion of *empowering people in inclusive societies* put forward in the Commission's 24th November 2009 consultation paper on EU 2020 is a headline.

However, the EES at present is open to the criticism that it places disproportionate emphasis on the 'more' and that it neglects issues of job quality except insofar as they affect productivity and, thus, EU competitiveness. Job quality is, however, also about personal circumstances, making work rewarding in senses other than financial and, often less visibly, work-life balance, not to mention job satisfaction. In addition, there is an emerging policy agenda about the sustainability of jobs, both from environmental and social perspectives, with the term 'sustainable' also apposite as a description of jobs that can last. To try to capture these aspects of the medium- to long-term objectives for EU-2020, the following options for headline 'slogans' are proposed:

- More, better and sustainable jobs
- More jobs for Europe; better and sustainable work
- More jobs and productive work; better and sustainable employment

The nuances between these slogans are at once obvious and subtle, and they also connect to the scenarios. Thus, the first slogan has three poles which could lead to tensions in some circumstances, but are also capable of complementing one another. In scenario 1, it could be that more weight would be given to the 'more' and the 'better', whereas scenario 2 might emphasise 'more' and scenario 3 the 'sustainable' element. The second slogan tries to put more emphasis on the sustainability of work and deliberately introduces an element of ambiguity around the different dimensions of 'sustainable'. In the third slogan, the use of 'productive' is intended to convey a stronger link to the productivity aims of the Lisbon strategy. The study team does not seek to express a firm preference for one or the other, but wishes to raise the issue for debate.

Many specific policy themes have been floated for employment policy in the next decade, some of which are both sensible and necessary, while others risk being somewhat fanciful. Underlying the calls for reform is a desire, on the one hand, to modernise the employment 'model' so that it is responsive to the exigencies of the labour market of the next decade, while, on the other, there is a concern to preserve cherished aspects of the European social model(s). However, one of the shortcomings of many attempts to classify European social models is that manufacturing is generally portrayed as being central to the understanding of the competitive position of the economy and of the functioning of the labour market (Bosch et al., 2007). With the service sector not only accounting for the great majority of employment, but also a substantial contributor to competitiveness, a focus on what matters to manufacturing (or to the forms of work organisation characteristic of it) is increasingly anachronistic as an analytical approach. One facet of the knowledge economy revolution is that the lead sectors that shape economic and employment trends and interactions are now in 'new' industries such as information technology and no longer conventional manufacturing. That said, manufacturing itself has been transformed, and in much of the EU is much less about turning raw materials into physical products than about how knowledge is embedded in these products (Brinkley, 2009).

C.1.2 Overlapping and distinctive challenges

As has been repeatedly stressed in this report, employment policy over the next decade will manifestly have to find a compromise between two main imperatives: dealing with the fallout from the economic crisis; and equipping the EU labour force for the shifts in labour supply and patterns of labour demand that will result from underlying shaping factors. A key question in this regard is whether the 2008/9 recession has itself become a fundamental shaping factor for employment prospects or whether it should be seen, as described in scenario 1, as little more than a 'bump-in-the-road' that has to be circumvented. Although the intensity of the recession has taken most commentators by surprise and has manifestly interrupted progress towards the goals of the Lisbon strategy and the EES, an optimistic interpretation would be that the interruption is temporary. The more pessimistic assessment embodied in scenario 2 would see an enduring impact, for example by damaging the prospects for the current cohort of labour market entrants and preventing the activation of groups subject to social exclusion or other forms of inhibition to employment.

C.1.2.1 Mitigation of the immediate effects of the crisis

An important consideration is that until recovery takes hold, the aggregate volume of work will be below trend, so that some means of accommodating this shortfall will be required. Plainly, there is neither an ideal nor a painless solution, yet experience suggests approaches that have lesser or greater longer-run impacts on the labour market. The approaches can, essentially, be grouped under six main headings, but can be expected to include a combination in any setting, depending on the institutional context and policy preferences of the government concerned.

- Reduced time working and job sharing
- Allowing the downturn in demand to translate into higher unemployment such that the 'purgative' effects of recession are able to operate – this might be called a pro-market approach
- This may also imply to increase the generosity/coverage of unemployment insurance (and other social benefits) in order to limit social consequences/ there are examples in 2008 and 2009 of countries reforming their UI to allow more people to benefit from it (France, for short term contracts for instance/ Germany...)
- Facilitating withdrawal from the labour force on similar grounds
- Labour cost subsidies
- Keynesian job creation schemes relying on public sector borrowing. Such policies are, implicitly, already being implemented through the various national stimulus plans, including the €5 billion European Economic Recovery Plan agreed in March 2009.
- Focused use of ALMP to limit long-term unemployment and the marginalisation of vulnerable groups

Various forms of reduced time working have already been implemented as the recession has deepened, some as a result of collective agreements, others instigated by policy-makers. As a generalisation such schemes have the virtue of preventing job destruction that may have damaging long-term consequences, but they risk becoming increasingly untenable if the economy continues to stagnate. The unemployment and labour market withdrawal option are, manifestly happening by default, although substantial efforts have been made to mitigate them. Labour subsidies have, in effect, been granted to some sectors of activity through direct assistance (including car scrappage schemes) and in some countries through cuts in social charges. Commitments to ALMP vary from country to country, not least because of the cost to public expenditure and the extent of the damage to public finances during the recession, but could have a vital role to play in the latter stages of the recession. The fact

that unemployment is typically a lagged variable is salient, as improvements in public finances as the economy recovers could coincide with the sorts of problems that increased spending on ALMP is suited to counter.

C.1.2.2 Longer-term priorities

However, it is also important for EU leaders to consider their longer-term goals for the structure of the economy and the labour market. Scenario 1 would imply largely going with the flow, whereas scenario 3 puts socio-economic change centre-stage, thereby inviting policies that re-orientate economic structures. Strategic directions agreed now could result in ten years time in an EU economy and labour market that are radically different from the one that would emerge under scenario 1. The ideal policy response is one which integrates both the short-term imperatives of recovery and the preferred longer-term dimensions, but while such 'double-dividend' approaches are easy to articulate in theory, realising them in practice is much more complicated. Integrated policy which combines support for recovery and progress towards longer-term goals should, nevertheless, be the watchword for a post-2010 approach.

Some of the required orientations for policy were diagnosed in the report of the *Employment Task Force* (ETF), chaired by Wim Kok and published in 2003, and it is worth recalling the policy prescription and remembering that the wheel does not always have to be reinvented:

To boost employment and productivity, it is clear that success in Europe will depend on four key requirements:

- *Increasing adaptability of workers and enterprises*
- *Attracting more people to the labour market*
- *Investing more and more effectively in human capital*
- *Ensuring effective implementation of reforms through better governance.*

In responding to these requirements, Europe should make better use of the many examples of good practice that exist.

C.2 The approach to guidelines

Both the current and any future European Employment Strategy are, or will be, made-up of over-arching aims, policy content embodied in targets and guidelines, and governance procedures. Governance, in this regard, encompasses policy formulation and implementation, monitoring, mechanisms for fostering policy learning and transfer, and wider issues of legitimisation.

A promising approach to rethinking the guidelines is to try, first, to ascertain whether there are significant omissions from the existing guidelines and, second, to explore how the influence of guidelines could be enhanced in the governance of the strategy. Possible omissions could arise either because an area in which reforms might be desirable has been overlooked or given insufficient attention, or because changes have occurred which require new approaches. Governance issues include how guidelines and targets interact with the strategic aims of employment policy, the cognitive and political salience of having guidelines as a means of framing policy objectives, and the scope for guidelines to underpin policy discipline and learning. To some extent the 'omissions' and 'governance' aspects can come together, for example if the absence of a guideline allows Member States to give lower priority to a topic if it is not explicitly mentioned in guidelines.

C.2.1 The current employment guidelines

Since 2003, the overarching aims have been full employment, quality jobs and an inclusive labour market that strengthens cohesion in the EU. The guidelines were initially agreed in

2005 when the Lisbon strategy was re-launched for the period 2005-08, and were retained without change for the period 2008-10. Consequently, by the end of the current period, the same guidelines will have been in place for six years and two 3-year cycles of the Growth and Jobs Strategy.

The existing guidelines are pretty comprehensive and can, without much contortion, be adduced to support most policies. However, this very comprehensiveness is both a virtue and a weakness, the latter because it means that Member States can too easily deem any policy choices they make to be compatible with the guidelines. A brief inventory and interpretation of the existing guidelines is, therefore, a necessary starting-point for reform proposals.

