CHAPTER 3

Employment: a means as well as an end

Introduction

A sociologist will tell you that a job gives you a role and purpose in life. And, to some extent, this is true. But, for most people, the issue of employment is more practical or prosaic.

A job is needed in order to earn the income necessary to keep body and soul together - unless you happen to have considerable private financial means, the ability to persuade somebody else to keep you, or live in a country where collective social provisions are exceptionally generous and you meet the required conditions. Moreover, the better you want to live, the better the quality – including earning opportunities – of the job you must find and keep.

By and large, most Europeans buy into this mixed societal and utilitarian view of work – with those who believe that 'there's no such thing as a good job, it's just that some are worse then others' being a dying breed. Jobs are valuable and necessary, and there is competition among workers for jobs of higher quality. And of course, when unemployment is high there is competition for jobs of any kind.

At the same time, the traditional notion that lives are built around stable partnerships and a strict gender distribution of labour – with homework done largely by women, and outside work done largely by men – has slowly but finally become a thing of the past, at least with younger generations, though vestiges of the traditional model persist in some southern regions, especially in the south of Italy

Such dramatic changes in the structure and composition of households has created a strong, and growing, need for our economies to ensure a plentiful supply of jobs, in a variety of forms, offering levels of income on which it is possible to live in reasonable comfort, while respecting the 'lifeworld needs' of diverse groups of people, whether they are single,

couples, or families. Moreover, rising educational attainments both permit and require jobs of greater complexity, offering more scope for personal fulfilment through work.

These social changes obviously put a lot of pressure on firms and workers, but they also affect politicians and policy makers – with the fading, but still present, memory of the way in which failure to deliver jobs in the past led directly to the rise of the worst kind of totalitarian regimes in Europe. And, since the end of the boom years in the mid-1970s, most EU governments have had to recognise that they have often failed to meet that challenge, albeit to varying degrees at different times and places.

EU15 currently lacks somewhere around 20 million job opportunities to provide employment for all those who would like to work, including those who are deterred from actively looking for a job because they do not believe that one is available, as well as those recorded as being unemployed. Moreover around a quarter of existing EU jobs have been classified by the European Commission as low quality employment, with one in five workers expressing a low level of satisfaction with the job they do. Thus there is widespread agreement on the need for 'more and better jobs'.

However, arguments continue to rage about how best to achieve Europe's employment goals. In particular, how far they should be pursued through expansionary, growth-oriented economic policies – raising the level of demand, and hence the supply of jobs, in the economy – and how far they can be achieved through labour market changes alone – improving the flexibility and skills of the workforce to make workers more productive and 'employable'.

Of course, it is rather obvious to most people who are holding down jobs, or who are looking for one, that both aspects matter – there need to be jobs available, and people need to be able to do them. However such common sense is not always so common in government or academic circles, where wasteful debates too often take the place of practical analysis and pragmatic action.

In this context, a once widely held, perhaps exaggerated, faith in the ability of demand management alone to maintain full employment seems to have given way to an equally unbalanced notion – the belief that

unemployment is always and everywhere a 'structural' problem, that can only be resolved by institutional reforms, particularly of labour markets and welfare states.

We firmly believe in what has been called a two-handed approach in which demand and supply-side policies need to, and can be, mutually reinforcing. In the current environment, this means a stronger role for demand-side policies – as discussed in chapter 2 – in close combination with intelligent reforms on the supply side. In this chapter we look at the scale of Europe's employment challenges, the policy framework that has been put in place at European level, and the reform strategies that have been followed by Member States and the acceding countries.

Employment policy in Europe

The Delors White Paper on *Growth, Competitiveness and Employment* of 1992, and the Jobs Summit which followed the Amsterdam Treaty revisions in 1997, and set up the European Employment Strategy, were important steps in the development of a coherent strategy for jobs in the EU. However, it was only at the March 2000 meeting of the European Council at Lisbon, that the Heads of State and Prime Ministers of the EU Member States made the crucial political commitment to the re-establishment of full employment in the EU.

In particular they took the unprecedented, and long resisted, step of agreeing quantitative performance targets for employment – specifically an employment rate of 70% overall, including a 60% rate for women, by 2010, to which a 50% target was subsequently added for older workers. Given the lower employment rates that then prevailed – 62% for men and women together and 53% for women – this was, in effect, an agreement to seek to create over 20 million additional jobs in the EU.

The circumstances in which these commitments were made need not be dwelt upon. What was important was that, during the 1990s, employment and unemployment issues became recognised as having a European dimension – needing, in part at least, European responses, or at least a European framework for cooperation between national authorities. At the same time, though, there was recognition of the diversity of national

situations, and the fact that policy responsibilities in this area should remain largely at national level.

The confidence of Heads of Government at that time to set targets, and to make detailed plans to achieve them, reflected in part the recent arrival of new Member States, Sweden, Finland and Austria. The presence of these countries, in the EU served to demonstrate that European countries could maintain high levels of employment alongside effective social systems, relatively egalitarian income distribution and the concomitant high levels of taxation.

It was also a confirmation of the European Commission's efforts to shift the political focus towards employment and job creation, and away from reducing or disguising unemployment – which some governments had found all too easy to do by massaging the figures, or by 're-classifying' unemployed people, not least as disabled – an issue which has been seriously addressed by the OECD, and to which we intend to turn in more detail in the future.

This change was also a recognition that data on employment creation, rather than figures on unemployment rates, is more easily related to increases in output and consumption, as well as being less easy to misrepresent. But, as we shall see, even with employment data, there is scope for subtle subterfuge, not least by the practice of counting all jobs – however few the working hours, or however low the pay – as being equally important as other jobs.

All in all, however, this new approach has served to limit the spread of the simplistic liberal dogma that had bedevilled the OECD Jobs Study, and even inflicted some harm on the Delors White Paper, in which the main route to salvation was argued to be through lowering taxes, and reducing worker power through deregulation. Even so, the importance of economic growth in ensuring employment growth continues to be underplayed.

The policy framework

Today, the EU has a comprehensive, if embryonic, employment strategy – articulated in the Treaty, and in the Lisbon European Council declarations. Its main pillars are:

- An economic governance regime based on the single currency, in the hands of the European Central Bank, the Stability and Growth Pact that constrains national fiscal policy, and a coordination of national economic policymaking through the Broad Economic Policy Guidelines
- A rolling programme of labour market reforms – coordinated by the EU Employment Guidelines – focused as much on raising the skills and abilities of the workforce, and providing appropriate social support for integration, as on achieving greater labour market flexibility
- Structural reform in other areas under the so-called 'Cardiff process' – addressing goods and capital markets – and the on-going Single Market programme of reforms.

The European Council now meets each spring to take stock of progress towards the Lisbon objectives, and agree any changes needed in policy priorities. This year's review by the Commission has been published, and the 2004 European Council meeting prepared the way for the mid-term review of the strategy scheduled for spring 2005.

The two key questions facing the EU now are, firstly, whether the Lisbon goals – entirely realistic and attainable so long as economic growth between now and 2010 can be sustained at a similar rate as in the second half of the 1990s – will be pursued with the commitment needed, and, secondly, how far the new Member States – where the employment rate in all cases except Cyprus and the Czech Republic is below the EU15 average, and where productivity is very much lower still – can help add impetus to growth, and lift the EU onto a higher level of achievement.

The EU's employment performance

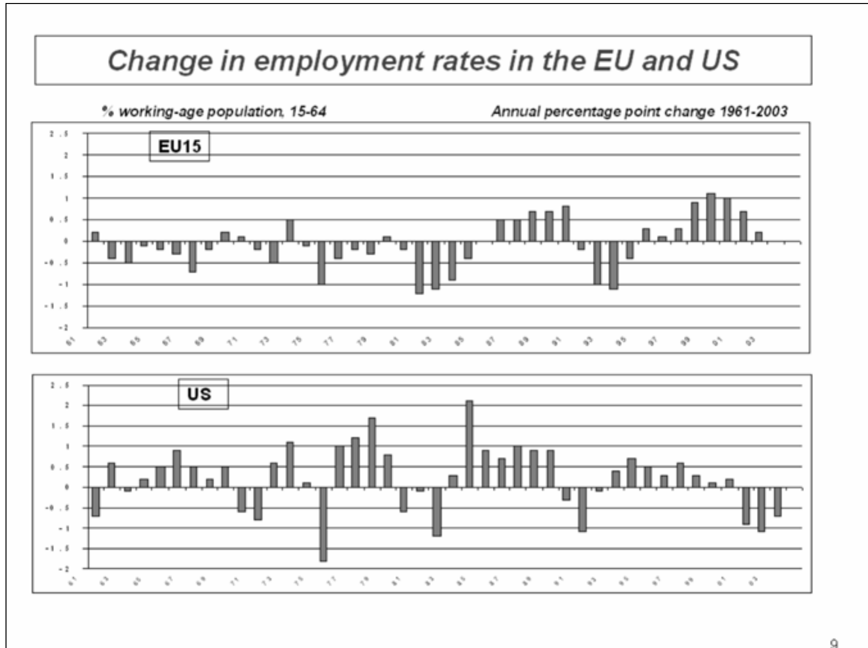
The EU's employment performance has been described as its Achilles' Heel by critics like the IMF, who typically contrast its sluggish employment growth with that of the US.