The eight existing employment guidelines (GLs) range from very broad articulations of objectives and targets to much more specific orientations for policy-making. They cover various supply side and policy process issues and, to a lesser extent, some demand side concerns. Although the main focus is on inputs, some of the aims set out in the guidelines relate to outputs. An appraisal of the individual guidelines follows.

GL17 is an all-embracing one which asserts the three overall aims of the EES:

Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

The accompanying text goes on to mention very broad priorities to do with employability, adaptability and investment in human capital, yet it also contains the very specific targets for EU employment rates to be reached by 2010 (70% overall, 60% for women, 50% for older workers) and a statement that Member States should consider national targets.

>> In practice, this is not so much a guideline as a statement of overall objectives, despite the explicit targets in it.

GLs 18 (promotion of a life-cycle approach to work) and 19 (ensuring an inclusive labour market and making work attractive) focus on a variety of more specific labour market measures that would promote employability and the incentives to work. As such they concern the supply-side. But GL19 also refers to the development of new sources of jobs, which is about the demand for labour. GL18 refers to modernised social protection which is also a prominent element of subsequent GLs.

>> The components of these two guidelines could be recast to focus more explicitly on different facets of employability and activation, on the one hand, and on labour demand on the other.

GL20 (matching labour market needs) also has elements of labour supply (cross-border mobility and immigration), with separate elements of labour market governance to do with anticipation of key trends and enhancement of institutions such as employment services

>> The labour supply elements could be integrated with those from GLs 18 and 19, whereas the governance elements could be separated.

GL21 (flexibility combined with employment security) can be regarded as a 'flexicurity' guideline, and includes priorities on reform (stated as 'adaptation') of employment protection, yet also brings in aspects of work organisation and job quality. Anticipation of trends is mentioned, but linked in this instance to management of change in a socially just manner.

>> The social protection reform priorities could be brought together with those from GL18, while a separate focus is given to job quality. The anticipation elements might be better if associated with the latter part of GL19.

GL22 (employment-friendly labour cost development) embraces the role of social partners in wage-setting, but with a reference to gender pay gaps, then invites scrutiny of non-wage labour costs. A link to macroeconomic guideline 4 on wage developments is mentioned, but not elaborated.

>> This is a coherent guideline, but could be regarded as somewhat tame insofar as it skirts around the issue of whether overall labour costs trends should be a firmer priority.

GLs23 (investment in human capital) and 24 (adapting education and training systems) are about different forms and stages of education, training and learning strategies. GL23 makes one allusion to sharing the cost burden, but does not elaborate, while GL24 also mentions new forms of cost-sharing.

>> As all-embracing guidelines relating to human capital development and the systems behind, these two guidelines are wide-ranging, but coherent. However, they could also incorporate the provision on education in GL17, and there might be scope for integrating some of the social protection reform options into funding of human capital enhancement.

Collectively, the guidelines could be restructured to give a better focus in each on more specific aims, although it is a moot point whether doing so would greatly alter their overall effectiveness or impact. Moreover, the findings from the research done for Task B suggest that governments are always likely to be selective in what they pick from the guidelines. In addition, policy initiatives that cut across employment guidelines (and, in some cases, also link to either macroeconomic or microeconomic guidelines) are bound to be launched by governments and they will be reluctant to compartmentalise policy-making to conform to the boundaries of the guidelines.

C.3 Towards a new approach

Because several of the current guidelines cut across key labour market themes, some shifts in emphasis and the policy content should be considered. It is, therefore, proposed to focus the guidelines on four themes that are analytic, rather than political in character. These are:

1. Labour supply and human capital enhancement (pillar 1);
2. Boosting demand for labour and skills (pillar 2);
3. Matching of demand and supply, adaptability and institutions (pillar 3); and
4. Quality and sustainability of work (pillar 4).

Bearing in mind the different scenarios for the coming years, one option that has been explored is whether it would make sense to have separate packages of guidelines depending on the assessment of which scenario appeared best to describe the context. This approach has its attractions, but would also create complications. First, in the debates around reform of the EES, there is some demand for simplification which would both favour a reduction in the number of guidelines and avoiding change. For instance, if scenario 2 gives way after an initial three-year cycle to scenario 3, whether for the EU as a whole, or for groups of Member States that experience contrasting trajectories out of the crisis, then it could be disruptive to start afresh. Second, to the extent that the guidelines represent a model for good employment policy, they can be seen as a broad template, but there is also scope for Member States to exercise some discretion in setting priorities. In addition scrutiny processes can focus on the short-term adjustments the Member State should make and highlight them in country-specific recommendations, while keeping common guidelines help to keep longer-term goals in sight. A third point is that the ownership and visibility aspects of the EES would be harder to advance if there were a profusion of guidelines.

Consequently the approach recommended is to have a single framework for guidelines, but to complement it by re-casting the other governance procedures. In this section we present a proposal for a structure comprising four pillars (drawing on pre-2005 terminology) that would each bring together a number of guidelines, but which could equally be seen as four guidelines which have multiple parts to them. In this exercise, we have picked the parts of existing guidelines that are considered to fit best together and added existing or new targets

and accompanying text, all of which come together to define the aims for policy content. For each of the proposed pillars, the following subsections set out:

- The motivations for the guidelines and how they relate to the major drivers of change in the labour market and policy challenges for the next decade;
- Priorities for employment policy that the guidelines seek to address;
- The elements to be included in detailed guidelines and the targets (qualitative as well as quantitative) that could be associated with the 'pillar';
- How the guidelines might be interpreted under the three scenarios

C.3.1 Labour supply and human capital enhancement (Pillar I)

For a 2020 horizon, the conjunction of demographic trends and globalisation as long-term drivers of change in the labour market suggests that a first pillar could be around **labour supply and human capital enhancement**. Elements of the existing guidelines (notably those that bear on employability, activation, making work pay and skills upgrading) obviously address labour supply, but there are emerging issues - such as how to integrate management of immigration – that could benefit from being included in a labour supply pillar. Means of overcoming obstacles to labour supply, for example in relation to child-care and changing family structures, would also feature in this pillar.

C.3.1.1 Motivation for the pillar and policy challenges

Although to varying degrees, nearly all Member States will face a steady increase in the ratio of the dependent elderly population to the working-age population. At the same time, competitive imperatives will mean that the EU will have to ensure a sustained increase in the qualifications and skills of workers to underpin its economic prospects. For the next decade, core challenges will be to move the employability agenda beyond activation and participation of specific segments of the labour force, so as to give greater emphasis to the aggregate labour supply and its quality. Manifestly, ensuring that employment rates of marginalised groups are increased will, of itself, help to raise aggregate labour supply, but the challenge will also be to develop reform strategies that take account of the need for more and better qualified workers.

C.3.1.2 Priorities for employment policy

Promoting labour supply, a lifecycle approach to work and modernising social protection systems to ensure their adequacy, financial sustainability and responsiveness to changing needs must be emphasised. Special attention should be paid to substantially reducing the persistent employment gaps between women and men, and the gender pay gap as an aspect of making work pay, as well as a social goal. Further increasing the employment rates of older workers and young people, as part of a new intergenerational approach, and promoting active inclusion of those most excluded from the labour market is also important.

The four principal components of this pillar are:

- To increase labour supply for specific groups through making work pay (unemployment and social benefits) as well as pension reforms and contractual terms that give incentives for older workers
- Life cycle approach to work (including specific obstacles to labour supply like the lack of childcare or elderly care)
- Human capital (initial and vocational training)
- Immigration

Policy will have to distinguish between desired outputs (above all employment rates and skill attainment) and policy variables that facilitate the realisation of goals (childcare, training and education rates, and so on) and they should be set out in dynamic terms, given the disparities between countries (for example in childcare or employment rates), while taking account of possible developments over time.

C.3.1.3 Guidelines to be included and targets

Several of the existing guidelines contain advice that relates to employability and to increasing labour supply, much of which will continue to be relevant for this pillar. However, the suggested emphasis over the next decade should be more on the overall labour supply as the headline aim, but with more specific advice on a range of complementary elements.

A lifecycle approach to work should be promoted through:

- Enhanced efforts to build employment pathways for young people, with special attention to those most excluded because of location, ethnicity or social circumstances;
- Effective action to increase female participation and reduce gender gaps in employment, unemployment and pay, notably through innovation in work organisation;
- Better reconciliation of work and private life and the provision of accessible and affordable childcare facilities and care for other dependants;
- Support for active ageing, including appropriate working conditions, improved health (including occupational), adequate incentives to work and discouragement of early retirement.

This approach should, at the same time, ensure that work pays for all workers and job-seekers, so as to diminish unemployment, poverty and inactivity traps, including by:

- Active and preventive labour market measures including early identification of needs, job search assistance, guidance and training as part of personalised action plans, provision of necessary social services to support the inclusion of those furthest away from the labour market and contribute to the eradication of poverty,
- Continual review of the incentives and disincentives resulting from the tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, while ensuring adequate levels of social protection,

Full consideration must also be given on the national labour markets to the additional labour supply resulting from immigration of third-country nationals. Although existing GL 20 refers to managing economic migration, a sharper labour supply focus calls for some elaboration to include the sorts of migration that should be countenanced, how migrants are to be integrated and the formal status that they can expect.

To enhance access to employment for men and women of all ages, raise productivity levels, innovation and quality at work, the EU needs higher and more effective investment in human capital and lifelong learning. In particular:

- Knowledge-based and service-based economies require different skills from traditional industries; skills which also constantly need updating in the face of technological change and innovation.
- To achieve a substantial increase in per capita public and private investment in human resources and guarantee the quality and efficiency of these investments, it is important to ensure fair and transparent sharing of costs and responsibilities between all actors.
- Also of importance is the need to adapt education and training systems in response to new competence requirements and the validation of non-formal and informal learning.

Targets for this pillar could include:

- an increase in the effective average exit age from the labour market
- an increase in the provision of childcare
- a decrease in the average rate of early school leaving;
- an increase in the share of young people that have completed upper secondary school
- increases in the employment rates of first and second generation immigrants and of spouses of recent economic immigrants
- measures of training intensity

C.3.1.4 Implications of the scenarios

Assuring a sufficient supply and quality of labour is a long-term goal that will be subject to different pressures as the EU economy contends with and emerges from recession. Under scenario 1, as noted in section A.1.4, much of the agenda of *New Skills for New Jobs* will quickly reassert itself, suggesting that skills upgrading should be to the fore. By contrast, under scenario 2, preservation of skills would be more prominent and short-term increases in labour supply would, potentially, exacerbate measured unemployment. Even so, the prospect of higher rates of inactivity cannot be viewed as desirable. Scenario 3 would entail changes in the orientations of education and training systems towards the human capital consistent with forms of economic activity that are sought. In parallel, scenario 3 could call for a more subtle approach to immigrants with the globally scarce skills needed for the sectors of economic activity towards which the EU wishes to steer.

C.3.2 Demand for labour and skills (pillar II)

There are assorted labour market issues that affect the **demand for labour and skills** that can be grouped under a second pillar. Facilitation of the expansion of new jobs and containing non-wage labour costs are in the existing guidelines, but here too some new orientations can be put forward, including the promotion of flexibility in the terms of employment for the worker, as well as measures that might shape how willing employers are to increase recruitment.

C.3.2.1 Motivation for the pillar and policy challenges

The demand for labour in aggregate is, inevitably, closely linked to the macroeconomic performance of the economy as a whole and will also be shaped by shifts in relative labour costs, the nature and extent of taxation on labour and other influences on competitiveness. There can, however, be a tension which policy has to reconcile between employment creation and productivity increases. It will be affected by trends in specialisation and by the pace at which new sectors develop while others decline. In particular, the opportunities associated with 'green' economy jobs could be an important part of this pillar, depending on the overall direction sought for change.

C.3.2.2 Priorities for employment policy

The central priority of this pillar would be to achieve an aggregate demand for labour that is as close as possible to full employment. In addition, the demand for specific segments of the labour force should receive attention. Finding ways to raise the demand for young employees and older workers, in particular, is a key challenge that can benefit from innovative approaches to employment contracts.

C.3.2.3 Guidelines to be included and targets

Increasing the demand for labour can be advanced by policies which strike an appropriate balance between productivity gains and the volume of employment. Targeted ALMP (see the example of youth which is already somewhat present in the guidelines), apprenticeships and other forms of inducement to take on younger workers, together with policies designed to deal with the consequences of restructuring can be used to steer labour demand towards vulnerable groups, although it will be important to stress additionality rather than substitution in such initiatives. Particular emphasis could be given to demand for labour that provides entry points for marginalised workers that put them on a path into sustainable employment. Possible areas to concentrate on include:

- New sources of jobs in the service sector (especially in expected growth areas, such as personal care), green jobs and anticipation of the possible trends in the patterns of jobs should be actively promoted.
- Containing the growth of labour costs, especially non-wage labour costs that create a wedge between what workers are paid and labour costs incurred by employers, should be recognised as a long-term priority. National wage bargaining systems are very varied, so that this is an area ripe for experimental approaches. However, the resistance signalled by survey respondents and the sheer difficulty of comparing labour costs because of the differences between nominal and effective costs have to be borne in mind.
- Imaginative approaches to job sharing and other means of spreading the available demand for labour, including the incentives for over-time.
- Regional balance in employment creation
- Job creation in the social economy and other forms of labour demand that could offer pathways to employment outside the mainstream labour market

Targets for this pillar would include:

- Targeted ALMP expenditures in % of GDP and/or ALMP participants in % of unemployment (available in Eurostat ALMP database)
- Job creation in some sectors or activities that are considered as priorities: social and health services, education, green economy (to be defined), others to be defined by member states
- Indicators of working time flexibility
- Guarantees of offer of jobs to target segments of the labour force within a specified period
- Indicator of the average time elapsed before a redundant worker is re-hired.

C.3.2.4 Implications of the scenarios

The content and emphasis of this pillar could be expected to vary significantly depending on the scenarios. Under scenario 1, the identification of barriers to boosting the 'new jobs' aspects of 'new skills for new jobs' would be centre-stage, whereas scenario 2 would imply much greater attention to managing the available demand for labour and finding solutions that assure that vulnerable workers maintain their connection with the labour market in circumstances in which a sustainable job is not available. The distinction between scenario 1 and scenario 3 would be that, under the latter, employment policy would seek more actively to support new jobs in designated sectors of activity, in contrast to scenario 1 in which the evolution would be market led.

C.3.3 Matching, adaptability and institutional reform (Pillar III)

A third area could loosely be characterised as a **matching, adaptability and institutional reform** pillar. In this, policies and mechanisms to assist in matching labour supply and demand would take centre stage.

C.3.3.1 Motivation for the pillar and policy challenges

An efficient labour market is one in which the available jobs are easily filled and in which institutional barriers to matching labour supply and labour demand are diminished. In the face of the competitive pressures associated with globalisation, the labour market has to be capable of adapting and avoiding rigidities that slow needed restructuring. Labour market institutions also have to be sensitive to the expectations of citizens about how they cope with transitions. Where pillars I and II are predominantly concerned with the content of policy, this pillar would be more about reform of the institutional framework and the role of different agencies in delivering better policy.

C.3.3.2 Priorities for employment policy

There are several challenges to be confronted, including reform and continuing enhancement of employment services, as well as better regulation of the labour market. The interaction between social protection systems and employment in advancing flexicurity would also feature here. Possible new areas could include proposals on how to make transitions pay, embodying new thinking that is associated with refinement of flexicurity. Provisions on worker mobility should also feature under this pillar. New forms of adaptation to changed labour market circumstances, such as regularisation of forms of employment previously (and often misleadingly) labelled 'atypical' is another likely element.

A further element that should be stressed under this pillar is to improve the engagement of social partners, especially, but also other stakeholders. The scope for doing so is conditioned by the national socioeconomic context, so that some sensitivity is needed in formulating guidelines. But consultation is widely stressed as a source of both better policy formulation and improved implementation of reform, and the scope for mutual learning in this area deserves to be highlighted.

Containing the growth of labour costs, especially non-wage labour costs that create a wedge between what workers are paid and labour costs should be recognised as a long-term priority. However, national wage bargaining systems and are very varied, so that this is an area ripe for experimental approaches. Moreover, the resistance signalled by survey respondents and the sheer difficulty of comparing labour costs because of the differences between nominal and effective costs have to be borne in mind.

These factors point to the following as key issues that employment policy should seek to address:

- Institutions and labour market rules: public employment service: resources/ efficiency; labour contracts and flexibility;
- Job search assistance and activation;
- Mobility (inside the country and inside the EU);
- Flexicurity and transitions over the life course (vocational training, social drawing rights employment insurance schemes...)