Few would contest that the EU15 as a whole has tended to perform below its potential, especially over the long-term, but the extent of the shortfall in relation to the US is often exaggerated.

In the first place, there is a tendency to compare absolute rates of employment growth without taking account of the fact that the growth of working-age population in the US, which feeds job creation, has been substantially higher than in the EU. Other things being equal, an economy with a higher rate of growth in the potential labour force should be expected to achieve higher employment growth than one with a lower rate. What matters is not the absolute rate of job growth but the ability of economies to provide employment for all those who want, and need, to work, This is effectively measured by the employment rate and, in these terms, the EU has not performed so badly in relation to the US as is commonly supposed.

Part of the explanation lies in the fact that comparisons between employment rates in the two economies are often based on comparisons of data from different sources – the LFS in the EU, and the national accounts (which counts jobs rather people) in the US. Alternatively, and often in addition, US figures include the much larger number of people who are still in work in the US, despite being over the normal statutory retirement age of 65. If we compare like with like, and confine the comparison to those in employment aged between 15 and 64, the latest data available – for 2003 – shows the gap in employment rates to be under 6 percentage points (just under 70% in the US as against just over 64% in the EU15).

This is partly due to the fact that, since the mid-1990s, the performance of the EU15 in terms of the *change* in employment rates has been far superior to that of the US. Whereas the proportion of working-age population in employment in the US has declined over this period, it has risen significantly in EU15 – by over 4 percentage points between 1994 and 2003. Moreover, in four EU Member States (Denmark, Sweden, the Netherlands and the UK), the employment rate is above that in the US.

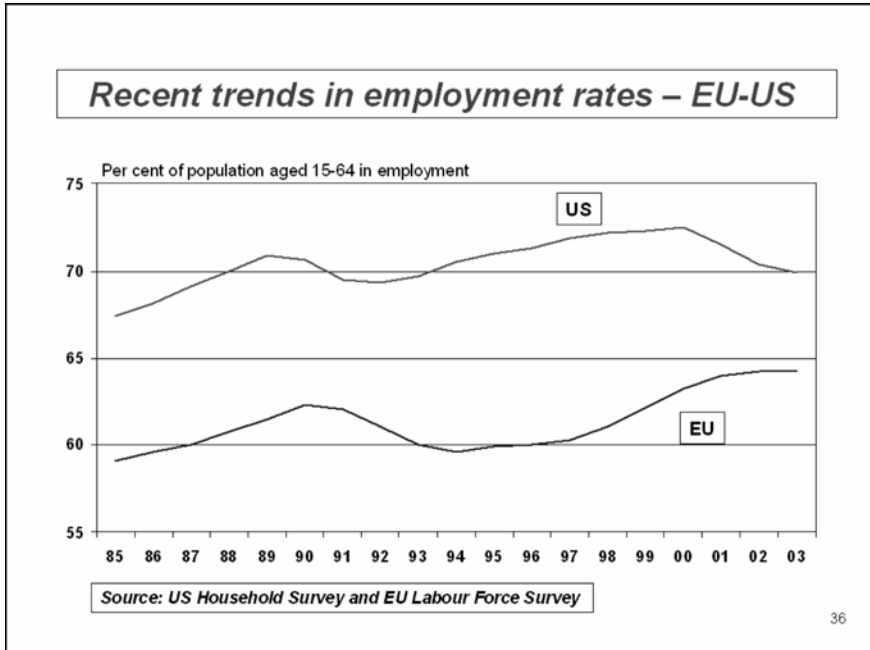


This situation also needs to be seen in the longer-term perspective.

In the first decade and a half after the start of European integration – from the late 1950s to the early 1970s – the countries who eventually became EU15, i.e. before the entry of the central and eastern European countries, maintained a rate of employment consistently above the US level, with a rate of unemployment half that of the US.

The situation was reversed, however, following the first oil crisis in the 1970s. After that, the EU employment rate fell progressively to under 60% by the mid-1980s, whereas the rate in the US rose to reach 70% by 1988. At the same time, the unemployment rate in the EU15 rose to 10% by 1985 and, since then, has never fallen below 7%.

In the US, unemployment was down below 6% by 1988 and, after rising to over 7% in the recession of 1991-92, fell gradually to only 4% in 2000. Since then, it has risen to 6%, but it still remains below the rate in the EU15 (8%), where the increase since 2000 has been much less.



Despite its poor performance relative to the US since the mid-1980s, the EU has enjoyed two periods of sustained employment growth – in the second half of the 1980s and in the second half of the 1990s, spilling over into this decade. During the late 1980s, employment growth reached 10 million, and in the late 1990s the EU did even better with 13 million additional jobs created – better, indeed, than the US, once account is taken of the much larger increase in the US working-age population over that period. Proof that Europe can create jobs!

Thus, while the rate of employment in the US still exceeds that in the EU15 today, the gap has narrowed appreciably over the past 8 to 9 years.

The problem for the EU is that it has failed to consolidate these gains. It lost the jobs created in the late 1980s in the recession of the early 1990s, just as it now risks losing the jobs created at the end of the 1990s and the early part of the 2000s because of the inadequate responses of its monetary and economic policy authorities – as discussed in chapter 2. As the chart shows, the periods of contracting employment during recession

were much shorter in the US. This seems to be equally the case in respect of the recent downturn.

Against the background of the narrowing gap between EU and US employment rates, it is instructive to look in more detail at where the additional employment in the US comes from.

In reality, little of the overall difference between the EU and the US is due to differences in employment among those aged between 25 and 54 – the so called ‘prime age’ group of workers. The differences that do exist in this age group are accounted for largely by differences in the employment rates of women, raising questions about the difficulties women, in particular, face in reconciling work and family in many European countries.

The big differences lie elsewhere. Firstly, there are differences concerning younger age groups – where US employment rates are some 10 percentage points higher than those in the EU. And, secondly, there are even larger gaps concerning the older (55+) age groups, which are closer to 20 percentage points.

In the case of young people, the ‘advantage’ to the US is questionable, given the negative long-run consequences of young people leaving the education system, and entering the labour market too early. Other things being equal, those countries that ensure longer schooling and adequate initial training will tend to have lower employment rates for this group, and thus a lower average rate. This is also relevant for the Lisbon strategy: there are strong arguments for excluding teenagers from the calculation of employment rates.

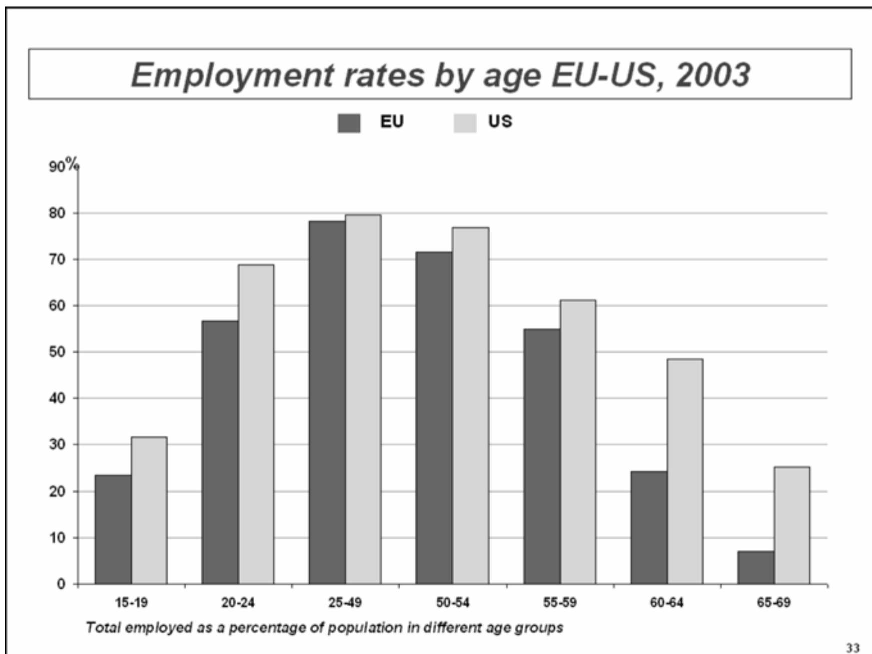
The differences in employment rates between the EU and US are most striking for those aged over 55 and, most especially, for those aged over 60. In the US, the employment rate of those aged 60 to 64 is 55% for men and 42% for women, compared with 33% and 16% in the EU15.