C.3.3.3 Guidelines to be included and targets

Assuring well-functioning labour markets that encourage more flexibility combined with employment security to meet the needs of companies and workers. This should include

employment legislation, reviewing where necessary the different contractual and working time arrangements:

- Proposals on flexicurity aimed at making transitions pay by introducing appropriate incentives. There is again a need here to look at how burdens are shared among the individual, the employer and the state.
- Anticipation of change, including timely action when significant restructuring occurs, so as to minimise the associated social costs and facilitate adaptation
- Removing institutional obstacles to mobility, such as pension portability or the recognition and use of learning outcomes and qualifications
- Better anticipation of skill needs, labour market shortages and bottlenecks
- Facilitating better consultation procedures with the social partners and other civil society interests

Targets for this pillar would include:

- That every unemployed person is offered a job, apprenticeship, additional training or other employability measure; in the case of young persons who have left school within no more than 4 months by 2010 and in the case of adults within no more than 12 months;
- That 25 % of long-term unemployment should participate by 2010 in an active measure in the form of training, retraining, work practice, or other employability measure, with the aim of achieving the average of the three most advanced Member States;
- That jobseekers throughout the EU are able to consult all job vacancies advertised through Member States' employment services;
- PES budget/ public expenditures for job search assistance (including schemes performed by private actors) – as a % of GDP and/or calibrated relative to the number of unemployed persons
- Mobility indicators: probability of transition from unemployment towards employment one year later; job to job mobility; proportion of the labour force coming from another MS/ or taking a job in another MS.
- Indicator of relationship between vacancies and unemployment
- Indicators of what can be labelled atypical employment (share of employed in temporary contracts), although in some respects, progress on alternative forms of employment could be regarded as positive

EPL indicators (such as the OECD's) are quite problematic in their construction and meaning; however, specific flexicurity indicators could be constructed, although it should be noted that they were not supported by respondents to the questionnaire.

C.3.3.4 Implications of the scenarios

Insofar as this pillar is concerned with a well-functioning labour market, it is not greatly affected by the scenarios on the grounds that an effective employment service and employment friendly regulation are desirable under all circumstances. However, the balance within the flexicurity nexus could be affected. Under scenario 1, the obstacles to flexibility might loom larger, while security is more of an issue under scenario 2.

C.3.4 Quality and sustainability of work (Pillar IV)

An issue that surfaces in a number of critiques of the EES is that it has been too orientated towards quantitative increases in employment headcount, to the neglect of wider aspects of

employment. The fourth pillar would bring together various aims to do with **quality and sustainability of work**, including equality of opportunity.

C.3.4.1 Motivation for the pillar and policy challenges

Expectations of what 'social Europe' delivers to citizens remain an important driver of change. An emerging rationale for this orientation is the links between quality and new forms of work and occupational mixes associated with the knowledge economy. Job quality and equality are, for the most part, presented as cross-cutting themes rather than specific proposals for policy reforms in the current guidelines, as a result of which they have appeared to lose visibility.

Much of what might be envisaged under this pillar would be about qualitative changes in the labour market aimed at addressing quality of life issues (job quality, life-work balance), while also including an emphasis on a socially just labour market. Thus, for female employment, it would go beyond simply raising the headcount and assuring equal opportunities to include aims related to the life-course of women in the labour force, including imaginative provisions for transitions. It is also important to stress the general importance of equality and equal opportunities in work with respect to income/pay, access to decent work and career opportunities for *all* groups on the labour market. The pillar could, reasonably, also incorporate policy integration in the sense of emphasising linkages between employment and the economic objectives set out in current GLs 1-16, but also to relevant aspects of the Social Protection and Social Inclusion OMC. A further orientation, from the perspective of policy integration, would be to include wider environmental concerns and 'green jobs'/'welfare jobs' under this pillar, extending the quality of work to include broader elements of the quality of life.

C.3.4.2 Priorities for employment policy

Possible themes to include under this pillar include:

- Working conditions policies, such as health and safety at work, but also promotion of innovative work organisation;
- Fighting against low wage traps and under-employment (incentives for employers to raise wages and/or working time for part time workers, training,...)
- Life course approach to work, including work and family/civil society reconciliation (facilitating transitions –especially for women, but also encouraging men to take some time for their children, periods of non profit work, sabbaticals, job rotation, etc.);
- Fighting against inequalities and discrimination (gender, age, nationality etc.).

C.3.4.3 Guidelines to be included and targets

Explicit advice on reinforcing equality of opportunity must be an essential element of this pillar, while elements of the guidelines should encompass various dimensions of 'better' jobs. These include provision for the increasing demand for job quality related to workers' personal preferences and family changes. Working conditions and contractual terms will have to cope with an ageing workforce and fewer young recruits. Changes in working status with associated risks of temporary losses of income should be better accommodated through the provision of appropriate modernised social protection

Modern forms of work organisation, promoting "good work" . They must also respond to the increasing demand for job quality related to workers' personal preferences and family changes, and they will have to cope with an ageing workforce and fewer young recruits. For workers, working life is becoming more complex as working patterns become more diverse and irregular, and an increasing number of transitions need to be managed successfully throughout the lifecycle.

The notion of fairness in the labour market should be highlighted in all its dimensions. Fairness in the sense of non-discrimination is an accepted element, but needs to be rigorously implemented and enforced. But the notion also applies to different stages of the life-course and a link to basic education should be made, as well as access to life-long learning and development of general skills such as in ICT.

Targets for this pillar would include:

Results

- Wage mobility (ascending): already among Laeken indicators. Especially relevant for low wage workers
- Probability of making a transition from part time to full time (for part timers)
- Involuntary part time (should be reduced in a number of member states)
- Gender wage gap
- Employment rate gap
- Rate of accidents at work and professional illnesses
- A synthetic indicator of job quality could be considered (along the lines defined in Employment in Europe, 2008 – see also section A.5 of this report)

Policies

- % of workers (or firms) covered by innovative time saving schemes (training accounts, time saving accounts, ...)
- Poverty rate
- Indicator of in-work poverty risk

C.3.4.4 Implications of the scenarios

There will inevitably be a temptation to say that in difficult economic times, especially if they endure as envisaged in scenario 2, the main priority will be job preservation and that qualitative elements of the labour market can be given less attention. But this would be a very short-term perspective and should be resisted. Scenario 3 does, however, point to a more extensive re-appraisal of the quality of life dimensions of the labour market.

C.3.5 Cross-cutting themes of the EES

Generally, a recommendation of this study is to make cross-cutting themes more explicit, not just in the sense that they should be relevant across the pillars of guidelines (i.e. a form of mainstreaming), but also in containing more prescriptive content. The cross-cutting themes could be portrayed as being about **guidance** to Member States on policy *design* (as opposed to **guidelines** on policy *content*). The present guidelines contain explanatory text which has been amended to a greater degree than the guidelines themselves and it would be possible to exploit this text to take account of differing circumstances and, by so doing to address the problem that common guidelines are desired yet criticised for being insufficiently geared to any individual Member State.

In this proposed reconfiguration, the main content of current GL 17 would become an overall statement of EES objectives and thus switch from being a guideline to a cross-cutting theme. There is a difficult choice to make about how best to handle flexicurity which can be viewed both as an over-arching model for the labour market **and** as shorthand for various specific reforms to render the labour market both more secure and more flexible (and thus central to pillar 3 as outlined above). Consequently it would make sense for a broad, over-arching statement of flexicurity principles to be included alongside raising the employment rate, aiming for full employment and better jobs.

A second broad cross-cutting strand would be to ensure that short-term actions to mitigate the consequences of the recession are consistent with (or not in conflict with) the medium- and longer-term structural actions set out in the guidelines. In previous economic downturns, policies that encouraged withdrawal from the labour force (such as through early retirement) had the negative consequence of cutting the supply of labour once better times returned. The relevance of this theme will depend in part on which scenario is most apt at each point at which reform programmes are reviewed, and may be more relevant for some Member States than others. Those countries which struggle to emerge from the recession (thereby conforming to scenario 2) might be asked to take more account than others of guidance along these lines. By contrast, those for which the recession turns out to have had only passing effects, as envisaged in scenario 1 would be pushed more towards longer term priorities. In this sense, the cross-cutting theme could be connected to the elaboration of country-specific recommendations.

Policy guidance might also stress the encouragement not only of experimentation, but also of greater transparency about the outcomes of innovative approaches. In particular, knowledge of what did not work or why it went wrong might be just as useful as an outcome of EU co-ordination as information about successes, even though there is a natural inclination for governments only to talk about their successes.