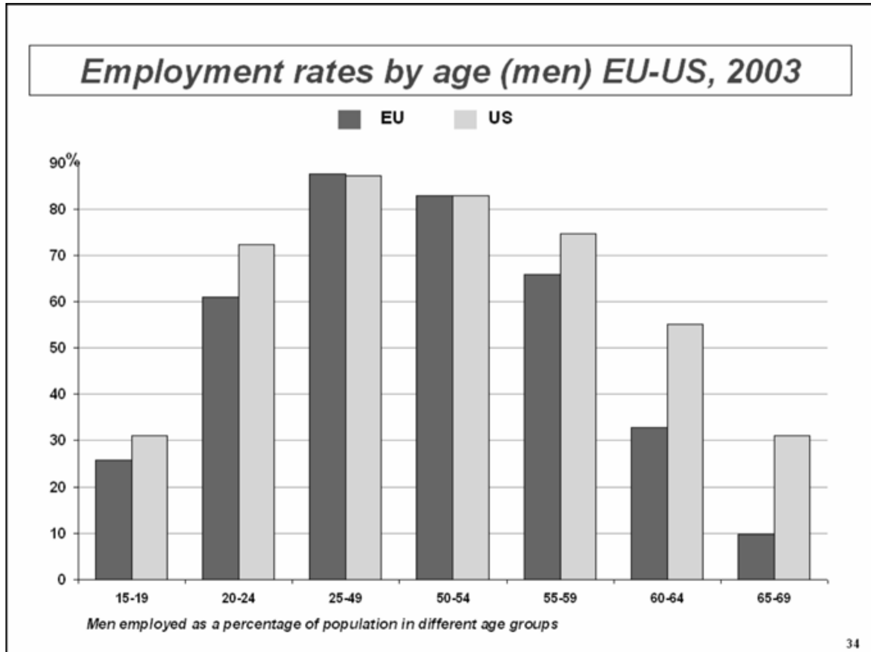
Moreover, this difference extends beyond the conventional retirement age, with the employment rate of those aged 65 to 69 in the US being over 25% - 30% for men and almost 20% for women, as compared with a mere 7% in the EU (10% men and fewer than 5% for women). We might question how far the large number of people working beyond normal

retirement age in the US reflects choice, and how far it reflects necessity and hardship; we return to pension issues in the next chapter. On the other hand, it is clearly of concern that such a small proportion of Europe's labour force remains in employment until the statutory retirement age (65 in most countries).

A major reason for the continuing low average EU employment rate is to be found in the diversity in employment performance between Member States, and the fact that, with some exceptions, rates in countries with low employment have been slow to increase.

This is a particular concern in the south of the Union, with employment rates in Greece, Spain and Italy (but not Portugal) all below 60%. In Spain, however, employment has risen markedly since the mid-1990s – by over 10% of the working-age population. And low employment rates are not exclusively a southern problem, since the rate in Belgium is only 59%.





In contrast, Denmark, Sweden, the Netherlands and the UK all perform well on this indicator, with employment rates already above the Lisbon 70% target level.

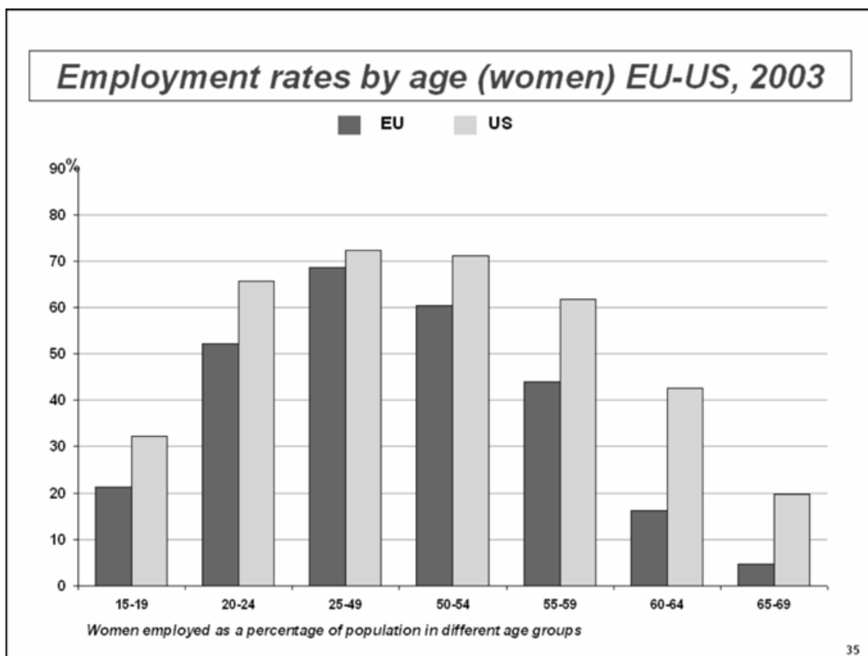
Comparisons between Member States, show that, like comparisons with the US, low overall employment rates are again primarily due to low rates of employment among women of all ages and among men aged 55 and older.

Europe is still characterised by different 'gender regimes' in terms of the division of labour. In some countries, women can expect to participate in the labour market more or less on a par with men – at least in terms of working hours – with various forms of public child-care provision in place to make this possible.

In many parts of the south, though, a large proportion of women tend to work until marriage and/or childbirth when they withdraw completely – either for an extended period or permanently – from the labour market. In other countries, women tend to work full-time until childbirth, and then

re-integrate into the labour market after a certain period (usually when children are in school), often on reduced hours in part-time jobs.

Part-time working is particularly important in countries, such as the UK, the Netherlands, Germany and Ireland, where public child care provision is less extensive than in other parts of the north of the Union. In the accession countries, the tradition of full-time participation of women is still strong, although it has come under serious pressure from changes in the labour market, and the privatisation of public childcare facilities. Indeed there is pressure for change in most parts of Europe, as demonstrated by the pronounced differences in employment rates between younger and older generations in a number of countries.



In respect of older men, their low rates of employment are a reflection of many factors – some are deeply embedded social norms (the 'right' to retire early, given tough working conditions and relatively short life expectancy), but others reflect either the lack of jobs when economic

growth is inadequate, or negative signals from employers, and welfare and retirement systems, as discussed in the next chapter.

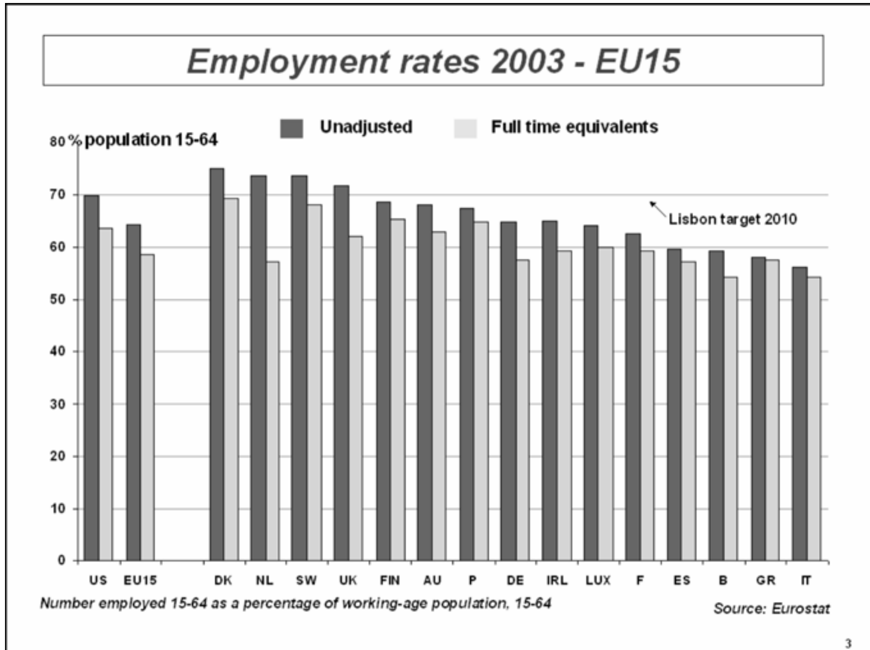
The Nordic countries have gone furthest in actively combating the problem of early retirement and seeking to reverse the trend through comprehensive public policies. Successful models, notably in Finland, have shown the importance of raising awareness of the skills and experience of older workers, of the provision of on-going training and of the need to ensure a working environment in which health and safety issues are taken seriously. In some cases, pay systems in which earnings are closely related to seniority need to be reconsidered. In other countries, however, early retirement still remains a major means of labour market adjustment, although government policies have shifted towards discouraging it, at least in principle. As in so many other areas, tackling problems of job scarcity is key in avoiding the pressures that lead to early labour market exit.

Refining the employment rate measure

The employment rate is a much superior indicator of labour market performance than the unemployment rate, but it can still give a misleading impression of the success of countries in providing employment for people of working age if no account is taken of the hours worked, particularly in part-time jobs.

When hours of work are taken into account – such as by expressing employment in terms of ‘full-time equivalent’ (FTE) rates – then the average EU15 employment rate falls from around 64% to around 58.5%. Moreover the relative ranking of Member States changes significantly. (FTE employment rates are defined as the proportion of people of working age who would be in employment if they all worked average full-time hours in the country in question, See ‘Data matters’ section above.)

One effect of measuring employment in FTE terms rather than unadjusted numbers is to reduce the difference in employment rates between Member States, because countries with high employment rates tend to have a relatively large number of part-time jobs, whereas part-time working tends to be much less important in countries where employment rates are lower.



In this respect, the Netherlands and the UK stand out, in that their FTE rates are over 16, and nearly 10, percentage points lower, respectively, than their 'crude' employment rates. This still leaves the adjusted UK figure some 3 percentage points above the adjusted EU average, but it reduces that of the Netherlands to 1.5 percentage points below.

Such adjustments also reduce the oft-mentioned employment performance gap between France or Germany, on the one hand, and the UK, on the other, from around 8 percentage points to 3 or 4 points. And this figure is reduced still further if, as mentioned above, the ambiguous 'advantage' of a higher employment rate of young people in the UK – many of whom are no longer in education or training, unlike those in Germany – is taken out of the equation.

Again, in terms of FTE employment rates, most of the differences between Member States are explained by the employment of women. Indeed, for the EU15 as a whole, the FTE figures for men are little different from the 'crude' rate – with the exception of the Netherlands

where the very high 81% employment rate for men falls to a more normal 74% in FTE terms – but remains above the EU average.

Overall, 'crude' employment rates of women were nearly 56% for the EU as a whole in 2003, but these are reduced to 45% in FTE terms. Again the biggest changes are in the Netherlands and the UK – down by 26 and 18 percentage age points respectively – but they also fall considerably in Germany (14 percentage points) and Ireland (13 percentage points). These are all countries, as noted above, where the lack of childcare provision, especially on a full-time basis, is major factor underlying the low FTE rate.

These differences in FTE employment rates reflect, of course, differences in total average hours of work. Here the main story is the extraordinarily low average number of hours worked in The Netherlands – 31 – compared with an EU average of 37.5. At the other extreme are Greece, Spain and Portugal – partly because of agriculture, but also because of the relative lack of part-time jobs – with other countries bunched around the average.

Again, overall differences in working hours are largely attributable to differences in hours worked by women – although, Greece aside, the UK tops the ladder for men, with average hours of nearly 43 against an EU average of 41. The division is between those Member States where women work more than the EU women's average of 33 hours – namely Belgium, Denmark, France, Italy, Austria, Finland and Sweden, as well as of course Greece, Spain and Portugal - and those where they work less – Germany, Ireland, the UK and the Netherlands.

While allowing for differences in working hours and part time working brings employment rates closer to labour market reality by reducing the weight given to people working very short hours (e.g. students or mothers doing a few hours a week), a balanced view is needed in interpreting the results in policy terms. For some, part-time work is not only better than no work, it is better than full-time work where it is the deliberate choice of the individual concerned.

Support for this view comes from the EU's Labour Force Survey data (as reported, for example, in *Employment in Europe* 2003), in which relatively few part-timers report that they are working part-time

'involuntarily' in the sense that they would have preferred a full-time job but could not find one. The exceptions are Spain, Portugal, Italy, Finland and Sweden, where more than a quarter of people reported that they worked part-time for this reason. In general, however, the great majority reported that they were working part-time 'voluntarily'.

However, these results also need to be treated with some care since respondents also give being in education or training, family responsibilities, illness or disability, and 'other reasons' as justification for working part-time. While the first can probably be considered 'voluntary', the evaluation of the other cases is less clear: many people working part time for family reasons might well have preferred to have a full-time job if child-care facilities were adequate and affordable. One fact that does seem to emerge, though, is the high degree of acceptance by workers, male and female, in the Netherlands of the 'world's first part-time society', where the prevalence of part-time rather than full-time child-care provision appears to reflect the preferences of many working parents.

Progress in EU and MS policy reforms

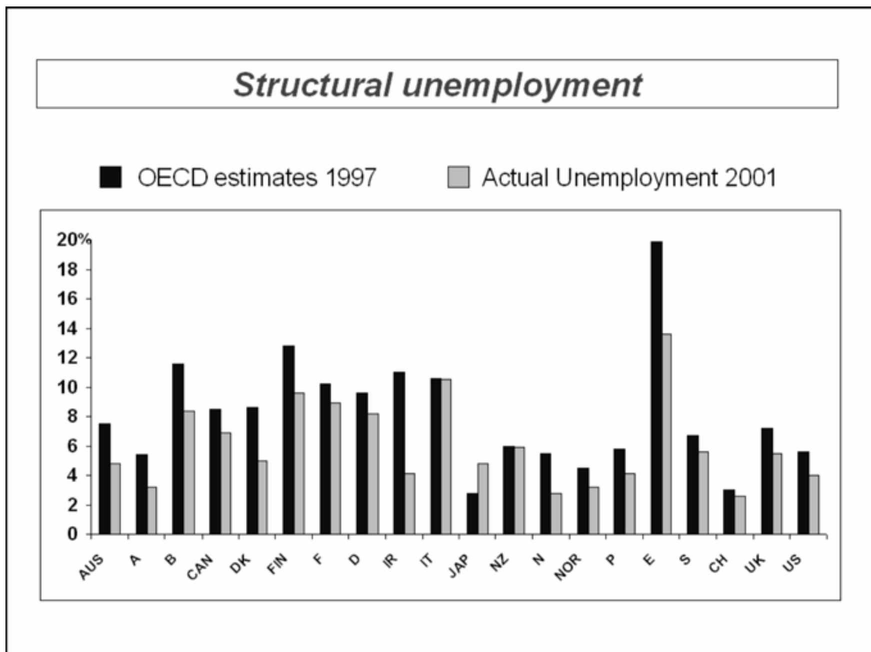
The development of a European dimension to employment policy in the 1990s culminated in the inclusion of the Employment Title in the Amsterdam treaty, which made employment a matter of 'common concern'. It led to the establishment of a European Employment Strategy (EES) which set common policy guidelines and procedures for monitoring progress. This led to the setting of employment targets for the EU at the Lisbon Council in 2000, which officially reinstated 'full employment' as a policy goal for the EU.

It is important to ask how successful has that policy been and, if so, in what areas. By what channels has its influence been felt on national and local labour markets? And if and where it has been unsuccessful, why is this?

These are not easy questions to address. For one thing, employment trends are driven by many factors outside the control of policymakers. Europe's employment performance was strong in the years following the introduction of the EES, not just because of the new strategy, but because

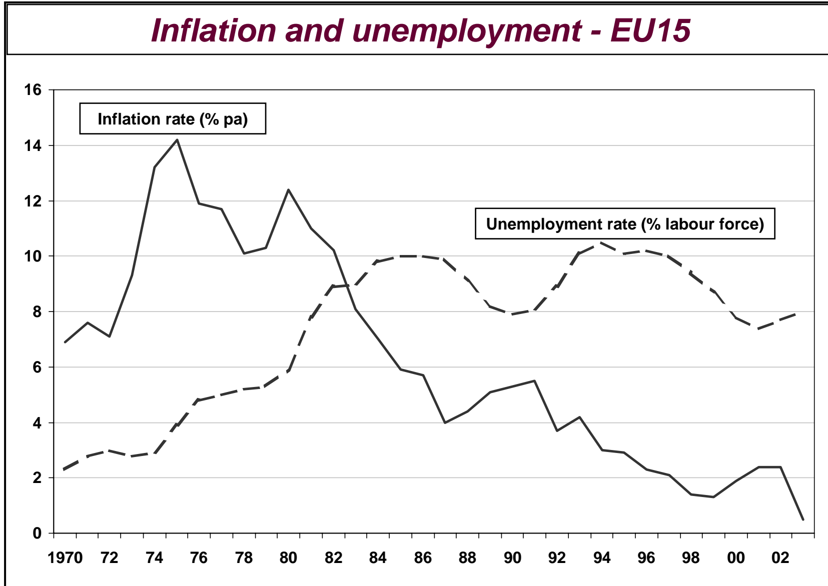
Europe was benefiting from the sustained economic expansion in the US. In the less favourable economic environment since 2000 – to which EU economic policy makers have responded slowly and overcautiously – labour market performance has, not surprisingly, been rather poor.

In its *Employment in Europe* report in 2002, the European Commission sought to address the problem of assessing the impact of the European Employment Strategy (EES) by focusing on 'structural unemployment'. It argued that if not only actual unemployment, but also structural unemployment, has been reduced, then this is due, not merely to cyclical effects, but also to the 'structural improvements' in European labour markets induced in large measure by the EES.