A further cross-cutting element would be to emphasise decentralised learning so as to exploit the potential of input not just from sub-national government, but also use of specialised networks, such as public employment services, networks of educators or training providers or (in Member States where their role lends itself to such learning) the social partners. This would recognise that mutual learning is a key element in the EES but also that the Task B evidence suggests that there is room for improvement and enhancement of learning mechanisms. Bringing these proposals together would suggest the architecture portrayed in the chart below

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	Pillar of guidelines	Pillar I Labour supply and human capital	Pillar II Demand for labour	Pillar III Matching, adaptability and institutional reform	Pillar IV Quality and sustainability of work
Cross-cutting guidance		↓↓↓↓↓↓↓↓↓↓↓↓	↓↓↓↓↓↓↓↓↓↓↓↓	↓↓↓↓↓↓↓↓↓↓↓↓	↓↓↓↓↓↓↓↓↓↓↓↓
Over-arching aims of the strategy, including flexicurity	⇒⇒⇒⇒⇒⇒	GUIDELINES TARGETS TIMETABLES			
Longer term effects from mitigation of recession	⇒⇒⇒⇒⇒⇒				
Experimentation	⇒⇒⇒⇒⇒⇒				
Transparency	⇒⇒⇒⇒⇒⇒				
Devolved learning	⇒⇒⇒⇒⇒⇒				

C.4 The EES as a governance process: procedures, targets, surveillance and monitoring

Unsurprisingly, past assessments of the EES reveal diverse views on what needs to be done to make the policy process more effective, and the new material collected for this study adds to the confusion of messages. Yet it is also clear that there are some consistent themes and

evident dilemmas to confront. Targets are valuable and, in conjunction with suitable indicators, can serve as a device for monitoring progress and also to motivate governments, but they have to be realistic to be effective. Recommendations are a useful tool, but there is clearly a tension about criticisms that can be seen as naming and shaming. Shaping the governance procedures to the circumstances of individual Member States is probably desirable, but would make it more difficult to have a broadly comparable approach common to all Member States. While these dilemmas are an inherent part of what any variant on the open method of co-ordination has to reconcile, they are especially tricky at a time when the uncertainties surrounding Member State economic prospects are so great.

Several Member State officials observed, in their responses to the questionnaire, that common targets are either unrealistic in some cases or already surpassed in others, raising a question of what purpose they serve. Moreover, there is an ambiguity (probably deliberate) about such high profile targets as the 70% employment rate one for the EU as a whole: does it imply (as is the case for the range of targets for shares of renewable energy) that all Member States should assume some of the burden in pushing up the collective employment rate, or is the target principally a commitment device for those that fall short of it? Targets consequently pose a dilemma: if set at EU level they do not necessarily make much sense for individual Member States and might be better expressed qualitatively; yet having a precise figure can be useful in holding governments to account. A compromise may be to have a smaller number of high profile objectives and, within these, to have both qualitative and quantitative targets set in ranges for either individual Member States or groups of them. In addition, more thought should be given to how targets can be made relevant for different Member States.

Despite the widespread antagonism to naming and shaming exhibited by Member States, they are receptive to well-constructed indicators, so that **further efforts on timely production of such indicators is an obvious recommendation to make**. The danger with precise thresholds for indicators, however, is twofold. First, they need to be carefully chosen to ensure that Member States focus on the economic aim behind the target and avoid giving priority to the target for its own sake. Second, there is often a trade-off between targets that correspond to different policy objectives: they may not be mutually exclusive, but it may be that progress on one will make progress on another harder.

Two possible innovations are worth exploring. The first would be to emphasise that the chosen number is a benchmark rather than a pure target. The distinction might sound academic, but the advantage would be to make it easier to adjust and also to use the figure to signal what is satisfactory. The second would be to propose **bands or corridors to reflect the very different starting points of different Member States**, with provision for tightening or upgrading. One useful device would be to emphasise not just the level of the relevant indicator (such as the 70% employment rate target), but also the progress towards it. Clearly, a change from 62 to 68 over a defined period, while still short of the target, represents a more impressive change than one from 69 to 70.

C.4.1 Possible enhancements of governance

C.4.1.1 The interplay between guidelines and recommendations

It was argued above that, on balance, a single set of guidelines will continue to make sense. However, a fresh look is needed at how to build a greater degree of customisation into the guidance offered to Member States, although a tricky challenge will be to do so in a way that retains enough of the common framework and procedures. It is, therefore, worth exploring which components of governance can most easily be customised in this way, and how they could improve on what is already in place. At present, the two principal elements of the EES framework and methodology which are distinctive for each Member State are the National Reform Programme and the outcome of EMCO and Commission scrutiny, notably the country-specific recommendations from the Commission. By contrast, the Employment

Guidelines and the targets are common to all Member States, as are the looser expectations of how facets of governance such as consultation of social partners and other civil society interests should function.

There may, though, be scope for customisation in the way in which the cross-cutting guidance to Member States is articulated. As a simple example, a Member State for which Scenario 1 is most appropriate would have little need to wrestle with the reconciliation of recovery and long-term orientations, but might be expected to focus more on advancing flexicurity. The guidelines currently contain some general descriptive text as well as the precise statements of the guidelines, but they do not tailor the messages to either individual Member States or to groups of them that exhibit distinctive characteristics, such as those described in Scenario 2.

In parallel, an initial strategic analysis of each Member State could help to guide National Reform Programmes. A possible objection is that the annual recommendations agreed at the spring Council effectively already provide a mechanism for the delivery of such messages. But a conclusion from this study is that the country specific recommendations are not a sufficient answer. The latest set, agreed by the European Council in March 2009, are presented in a very similar format for every Member State, consisting of six or seven paragraphs and covering 1.5 to 2.5 pages. There is also some resort to cut and paste, such as the statement addressed to each and every one of the 27 that 'the implementation of the energy and climate change package, agreed by the European Council, will require close attention'. However, as table 15 shows, no explicit recommendations are addressed to four Member States (DK, LU, FI and SE) and, for a number of others, the recommendations are limited to one or two rather bland observations. Yet for some of the other Member States a reasonable reading of the text is that extensive reforms are needed, implying a robust critique of that Member State's approach.

Any proposal for the EU level to steer the approach to reform is bound to be politically sensitive, both for the individual Member State and for the EU as a whole, especially if there is a suspicion that the common aims are being subverted. The following suggestions are, therefore, put forward to stimulate debate on possible ways forward, rather than as definitive solutions, recognising that there could be considerable resistance to some of them. A first is to attempt to establish priorities within the overall guidelines, through external analysis of the Member State's circumstances. In practice, Member States already pick and choose, but typically opt for the priorities that correspond most closely to national political goals and avoid those that are likely to be most challenging. An external assessment that drew attention to the reforms that constituted the greatest obstacles to agreed objectives, however politically sensitive, could accentuate pressures on governments to take tough decisions. Second, there could be more iteration between the Commission (and possibly also EMCO) in agreeing the NRP. This sort of bilateral negotiation does take place for cohesion policy, although there is manifestly a key difference in that the EU level holds the purse strings for cohesion policy, but not for the EES. Third, shortcomings in reform could be assessed in a similar way to excessive deficits, resulting in 'delinquent' Member States being more formally identified. More straightforwardly, the softly-softly tone of the annual country-specific recommendations could be hardened, not least as a way of motivating scrutiny by the media, national parliaments or civil society.

C.4.1.2 Surveillance and monitoring

A core question on governance is whether a generally tougher surveillance of Member States would be both desirable and feasible. The principal advantage would be in either putting more pressure on governments to maintain the momentum of implementation or in providing them with a sort of cover to justify more radical reform policies, especially where domestic interests can muster effective political opposition to such reform. The main disadvantage is that perceived interference by 'Brussels' could have a perverse effect in rallying resistance to structural reforms. It is, therefore, useful to consider how surveillance

could be conducted so as to maximise the advantages while avoiding the disadvantages. One answer is likely to be through greater reliance on clubs of countries that become familiar with each other's strengths and weaknesses and are able to build trust that enables them to be open .

Table C.1 Overview of 2009 Recommendations

	<i>Number of paragraphs</i>	<i>Number of recommendations</i>	<i>Explicitly on employment topics</i>	<i>Implicit extent of 'critique' or reform strategy and broad thrust of recommendations</i>
BE	7	3	1 [quite broad]	Many critical points; highlights some specific weaknesses that warrant attention
BG	7	4	1 [but broad]	Extensive, highlighting weaknesses in public administration; breadth of reforms advised notable
CZ	6	3	1 [quite broad]	Positive tone, but suggests need for perseverance and broadening of reform agenda
DK	6	None	None	Positive; stresses longer term labour supply needs
DE	7	2	1	Fairly positive; some specific reforms emphasised
EE	7	1	1	Focused on crisis; no real shifts in priorities
IE	7	2	1	Quite mild; strong focus on macro recovery
GR	7	4	1 [but broad]	Sweeping; implies a demanding reform agenda
ES	7	3	2	Wide critique; but priorities in making labour market more flexible and fostering skills
FR	7	3	1	Notably tough in focus on labour market reforms
IT	7	3	1 [but broad]	Sweeping; but little sense of immediate priorities
CY	7	1	1	Encouraging; persevering with current policies
LV	7	4	1 [but broad]	Focused on weak macro position; wide scope
LT	7	4	1	Comprehensive; yet still conveys priorities
LU	6	None	None	Quite sharp; yet no specific recommendations
HU	7	4	3	Generally critical; does not convey pressing needs
MT	7	2	1	Pointed, but positive; fairly emphatic priorities
NL	7	1	1	Limited to mild advice of very general character
AT	7	1	1	Innocuous; focused on very specific reform
PO	7	4	1 [covering many topics]	Constructive tone, but quite extensive; sets broad reform agenda
PT	7	3	2	Moderately critical overall; quite detailed priorities
RO	6	4	1	Extensive; hint that macro stability is first priority, but range of other structural reforms highlighted
SI	7	2	2	Mild overall; but specific priorities more firm
SK	7	3	1	Sweeping; covers many of EES priorities
FI	6	None	None	Limited; labour market challenges highlighted
SE	6	None	None	Soft; some specific points highlighted
UK	7	2	1	Bland, general comments; no sense of priorities