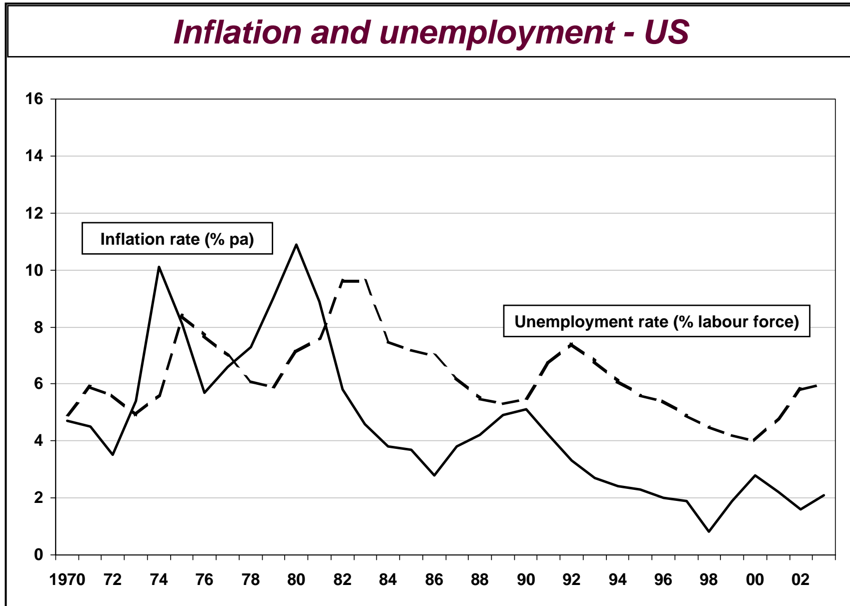
However, the measurement of 'structural unemployment' – generally based on the NAIRU, the level of unemployment at which inflation is supposed to begin to rise – is fraught with difficulties and it has not proved a reliable indicator for policy. NAIRU estimates tend to be unstable over time, and have been largely discredited by experience.

Accordingly, changes cannot sensibly be attributed to ‘structural reforms’. As the graph shows, EU Member States have achieved much lower unemployment than had been thought possible without igniting inflation.



In reality, in both Europe and the US, there has been a long-run downward trend in inflation over the past two decades, even through unemployment has moved up and down with the economic cycle over this period.

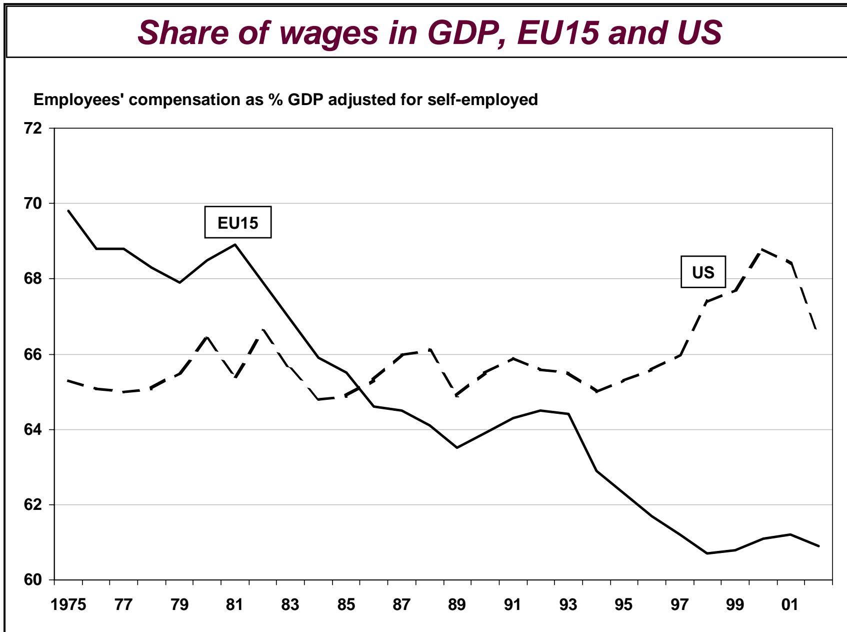
If anything, research suggests that improvements in both employment and inflation that have taken place may be linked more to changes in wage-setting behaviour, than to the result of structural reforms. This is supported to some degree by the evidence that the share of wages in GDP has declined over this period, and is now at historically low levels in both the EU and US.



Secondly, it is not clear how far the specific reforms that different governments have introduced in recent years are a direct result of the strategy. The EES has certainly provided a frame of reference and a common language and terminology, and there has undoubtedly been a lot of collective learning, but researchers have found it difficult to determine the extent to which countries have altered policies in ways that they would not have done anyway.

It is clear that, overall, there has been an important shift of emphasis in favour of 'activation policies', including avoiding 'financing joblessness' and offering, instead, support to the unemployed to enter work through training, mobility allowances, childcare, and similar measures. These have been coupled with greater obligations on the unemployed to accept such offers, including loss of benefit for those refusing.

There is also a rhetorical commitment to 'prevention', or taking steps to avoid people becoming unemployed in the first place. Here, however, the record appears to be more mixed, despite the evidence that 'distance to the



labour market' is an important predictor of the likelihood of re-gaining employment. Governments have been encouraged to prevent the unemployed sliding into long-term unemployment, but the EES does not appear to have been able to do much in practice to stimulate workplace intervention to avoid redundancies.

By the late 1990s, activation and prevention were considered state-of-the-art approaches in labour market policy. In these terms the European strategy can be interpreted as an attempt to diffuse such practices from countries where they had a long tradition, such as Sweden. And the EES can certainly take some credit for the fact that 'active' labour market policies have increasingly been adopted in countries where they were previously unknown or infrequently used. Related to this is the fact that the use of early retirement as an 'adjustment measure' has been on the decline.

However it was always unlikely that the strategy would impact evenly. At one extreme there are countries such as Sweden, which can be seen as

reflecting the underlying model already and where the need for further change was clearly less, although not non-existent, compared with other countries. And, at the other end of the scale, in some parts of southern Europe, where the apparent need for reform may be greatest, questions are continually raised as to the institutional capacity to implement the strategy, with further questions about its appropriateness, at least in the short term, given the needs and norms prevailing in those countries.

Perhaps because of this diversity, it has been difficult for researchers to identify in practice the ‘institutional pathways’ that would indicate exactly where and how the European strategy is having a concrete input into national policy making. While many Member States take their work seriously, in others the National Action Plans presented to the Commission and discussed in peer review by labour ministers and experts from other countries– which are central to the process of institutionalised learning and benchmarking that characterises the EES method – are seen more as a reporting obligation. Moreover, national parliaments are not generally involved in debating them, and in some countries the social partners are not even involved in drawing them up.

However, in more traditionally ‘corporatist’ countries, the social partners are given and take an active role. Moreover, there are signs that, in countries lacking a tradition of social dialogue, the new strategy is giving trade unions and NGOs an avenue for dialogue with government which did not exist before, and hence an opportunity to be consulted on policy.

This leads on to the question of the suitability of the strategy in the new Member States. Recent research coordinated by the ETUI finds that the flexibility of the strategy, and the scope to subsume different types of policies under it, has one useful aspect, in that the acceding countries are unlikely to have major problems bringing their labour market policies under this umbrella.

Nevertheless, the problems facing these countries do differ markedly, in some respects, from those in EU15. The emphasis in the strategy on using public employment services and the social dialogue in more productive ways to make labour markets work more effectively is surely correct in the medium term. But, without the provision of concrete financial support, such appeals may have limited impact on the ground.

An overall assessment of the benefits of the European employment strategy is therefore difficult. Procedurally, it is probably the most stringent form of EU-level influence on national policies that it is feasible to establish in the current political climate. Substantively, however, it is probably rather more limited than it may at first appear with a fair degree of ambiguity in order to 'cover' for a wide range of policies and viewpoints.

On the positive side, though, there has been a recent shift in the overall packaging of the reform process – away from the focus on areas of reform through the guidelines towards a broader, more integrated, political emphasis on objectives: full employment; quality and productivity at work; and social cohesion and inclusion.

These actions raise the political pressure on national governments, promote policy learning, and encourage the diffusion of good practices, all of which will undoubtedly help make Europe's labour market become more efficient in the long-run, thereby helping to reduce still further the rate of unemployment below which inflation risks might start to rise and making higher levels of employment *possible*.

Actual success in reducing unemployment and increasing employment, though, is conditional on the employment strategy being complemented by growth and employment oriented economic policies. In particular, EU monetary policy needs to abandon any rigid, *a priori* views on the sustainable rate of economic growth or NAIRU. It needs to be much more prepared to 'test the water' by setting monetary conditions that can encourage an expansion in demand, while keeping inflationary expectations within 'reasonable' limits. To this end it should intensify cooperation with collective wage bargainers, who have exerted a decisive and positive influence in reducing inflation rates over the past two decades.

Job quality

Even if full-time equivalent rates are used in the place of 'crude' employment rates, such measures may still give a distorted view of

employment performance if they take no account of the quality of the jobs people perform.

Job quality is a complex issue, to which the EU is devoting increasing attention within the Lisbon process. As a result it has developed assessments of job quality based on a range of indicators, including such factors as skills, gender, health and safety, and worker involvement.

This new focus intensified under the Belgian presidency of the Council in 2001 – partly prompted by Belgian political concerns about what they considered to be unfair and unfavourable criticisms of their low employment rate, given the high quality, or at least productivity, of their jobs.

An end-2003 EU report on job quality sees improvements in job quality as 'important for the well being of workers and for the promotion of social inclusion, as well as for an increase in productivity and in employment growth' and it is critical of weaknesses that persist. It notes how insecure jobs and jobs without training opportunities are directly linked to unemployment, with unemployment, in turn, linked to social exclusion.

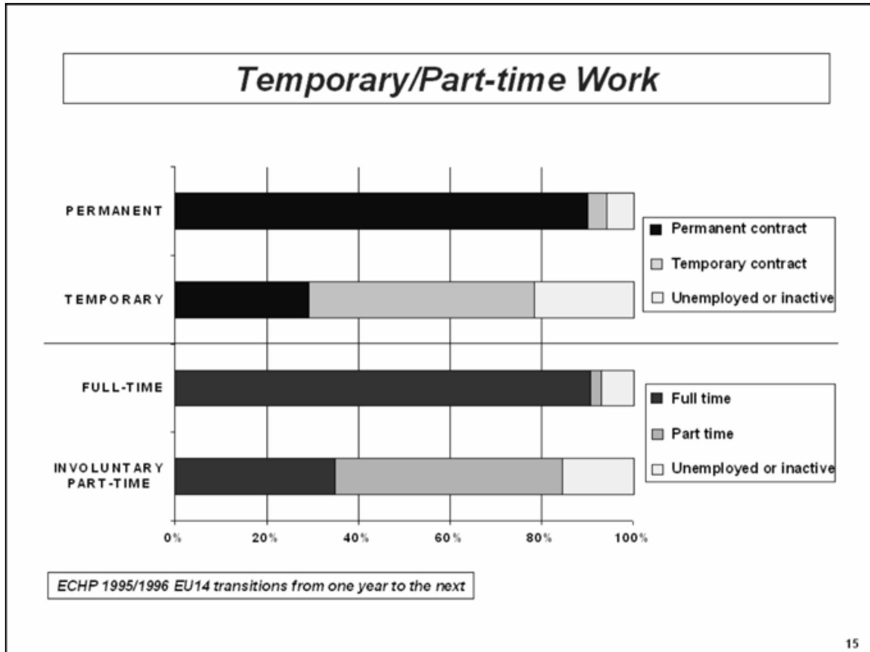
This can be seen in the employment experiences – from one year to the next – of those working on temporary jobs, or holding part-time jobs but wanting to move onto full-time work.

In both cases, there are positive results – 30% of those with temporary jobs do find permanent jobs by the following year. However, 50% do not and, most significant of all, over 20% end up unemployed.

Likewise, 35% of those working part-time, but seeking full-time work, do succeed the following year. However, half do not, and more than 15% end up unemployed.

In both cases, the position is very different from those working with permanent jobs, or with full-time jobs already.

Such difficulties are likewise reflected in the experience of those in 'dead-end' jobs – defined in the Commission's *Employment in Europe* reports to include jobs without job security and without training possibilities.

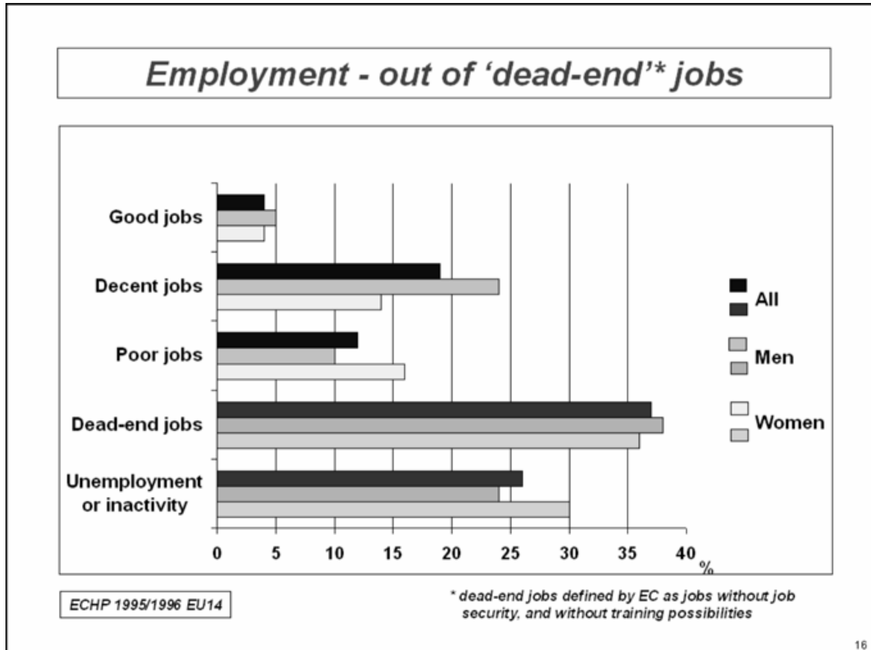


This evidence shows that while some workers do progress year-to-year – 5% move into good jobs and 20% into decent jobs – over 35% remain in a 'dead-end' job, and over 25% end up with no job at all.

One major weakness in the EU's set of job quality indicators is the absence of any direct reference to pay, even though this is one of the key factors, if not *the* key factor, that most people would use to judge the quality of a job.

This is not accidental, being the result of one large Member State using its well organised civil service to lobby its Commissioners (yes, it happens) to leave out such references in case they it appeared in a poor light. Hopefully, this will be corrected.

In general the debate on job quality is evolving fast given the major changes – in both the EU and US – in the types of jobs being created.



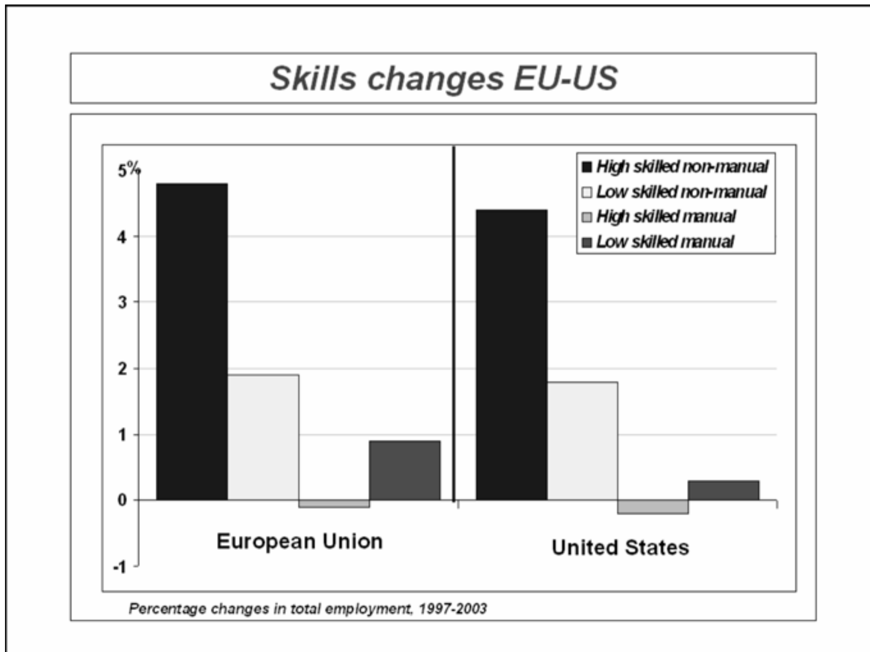
Some types of jobs – especially manual jobs – are still seen as intrinsically bad because of poor working conditions, risks of accidents, and so on. However, as the graph shows, nearly 90% of the EU's employment growth during the past six years took the form of jobs that were non-manual in nature, and more than two-thirds of those were of high or medium level skill. At the other end of the spectrum, there was also a growth in low skilled manual jobs, but a small decline in skilled manual jobs.

The pattern was almost exactly the same in the US – with the exception that, in the US, the growth in low-skilled manual jobs was rather lower, possibly reflecting the already high levels of such jobs in their economy.

Enlargement and the new Member States

The collapse of the centrally planned economies in Central and Eastern Europe, the loss of the Soviet market, and the difficulties of ensuring

transition to social market economies have had a traumatic effect on the economies and labour markets of all the new Member States, excepting Malta and Cyprus.



Previously high, and artificially maintained, employment rates, for both men and women, collapsed, along with much of their social support structure, notably child care. Only now – a decade later – has the decline been halted and progress made in restoring overall job growth in a market economy framework.