Source: Own elaboration from Council (2009)

There has been extensive discussion of whether some form of naming and shaming is warranted and it is clear that this issue tends to pit Member State governments and administrations against the EU institutions and other commentators. Naming and shaming is steadfastly, if unsurprisingly, resisted by Member States concerned to avoid politically awkward criticisms, and also resistance to perceived interference from 'Brussels'. This is plainly a delicate matter. Recommendations are issued by the Commission and by EMCO (and the EPC), but rarely emerge from the shadows of the elite circles in which they are formulated and circulated. They are usually expressed in fairly anodyne terms and, as a result, constructive criticism rarely filters out in a way that might stimulate national debates on policy reform. Indeed, a sense emerging from the case studies is that Member State officials often see their primary aim as being to water-down potentially embarrassing or politically damaging scrutiny. This clearly undermines the scope for the scrutiny to generate information that stakeholders can use to hold governments to account. It may also mean that the pressure to be more innovative in policy is simply not there. Since the deliberative element is regarded (see, for example, Zeitlin, 2009b) as a vital part of the OMC, the understandable predilection of Member State governments and administrations to engage in blame avoidance weakens the system as a whole. There is no easy answer to this, other than to reiterate the message that **ways need to be found to strengthen the constructively critical surveillance of Member State policies and to disseminate these messages.**

The Task B findings suggest that the current mix of scrutiny by the Commission and EMCO is generally acceptable to Member States, but has only a limited impact. Some Member States have made use of the country-specific recommendations in framing their NRPs and, by so doing, could be regarded as having been influenced positively by the EES process. However, an inference to draw from the case study findings is that this may be opportunistic rather than a genuine effect of the EES, for two reasons. First, the recommendations may simply chime with the government's priorities. Second, the lack of visibility of the NRP in national policy discourse means that what is 'written for Brussels' may only be part of a defensive strategy by policy elites to forestall potential criticism of ministers.

Plainly, the Commission has a pivotal role in the EES as the agenda-setter for the Employment Guidelines, its obligation to scrutinise annual reports and its proposals for recommendations, as well as in the overall orchestration of the strategy. In addition, the Commission has an informal role in its contacts at different levels with Member State government officials (and, to a lesser extent, other actors). Nevertheless, there is scope for making the direct impact of the Commission on employment policy in Member States, although possibly at the cost of offending the latter's sensitivity.

The Economic Policy Committee (EPC) and the Employment Committee (EMCO) are valuable fora for conducting peer reviews and for overall scrutiny of the Lisbon strategy/EES. The EPC tends to be sharper in its scrutiny of Member States than EMCO in its 'Cambridge reviews', yet an open question is whether, despite possible discomfort when under the microscope, Member States ultimately take much from these procedures or whether they filter down from the Committee members to those directly involved in policy implementation. It may be best to concede that Member States will be reluctant to be more critical of one another and that – as one official consulted explained it – the main objective of officials attending these committees is to ensure that potential embarrassment to their ministers is kept to a minimum.

The European Parliament has to approve the EGs and can, through the activities of its committees, contribute to the oversight of the EES, but in practice it appears to be a marginal actor. One reason is that its Committee structure does not fit well with the Lisbon strategy as a whole, although there is a much better correspondence between the EP's Employment and Social Affairs committee and the EES. Another is that the timetable for the Parliament to agree the guidelines has long been very compressed, engendering the sentiment that it is presented by the Commission and the Council with a *fait accompli*. Work commissioned by

the EP²⁸ notes that in 2005, the Parliament was given less than two months to respond, a period which is stated to be inadequate to allow the Parliament to fulfil its Treaty obligations. The remedy suggested is that the period should be at least five months at the start of a new three-year cycle and three months in interim years of a cycle. This would imply early December for the Annual Strategic Report, if the EP is to feed in to the spring European Council. One idea suggested is for an inter-institutional agreement – presumably similar to that currently governing the EU budget. The study commissioned for the EP even raises the prospect of an appeal to the Court of Justice, implicitly accusing the Council and the Commission of ignoring the EP's statutory rights to consultation.

The EP nevertheless makes some effort to foster debate in national parliaments, yet the evidence from the case studies suggests that there is very little knowledge of the EES in the national parliaments, while the questionnaire results indicate that the EP has little impact on national strategies.

It can be argued that the EESC and the CoR are still more marginal to the governance of Lisbon. Granted, they have to be consulted and the EESC responded constructively to the requests from the European Council (in 2005 and 2006) to provide reports (delivered in 2006 and 2008) on how civil society views the Lisbon strategy. The EESC called, in 2008 for 'a renewal of its mandate by the European Council' and there no reason to believe that it will be denied or that there is not some value in the exercise. Yet there are few signs that much changed in the content or governance of the EES as a result of these initiatives. Instead, it appears that the primary benefit is in contributing to wider awareness of the Lisbon strategy/EES and, just possibly, to better implementation. A somewhat lame recommendation from this study is that the EESC reports should be continued, but without expecting too much from them as a means of fostering a wider engagement of civil society.

Other ideas for boosting the 'ownership' and the visibility of the EES include the following:

- Proposing that the NRPs and the recommendations are debated in the respective national parliaments and give them the character of a national presentation and discussion of the Governments overall strategy for the economy and employment in the light of the guidelines.
- Presentation and discussion of the NRP at (open) conferences for stakeholders and experts. These could also be a basis for public examinations of the national strategy and might involve the participation of Commission representatives. Such conferences might be organised before the preparation of the final document and should have the character of open hearings. A similar exercise could be hearings organised by the national parliament.
- Encourage governments, in their NRP's to have a longer substantial chapter to provide more detail on the documentation and argumentation (given the fact that the level of detail and substance in the NRPs have gradually been reduced).
- To engage other EU institutions, especially the European Parliament, one option could to have public debates on NRPs and recommendations with as much open dialogue and scope for arguments and criticism as possible.

C.4.1.3 Reinforcing mutual learning

Because mutual learning is at the heart of the policy methodology inherent in the OMC and is also identified as a welcome element of the EES, it is useful to explore how its ability to deliver could be enhanced. Moreover, a clear message from the empirical work reported in part B of this report is that Member States would be receptive to innovations in learning

²⁸ Consortium LABOUR ASICIADOS SLL (2007) Report on the revision of the procedure for the integrated guidelines. [IP/A/EMPL/FWC/2007-017/C1-SC2]

procedures. This sub-section therefore puts forward some additional analysis and proposals on how to do so. The backdrop is that mutual learning has evolved as the EES itself has matured, and it can also be argued that it comprises substantially more than the formal mutual learning programme, with its mix of peer reviews and thematic seminars (Visser, 2009), that has been in place since 2004.

Building on the analysis of Zeitlin (2009a) and other contributors to the study of OMC, five distinctive channels of mutual learning can be identified. These are:

- To borrow a term from the literature on education (see a recent study by Hoskins and Fredriksson, 2008), a first could be called 'learning to learn'. Aspects that can be included here include being able to identify what is known and what is not known, the development of credible and viable strategies for countering knowledge gaps and fostering receptiveness to new ideas. To some extent, existing procedures such as the drafting of NRPs push Member States to analyse their positions and come up with ideas, but there might also be scope for additional advice and input from EU institutions. In addition, mechanisms that help to counter complacency in policy are desirable.
- A second is awareness raising in two senses of: opening-up policy vistas such that Member States are informed about what others do and having an 'ideas pool' that they can dip into in selecting new policy directions and modalities; and understanding principles and concepts behind policy measures. While this element of learning can be adjudged to function reasonably well at present, it could be reinforced by more systematic dissemination of information on what does *not* work, as well as success stories.
- Building capacities, especially in relation to monitoring and evaluation of policy initiatives, is an aspect of mutual learning that can contribute to better formulation and implementation of policy. No country is ideal in this respect and there are bound to be opportunities for enhancements through innovations such as e-government.
- Fourth, there is an opportunity for collective learning at EU level about approaches that can draw on different traditions. Flexicurity is a model that, although often portrayed as being somewhere between Dutch and Danish approaches that have developed through academic input and policy practice, has evolved further through collective efforts at EU level, including the Commission and EMCO. Learning in this respect comes from confronting ideas from different sources and putting them through a blender to arrive at new ways forward.
- A fifth vector of mutual learning could loosely be described as 'bottom-up'. Learning need not be confined to what is done in government programmes, but can also build on experiences of agencies and groups that implement policies (employment services, for example) and by other levels of government.