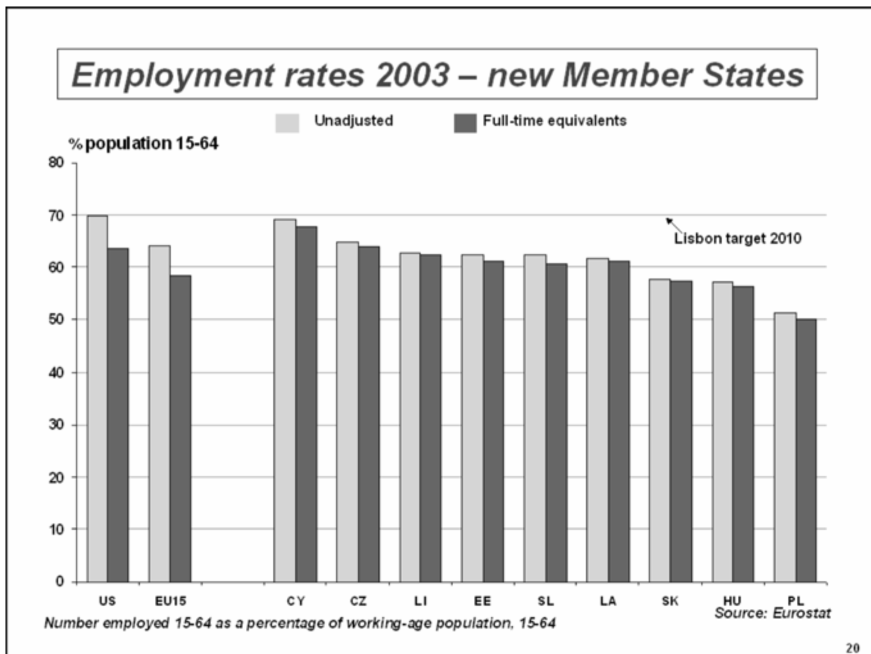
Of course the jobs themselves have changed – mainly for the better. Overall, though, the 'crude' employment rates of the accession countries are rather below those of the existing Member States, running from a low of 51% in Poland to nearly 70% in Cyprus, with the Czech Republic, Slovenia and the Baltic States all above 60%.

However, when these figures are translated into FTE, they come much closer to the EU average, with only Poland significantly far away – 50%

compared with the 58% plus of EU15 – and Hungary and Slovakia just one or two percentage points below.

This difference is due to the fact that part-time work is much less developed in these countries. Beyond that, the most notable other structural difference between the accession countries and the existing Member States concerns the relative shares of employment in agriculture, industry and services, and the nature of the job contract – permanent or temporary.

In respect of the former, the most striking general differences are in terms of the relative importance of industry as compared with services, as well as the larger numbers employed in agriculture. Although employment has generally declined significantly in both agriculture and industry in the past ten years, it remains higher than in the EU15. The number employed in agriculture is particularly high in Poland, where it still accounts for 18% of the total in work.



In respect of job contracts, a much small proportion of workers are employed on fixed-term, or temporary, contracts than in the EU15.

The gaps in relative incomes – 50% of the EU average – are large, but not dauntingly so in many cases – not so far off the position of Portugal when it joined the EU. Moreover, the new Member States are, in the main, well launched into reforms and modernisation processes.

Just prior to the date of enlargement, there was an unfortunate flurry of political activity, with some existing Member States vying with one another in the extent to which they were planning to discourage workers from the new Member States to move to existing Member States in search of work, while 'making an exception' for skilled workers.

The first would seem to be largely unnecessary, given the experience of the southern enlargement, when many migrant Portuguese and Spanish workers employed in other Member States returned to their home countries. In addition, there are already substantial numbers of workers from the new Member States employed in EU15 countries, especially neighbouring ones. Moreover, virtually all available research or opinion enquires suggests only a relatively modest rate of additional migration into the EU15, and that mainly into Germany and Austria.

And the second response is rather unsavoury – seeming to reflect the failure of some existing Member States to invest sufficiently in their own human resources to meet their need for skilled workers, coupled with a willingness to profit from the investment made by the accession countries themselves. Given the need for skilled workers in the accession countries (especially those with university degrees or the equivalent, who are much less numerous than in the EU15), such a response can only be to their disadvantage, making it even more difficult for them to achieve the high growth rates they need in order to increase living standards and employment levels. Not the best of starts for the enlarged EU, but one that, hopefully, should soon be overcome.

Policy progress – the Kok Report and the Commission contribution to the Spring Summit

In March 2003, the European Council asked the European Commission to set up a European Employment Taskforce, headed by Wim Kok, ex-Prime Minister of the Netherlands and a former trade union leader, to make an independent review of policy challenges and appropriate reforms, paying particular attention to the impact of enlargement.

At the time this was seen by many observers as an unnecessary duplication of existing work, with the potential even to undermine the policy-making processes through the European Employment Strategy.

To make sure the Report did not drift out of control, though, the European Commission took responsibility for the secretariat, just as it does for the employment guidelines. As it turned out, the Kok report – which was published under the title *Jobs, jobs, jobs* – contains little that is new but sets out arguments for reinforcing aspects of the present strategy in a coherent way.

It takes a balanced approach to a range of labour market questions, including the effects of taxation and the need for much higher, and more effective, forms of investment in people through education and skills. As the report stresses, this requires efforts on the part of governments, employers and workers alike and ways have to be found to overcome the 'prisoner's dilemmas' that lead to under-investment in training – the fact that firms that invest in their workers' skills risk seeing them poached by firms that do not.

In examining labour market trends, the report pays attention to gender issues – notably the importance of childcare provision – and looks carefully into the consequences of enlargement. It also addresses the measures that may be needed to raise the employment rate of older workers, although it is not only, or indeed primarily, the attitudes of elderly workers that need to change, but employer attitudes, personnel management practices and the incentives set by tax and benefit systems in many countries.

The report also goes out of its way to address the problems of individual Member States, which is appropriate given that most of the

responsibilities still lie with Member States, and there remain major differences of approach and performance between them.

The report also gives appropriate praise to the performance and policies of the Nordic countries – and to Wim Kok's home country, the Netherlands – and appropriate warnings to those not doing so well in various areas. Whether these policy approaches are as relevant or practical for larger Member States is, however, questioned by some.

Not all of its recommendations are as well founded as others.

The enthusiasm for making it cheaper and easier to set up new businesses sounds fine – and has been much vaunted in past EU discussions – but it may be less enthusiastically received by consumers, or businesses, in countries with experience of being duped by fly-by-night firms which don't deliver the goods, or pay their bills. Moreover, the empirical evidence of any link between ease of business start-ups and employment success is weak, if not non-existent. And to expect substantial numbers of unemployed people successfully to set up new businesses, with all that this requires, seems, unfortunately, to reflect a degree of wishful thinking.

Likewise, recent research suggests that the attractions of temporary work are not as apparent as is often assumed, quite apart from their relatively poor longer-run employment prospects indicated above. In reality, the people employed on fixed-term contacts are a mixed group, and it is dangerous to generalise. While for some younger skilled workers, temporary contracts to cover periods of training are a way into the labour market, leading to greater employment security in the longer run, temporary contracts can be a trap for many workers – leaving them stuck in a 'revolving door' of low-skilled, low-pay work interspersed with spells of unemployment.

One additional piece of evidence that is disturbing is that workers on fixed term contracts and agency workers appear to face a higher risk of accidents, even after other characteristics (age, sector etc.) are taken into account. Moreover, labour market studies on temporary work tend to be narrowly focused, and to overlook wider consequences, not least the fact that workers on fixed term contracts find it more difficult to plan their futures, to rent accommodation, or to borrow to buy a home

The report's enthusiasm for getting people into jobs, however low paid, and for topping-up low incomes with social transfers – favoured in the US and UK, and starting to appear elsewhere – needs to be somewhat tempered. Not only does such a policy often bring high public transfer costs in its wake, as the US has seen, but can actually discourage and inhibit skill improvements at the bottom end of the workforce, which are important for boosting overall productivity growth and avoiding poverty over the long-term depends. Indeed, the title of the report 'Jobs, jobs, jobs' sits uneasily with the Lisbon strategy focus on 'more and better jobs'

Overall, though, the report shows better understanding than most of the interdependence between economic, employment and social concerns, and the need to develop policies accordingly.

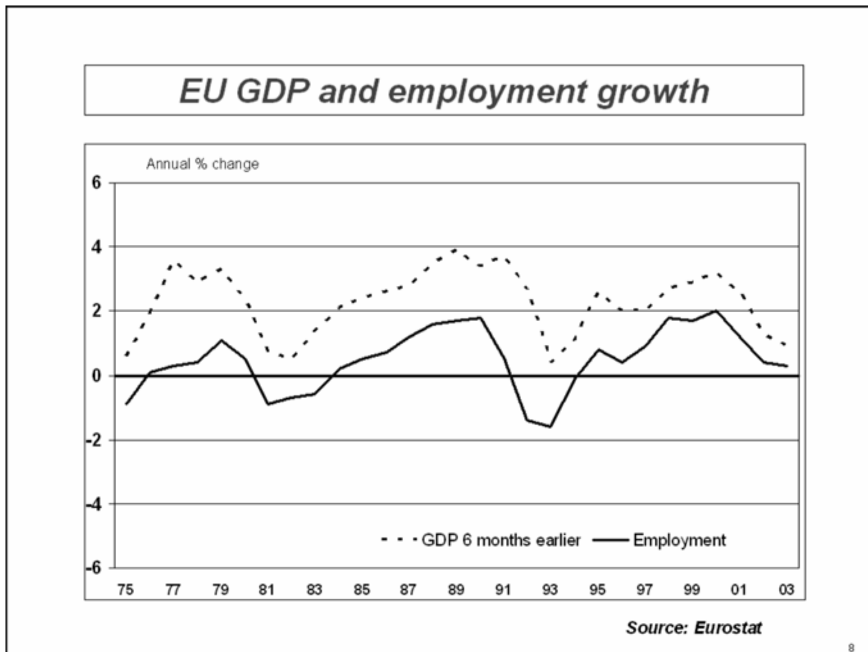
The central weakness of the report, however, is the absence of any discussion about the real determinant of jobs, jobs, jobs – namely the growth performance of the EU economy. It is widely believed that this was deliberately squeezed off the agenda by those who wanted to keep the economic debate to themselves, but the absence of growth from the analysis makes the report appear much like a production of Hamlet without the prince, and fundamentally unbalances the argument.

When the current economic downturn is mentioned in the report, it is referred to as 'compounding' employment problems when, in reality, it is at the heart of the issue. Worse, the review of the EU's past employment performance overlooks the extent to which it has been dominated by fluctuations in economic activity, with long periods of strong employment gains being offset by equally long periods of job loss, as noted earlier.

For example, the report talks of 'the appalling performance of Europe's labour markets since the 1980s' and states that 'in stark contrast with the performance of the 1980s and early 1990s, the employment growth achieved in the last six years of EU15 was heartening and demonstrates that, where they have been carried out, reforms have paid off.'

This is incorrect and misleading. As the graph earlier in this chapter showed, the late 1980s was also a strong a period of economic and employment growth – long before the current round of employment policy reforms began – and there is, indeed, little concrete evidence that

increased employment growth in the late 1990s had much to do with labour market reforms either.



This is not to say that labour market and related reforms are not helpful in a variety of ways – not least in raising the quality and productivity of jobs, and in providing a better balance between life in work and outside. Moreover, such reforms will become increasingly important as the EU approaches Lisbon levels of employment, and if it seeks to go beyond those targets, and to emulate the even higher employment rates of the most successful EU economies.

However, that is not the same as trying to give credit to labour market reforms for the increases in employment in the late 1990s – which were, in reality, largely generated by the expansion in world trade, as discussed in chapter 2.

The report is highly pessimistic about the Lisbon goals. It talks of it 'looking increasingly unlikely that the overarching goal for 2010 and the employment objectives will be attainable'. Yet elsewhere the report

recognises that ‘since 1997 total employment in the EU15 has increased by some 11.5 million’ and that ’to reach an employment rate of 70% by 2010, employment must increase by a further 15 million in EU15’ – which contrasts with this report’s assessment of the potential for growth. Moreover, the report is also rather pessimistic about the prospects for the new Member States.

Here the Kok group rightly points out that the average employment rate in the new Member States averaged just 56% in 2002. However, it ignores the point addressed earlier in this report – namely that this employment rate is deflated by the absence of part-time working, which could rise markedly as the new Member States adapt their labour market systems to the new environment and legislation of the EU. This is apart from the fact that these economies have the potential to continue growing at a faster rate than existing EU countries – although the benefits in terms of employment of this higher growth will be partly offset by higher productivity growth.

In respect of enlargement, the EC’s report to the Spring European Council – ‘Delivering Lisbon, Reforms for the Enlarged Union’ – is ostensibly more optimistic. It believes that ‘the 70% (employment rate) target laid down for 2010 is still realistic if economic recovery can be sustained at similar rates as at the end of the 1990s.

If the Kok report is disappointing because it fails to address the economic aspects of job creation, the Commission’s submission to the European Council is even more so because of the strange approach it takes to the discussion of economic growth.

The European Commission rightly deserves praise and respect for the way that it has, over the past 5 years or more, cajoled and prodded the Member States into, not only accepting quantitative targets for employment growth and poverty reduction, but engaging in a strict process of monitoring and commentary, using a wide range of comparable indicators. This has transformed the way countries view their policies and performance, and created much greater awareness of the ‘all in it together’ nature of European policymaking.

Unfortunately, while this Spring Report contains all the relevant indicator data in its annex, and it does address the full range of relevant issues – including the internal market, the environment and social cohesion – the

analysis breaks down when it comes to the relationship between employment, growth and productivity.

The report acknowledges that ‘the effects of the economic downturn are now being felt on employment’ with an estimated loss of 200,000 jobs in 2003. However, it then goes on to speak of ‘the unsatisfactory *contribution* of employment and productivity to growth’ and argues that ‘it is vital for employment to make a greater *contribution* to growth in Europe’ and that ‘productivity, the second factor in growth, is still not making enough of a contribution either’. (The italics are ours.)

This is accountancy, not economics – and a rather bizarre kind at that. It appears to reflect a desire to avoid at all costs using terms such as ‘demand’, let alone ‘demand management’. However, whatever the belief in the benefits of monetary or fiscal stimulus at the present time, nobody in their right mind can think that causality flows from employment creation to economic growth. It might just be possible to pull that off in a ‘command economy’, but not in a mixed market economy like that of the EU.

What do the authors think should have happened in the recent downturn? Should the 200,000 who lost their jobs have ‘tried harder’ and ‘contributed more’ – possibly by offering to work longer hours for less than the ‘going wage’, in order to stimulate the European economy, in the way that was last suggested in the 1930s?

Such nonsense should never be served up to anybody, and certainly not to the assembled Heads of the State of the EU. We can only hope that, in future, it will be replaced by what is, in truth, a more ‘conventional’ approach, in which monetary and fiscal policies are asked to do their job, and structural policies – including labour market policies – are asked to do theirs.

Conclusions

The collective management of the EU economy and labour market in order to attain and sustain high levels of employment is still in its infancy, even though the degree of economic integration between Member States is highly advanced.

This report addresses the relevant economic policy issues elsewhere (Chapter 2). In terms of labour market reforms, however, it recognises that, while Europe's labour markets may still need to adapt more to the needs of new generations, as well as to the needs of new employers and markets, the EU's employment performance over recent years, at least up until 2001, has by no means been as bad as is often made out.

In particular, there is very little evidence that EU labour markets are inflexible – in the macroeconomic sense that they are likely to lead to inflationary pressures or tensions when there is a strong growth in employment.

What this report does seek to underline is the fact that many members of the actual or potential workforce – especially those outside of the mainstream – are not getting the support they need in order to cope effectively with new job market challenges and opportunities. There are still many old-type jobs around – including those with onerous physical conditions – but, as productivity advances, we are moving towards a world of work in which ability to work with colleagues now counts much more; where literacy, especially numeracy, is fundamental; and where patterns of work are being increasingly adapted to suit more individual needs.

Unfortunately, the financial, institutional and legal frameworks within which people work have been slow to keep pace, which is the primary responsibility of governments in most Member States. Moreover, the potential for social dialogue to address such concerns is still widely underused.

One of the most inhibiting factors for change is the reluctance of governments to adapt taxation arrangements in order to encourage activity and raise the employment rate. Their over-riding concern seems simply to raise tax revenues, in the face of the strictures of the Stability and Growth Pact, and increasing difficulties in taxing mobile factors of production, like capital and some highly skilled workers. As a consequence, many tax and benefit systems remain ill adapted to modern labour market and societal needs – often discouraging new entrants to the labour market and those who would opt for flexible or varied working arrangements if they

were available. One unfortunate consequence of this has been the growth of a large, unprotected, informal economy in some Member States.

A further problem is the inappropriate tenor of many recent political messages. Ordinary citizens want to play their part in the world – not least in order to have a better life for themselves and their dependants. Yet, all too often, they find themselves confronted with a political rhetoric which seems unsympathetic to their personal aspirations, and excessively negative – arguing that the future will be much tougher than the past, and that we are all going to have to 'knuckle down' and 'do as we are told' if we are to survive in an 'increasingly competitive world'.

This is bad psychology, as well as being incorrect. As chapters 1 and 2 have shown, Europe is well placed to succeed in the modern world. It has an economic and social model that is widely admired, and increasingly recognised as a powerful and sustainable system. But its employment potential can still be seriously threatened by bigoted attacks on the complex structures of social partnership and collective support on which modern European life is built.

Today, the central mantra in the European jobs debate is the need to raise the employment rate. This is fundamentally correct. But it is a means to an end, not an end in itself. The real goal is the creation of a fully inclusive society in Europe, in which employment plays a central role, and where everybody can contribute and benefit to the fullest extent of their abilities. It is against such criteria that the appropriateness of political messages and policy actions should be judged. And, at present, many of them seem seriously flawed.