C.4.1.3.1 Mechanisms for enhancing mutual learning

Precisely because mutual learning can also be expected to be amenable to 'learning to learn', it needs to be approached flexibly rather than to strive for a single template. Some ideas that go beyond what is currently in the Mutual Learning Programme are, nevertheless, worth putting on the table.

The experience of members of the study team suggests that more effort could be directed towards examination of fairly broad policy areas (organisation of PES, use of wage subsidies, integration of long-term unemployed, integration of ethnic minorities, tackling youth unemployment etc.) in order to give opportunities for more systematic and wide-ranging learning. While thematic seminars do this, they are one-off events and would benefit from being followed up in peer reviews of individual Member States.

In the same vein, benefits could also come from conducting more reviews with the same theme in different countries. The present set-up gives a rather flimsy picture of a wide

number of unrelated national activities. Although those peer reviews that focus more on specific schemes and projects may give some valuable insights, the scope for the transfer of ideas will often be narrow and the interest from core decision makers will correspondingly be limited. Inspiration could be taken from the systematic reviews conducted by the OECD (for instance the current review of national strategies towards youth unemployment conducted in 16 OECD member states). The thrust of such an approach would be to distil the lessons from reviews in several Member States to arrive at soundly-based appraisal of good (and bad) practice and an understanding of the conditions that need to be fulfilled.

It might also be interesting to have some decentralised processes, for instance involving public employment service staff or regional authorities, to discuss specialised topics, such as job search assistance techniques etc. In parallel, the channels for diffusion of learning could benefit from being re-examined. There is a risk that where the initial 'client-group' is the members of EMCO or their alternates, the spread of information is limited to the government departments they represent, not because of any lack of willingness to relay ideas, so much as because time and opportunity for diffusion are limited. A variant on 'feeding-in' and 'feeding-out' from and to a wider network of employment policy actors could yield dividends.

C.5 Engaging different stakeholders

The evidence suggests that the ambition to engage a wide range of actors in the formulation and implementation of reform policies has not been matched by the realities of the operation of the EES/Lisbon. There are two possible responses to this diagnosis: either to redouble efforts to engage these missing stakeholders with more imaginative procedures, or to admit that the ambition was unrealistic. While various abstract concerns about legitimacy, democratic deficits, empowerment, and ownership might be adduced to justify continued efforts in this direction, the harsh truth may be that EU co-ordination of employment policy is always going to be primarily an elite-driven process and that what really matters is whether suitable policies are put in place.

The obstacles to greater engagement are both cognitive and practical, and while an effective social dialogue can undoubtedly contribute to more consensual reform, there are limits to the benefits. One aspect of this is that involving other stakeholders in a meaningful way requires them to 'invest' time and effort in being engaged, but it is far from clear that there is much pay-off from such investment. Even for the social partners, there are limits to their time and capacity to intervene. Consequently expectations of increased participation in the deliberative elements of the OMC as it applies to employment policy may be overly-optimistic.

There is no easy solution to the deficiencies in the engagement of stakeholders in the EES and its application in Member States. However, ideas proposed in the case studies include:

- A social partner role in monitoring progress, although the problems of resources and engagement are bound to be formidable.
- Very simply, ensuring that the input of stakeholders is visibly acknowledged in revisions to policy programmes.
- Recognising that social partners and stakeholders, too, could benefit from mutual learning activities and involving them to a greater degree

D: Conclusions: the political feasibility of this study's recommendations

Any proposal for reform of the procedures and instruments of co-ordination processes, such as those applied to the Lisbon strategy/EES, has to reconcile a number of potentially conflicting imperatives. These include having robust analytic foundations, being sensitive to diverse political constraints on collective action and being consistent with the wider policy agenda of the EU. The thrust of this report is analytic and, while it by no means neglects the political context, has tried to put forward reform proposals that reflect empirical and conceptual assessments of the EU labour market. Nevertheless, the report would be incomplete without an attempt to appraise the political feasibility of the proposals.

Politics, to borrow a well-known phrase, is the art of the possible, and the contours of what might be possible are emerging in a number of recent papers and communications. The aim of this chapter is to set out how the proposals in section C of this report can be rendered coherent with these other orientations. In particular, it discusses the Commission's EU 2020 consultation paper of the 24th of November 2009, the EMCO opinion submitted to the EPSCO of 30th November/1st December, the brief statement of the Economic Policy Committee (EPC) following the Eurogroup meeting of the 9th of November 2009 and a paper submitted to GAERC by DG Empl.

D.1.1 Emerging views on the post-Lisbon strategy

The Commission EU 2020 paper proposes three 'thematic drivers' that should be at the heart of the strategy. These are:

- Creating value by basing growth on knowledge
- Empowering people in inclusive societies
- Creating a competitive, connected and greener economy

The second of these themes relates most directly to employment policy. It emphasises flexicurity and skills, while dwelling on the importance of forestalling and countering exclusion. Self-employment and 'green' jobs are given prominence as ways of offsetting the jobs destruction resulting from the present crisis, and the main aims include more jobs so as to promote a higher employment rate, better jobs, fairness, opportunity and support for labour market transitions. A rather cautiously-worded statement on immigration notes that 'the potential of migration is not fully factored into policy making at EU or national level', and is followed by a call to raise the employment rate of specific categories of immigrants. Education is highlighted in the first theme and explicitly linked not just to the knowledge economy, but also to inclusion in the labour market, and is explicitly associated with combating social exclusion, poverty and inequality.

The communication stresses that recovery from the crisis is an essential first stage and draws attention to the fact that Member States most affected by imbalances or policy weaknesses face different challenges from others, so that a differentiated response may be required. This will inevitably complicate policy co-ordination, echoing the analysis that is put forward in this report. Great stress is nevertheless placed on various interdependencies that characterise the EU today. Partnerships between different levels of government, as well as with the social partners and other stakeholders, are identified as necessary conditions for effective co-ordination, while the European Council is proposed as the body that should 'fix a small number of headline actions, and the corresponding policy actions to be pursued at EU and Member State level in partnership'. An intriguing suggestion is that Member States should set 'national objectives for 5 years *corresponding to their different situations and their starting points*', again echoing a message that this study stresses, but the communication does not set out more detailed governance proposals.

According to EMCO, the case for employment policy to be centre-stage in promoting more and better jobs is stronger than ever. While reaffirming that 'the objectives of today's EES remain valid' and praising many of the elements of the current system, the EMCO opinion draws attention to a number of areas of the EES and its governance that would benefit from reform. It also asserts that a limited number of priorities that stem from the crisis deserve attention. Like the Commission communication, flexicurity is the framework that EMCO believes should be adopted to underpin EU employment policy. EMCO also calls for clearer language in presenting policy aims.

The EPC summary emphasises the importance of persevering with 'a consistent strategy of labour market reforms, within a flexicurity context'. It goes on to spell out four main priorities:

- Addressing segmented labour markets
- Focusing ambitious and effective activation and training measures on improving skills, while calling for enhancement of public employment services
- Moving from dependency to activation and improving transitions
- Increased wage flexibility especially for those Member States which have lost ground in external competitiveness

The EPC note also recalls the need for an increase in labour supply and advocates increases in effective retirement ages.

The Commission paper for GAERC proposes three priorities which, in turn, can be the basis for revised employment guidelines:

- More jobs, which is explained as the creation of new jobs, and the mobilisation of a larger working population by increasing the participation and employment rates as well as managing economic migration. This aim combines aspects of labour demand and labour supply, whereas the present study opts to approach them separately.
- Better jobs from the two perspectives of, first, higher quality that raises productivity and, second, improved working conditions that also contribute to productivity while improving pay and job satisfaction.
- Fairness and security for all, comprising opportunities for inclusion in the labour market, facilitating transitions and providing adequate insurance against labour market and other social risks.

This brief overview demonstrates that there is considerable common ground on the way forward, especially in developing flexicurity as the underlying framework for the future EES. However, in these recent statements and in many other contributions to policy formulation and implementation, the goals and purposes of EU level employment policy are articulated in different ways and at different levels of abstraction. These range from the broadest statements of headline goals to the more prescriptive advice – though still expressed in terms that stop short of being directly operational - in country-specific recommendations. Successive versions of employment guidelines have occupied the middle-ground in this respect. They flesh out the over-arching goals of EU employment policy, establish a template for 'good' policy, and provide a check-list of reforms against which each Member State can appraise its own circumstances.

In reconciling the different messages about employment policy emanating from the EU level, it is useful to distinguish what each class of messages is primarily designed to convey. In particular, the broad themes and rationale for the EES have to be distinguished from more prescriptive elements that constitute the content of policy. This distinction was made in section C.4.5 above by referring to cross-cutting themes and pillars of guidelines, and while it is difficult to delineate unambiguous boundaries, the distinction is quite robust conceptually. In addition, governance arrangements are part of the EES that is separate from policy goals and content.

Most of the documents referred to in this section are predominantly about the underlying goals of the EES and the priorities that should be set. In the terminology of this study, they can be regarded as cross-cutting themes. Nevertheless, specific areas for attention are highlighted and, in some cases they are, or could be, part of guidelines.

D.1.2 The role of guidelines

Guidelines have a number of overlapping purposes that are worth recalling in assessing political feasibility. Constitutionally, they fulfil the Treaty obligations to produce annual guidelines covering, respectively, employment policies and broad economic policies that are to be taken into account in Member States' policies. Politically they have to signal the broad directions for the development of policy, while in economic terms they spell out some of the key analytic orientations that should infuse Member State policies. In addition, the Guidelines identify specific reforms that the national administrations should consider. In so doing, they point to some of the detailed policy initiatives that governments might implement and, consequently, point to the broad content of employment policy. They also have to be sufficiently general to be applicable to all Member States, simple enough to be comprehensible, while also being both coherent, relevant and capable of being interpreted with some flexibility depending on the circumstances of individual Member States. These various demands are not easy to accommodate in a single framework.

A number of political directions that bear on the structure and thrust of the Guidelines can be discerned. First, both the EU 2020 communication and the GAERC paper emphasise the continuing importance of flexicurity as the conceptual model that should be at the heart of employment policy. In parallel, the economic crisis has raised the prominence of the social dimension of the Lisbon strategy and particularly of the need for an inclusive labour market (emphasised by EMCO). The phrase 'more and better jobs' continues to be pivotal. However, translating it into explicit guidelines requires some interpretation. 'More' captures the dual political aim of a higher rate of activation and an increase in the demand for labour, the conjunction of which results in more people being employed. 'Better' also has two aspects to it of increasing productivity while providing workers with higher quality jobs – the latter, a notion that has been shown earlier in this report to have multiple dimensions.

In economic terms, employment policy has to mediate between the continuing (if changing) effects of established underlying drivers, new long-run influences and the shorter-term consequences of the crisis. That all of these matter is not in dispute, but there is a need to consider the balance among them in setting priorities. There is an undisputed long-term agenda of boosting EU labour supply to contend with ageing, but increased labour supply has to be complemented by growing labour demand in an efficient labour market. It follows that Guidelines for the next decade should reflect these economic shifts.

In particular, it was argued above that the analytic justification for a focus on employability in the early days of the EES was motivated and justified by the need to tackle high and persistent long-term unemployment, but that in the coming decade, a focus on activation and curbing segmentation will also (and increasingly) stem from the need to increase the size of the workforce. Yet, in the recovery from crisis, priority manifestly has to be given to boosting labour demand. Measures today that boost labour supply could exacerbate measured unemployment, but it will still be necessary to set in motion some of the key changes.

In administrative terms, Guidelines can contribute to better quality and delivery of public employment policy and services. Here, a worthwhile conceptual distinction is between input and output orientated delivery. Educational attainment and skills development are inputs into the productive potential of the labour force, whereas placement of workers by a public employment service is an output. In addition, public administration is organised in line ministries with separate mandates and policy objectives, suggesting that well-conceived guidelines should – not least from the perspective of 'ownership' – connect to the responsibilities of different ministries. While part of the ethos of the Lisbon strategy is

integration of policy, the danger to be avoided is having a guideline or target that is too vague or too general to be relevant for any single ministry. For the EES, the most obvious line ministries to be targeted (depending on the precise configurations within the Member States) will be employment/labour, education, social protection, and (possibly) economy. A further, related consideration is that public agencies, the social partners and other stakeholders should be able to identify with what is written in the guidelines.

D.1.3 Reconciliation with the four pillars proposals of this study

As noted, although packaged in different ways, there is much in common between the various documents summarised in section D.1.1 in the over-arching aims and orientations for policy. However, what is critical is to translate the 'grand design' into policy proposals that correspond to the day-to-day choices and actions of government, and the mechanisms for implementation.

In reconciling this study's recommendations with other contributions to the debate, it should be stressed that the difference between over-arching priorities and the more immediate delivery of change that relates to actions (the content in the four pillars) is crucial. The bulk of the effort in this study has gone into the latter, not least because the over-arching priorities stem from political choices that this study does not seek to pre-empt. These political choices are mainly *normative* in character, whereas what is set out in the four pillars is derived principally from analysis conducted from a *positive* perspective, although here again the boundaries are fuzzy. In particular, flexicurity as a framework is advocated because it appears to offer the most promising way forward for EU labour markets for both analytic and normative reasons. Yet flexicurity is also shorthand for certain institutional reforms affecting the nexus of labour market and social protection policies.

The motivations explained in section C.4.1 for the proposed first pillar – labour supply and human capital enhancement – follow from the emphasis on more and better jobs, while also responding to the imperatives of anticipating the challenges of ageing and of intensifying global competition in the knowledge economy that feature widely in the debate on EU2020. The main analytic justification is that labour supply – quantitative and qualitative – is conceptually clear and coherent, so that by bringing together the different elements affecting it, the pillar would offer a basis for a coherent policy mix. This would encompass education and regulation of the labour market, while pushing for immigration to be approached from a labour supply standpoint. Employability as a social as well as an economic goal would not be neglected, thereby offering one route towards an enhanced social dimension and the 'empowerment' highlighted in the Commission consultation paper. It should be stressed, too, that this pillar has a medium to long term orientation, to the extent that in the immediate recovery from the recession it might seem less relevant. However, developing skills and putting in place new measures on, for example, immigration are policy aims that will take time, so that short-term considerations do not contradict the aims of the pillar. Line ministries most affected would be Labour, Education and Interior.

The second pillar – demand for labour and skills – is clearly also linked to more and better jobs, but the reasoning behind separating it is that many of its components are analytically distinct from those in pillar 1 and also bear on competitiveness. Demand for labour is, in part, about the overall macroeconomic position, but is also affected by the various determinants of labour costs. Addressing segmentation of the labour market is highlighted in the pillar insofar as the barriers that give rise to segmentation need to be addressed. In relation to the recovery from crisis, macroeconomic elements might be uppermost in the short-term, but policies to mitigate long-term unemployment and hysteresis will be relevant. The labour costs elements of this pillar are relevant to the EPC agenda. Line ministries most affected would again include Labour, but also social protection and economy.

In the third pillar – matching adaptability and institutional reform - the main rationale is that institutional features will shape the capacity of policy to achieve reform and to deliver desired

objectives. It can be associated partly with the observation from EMCO that implementation remains problematic, while also being about the nuts and bolts of a flexicurity-orientated labour market. A specific issue raised both by the EPC and the Commission is ensuring that labour market transitions function well and are supported. In this regard, a key point to reiterate is that flexicurity is both an over-arching framework (its more normative dimension) *and* a set of administrative and other proposals for how a flexible and secure labour market is implemented. Line ministries involved include Labour and Social Protection, but this pillar also has implications for agencies such as Public Employment Services.

The fourth pillar – quality and sustainability of work – is partly about translating normative principles concerning quality and equality into more effective policy guidance, reflecting the finding that they lost visibility and urgency in the current Integrated Guidelines and in how they have shaped employment policy, possibly because they are portrayed as ‘mainstreaming’. It also bears on the ‘better’ in more and better jobs. In terms of the debate on EU2020, the pillar connects to the empowerment, fairness and inclusion themes highlighted by the Commission. Line ministries include Labour and social protection, once again, but also health and those responsible for family and equality/anti-discrimination policy. This pillar will have relevance for regulatory agencies.

A final observation is that any categorisation of guidelines involves some arbitrariness and will be open to the criticism that the same issues could be presented in alternative ways. The basis for the four pillars is primarily analytic, but this concluding chapter has tried to show that they are nevertheless consistent with the more normative principles that are given greater prominence in other contributions.

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