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Employment in EUROPE

1996

Executive Summary — Meeting the employment challenge

The Employment in Europe report 1996 presents the latest trends in employment and the labour market in the European Union. It analyses the current situation and outlines a series of policy issues which have to be addressed if the employment problem is to be tackled.

Trends

- Employment in 1995 was 148 million, 1.1 million more than in 1994, but still 4 million fewer people employed than 4 years earlier.
- the employment rate, at 60%, is lower than it was 20 years ago, and significantly down from its recent peak of 63% in 1991.
- unemployment remains stubbornly high, at 10.7% on average in mid-1996, only slightly below its peak of 11.3% reached in April 1994.
- youth unemployment is still twice as high as that of adults, at over 20% on average.
- long-term unemployment increased in 1995 from 48% of the unemployed to over 50%. The proportion of those unemployed for more than two years rose from 27% to over 30%.
- Women have accounted for the entire growth of the labour force in the last 20 years, and their activity rate now stands at 70% for the Union as a whole.
- Unemployment of women, which stood at 12.5% in July 1996, has been unaffected by the recovery and remains higher than that for men in all but two Member States.
- The nature of working is changing. The number of people working at night and at weekends has increased almost everywhere. Most new jobs created in the 1990s were part-time. Temporary working accounted for all of the increase in employment of men and just under half of the rise for women.
- over the period 1988–95, on an annual average basis, job losses in large enterprises has largely been compensated by job creation in SMEs. Companies with fewer than 100 employees have increased net employment at a rate of 259 000 a year, while

companies with more than 100 employees have had net losses of 222 250 a year.

- the services sector provided most of the net addition to jobs, while the decline in employment in agriculture and industry continued.
- the recovery in growth which began in 1994 came more or less to a halt at the end of 1995, mainly because of the effects of adverse developments in financial markets. Nevertheless, a resumption of growth is expected in the course of the year, accelerating throughout 1997.

Areas of policy action

Member States' margin of manoeuvre appears to be narrow in the struggle against unemployment and marginalisation, and the alternatives are few. Traditional demand management through public deficits have not proven effective in achieving a sustainable growth performance and a solution to the structural problems in the European economies.

Therefore, the pursuit of stability-oriented macroeconomic policies which enhance confidence in financial markets and among consumers must be continued, without giving in to technology pessimism, fear of global trade liberalisation or beggar-thy-neighbour attitudes through uncoordinated, stand-alone action.

An employment-friendly growth must be based on an offensive strategy to promote increased demand rather than a defensive strategy based on the sharing of existing jobs. This growth should be driven by efforts towards greater innovation to open up sources of job creation and consolidate existing jobs. This can be brought about by a four-pronged investment-led policy comprising:

- investment in physical productive capacity,
- investment in intellectual know-how and human resources,
- investment in an entrepreneurial environment and infrastructure.
- investment in knowledge and skills

In addition, the reforms of the production and employment systems must contribute by addressing structural rigidities in product, service and labour markets to enable them to function efficiently.

At the same time, it must be clear that the reforms must respect the principles of solidarity and social justice. Combining efficiency, adaptability and security must be considered as the strength of the European way of organising production and equal opportunity. Experience in several European countries has demonstrated that it is possible to combat poverty and marginalisation by providing safety nets for those who cannot respond to market forces, while encouraging an active search for work and workers, thereby promoting both flexibility and security.

The different rate of job creation in the US and Europe is due to a complex of factors including different rates of output growth, differences in sectoral employment trends, greater wage dispersion in the US, and differences in the degree of regulation on product and service markets. Excessive minimum wage labour costs have created distortions in Europe against low wage, low-skill groups. This distortion must be redressed without trading off increased wage dispersion against increased poverty.

- there is considerable evidence that European labour markets are becoming more flexible, in terms of work organisation, the regulatory framework and working time. Nevertheless, the employment potential of this increased flexibility is not being realised. The policy focus should aim to continue the trend towards greater flexibility, but with a new emphasis on security in relation to employment in the wider labour market to ensure a balance between flexibility and security.
- The skill level of the European workforce is a critical element in the potential development of future jobs. The challenge posed by the march of new technology demands an urgent response to the upskilling of the workforce. A quantum leap in investment in education and training is required to raise the overall levels of educational attainment and skill levels. Continuous training programmes based on partnership between public authorities and enterprises are needed to deal with the demands of continuous structural change.
- More emphasis must also be given to training for the unemployed to combat the process of deskilling

and to give them better access to jobs. A disproportionate share of the unemployed have no skills or outdated skills, and many older workers are leaving the labour force for the same reason.

- Young people have a much greater chance of being unemployed than adults, although the numbers involved are smaller than a decade ago because many more young people are staying on in education and training. A balanced policy for young people will involve supply-side policies to prepare young people for the world of work, and demand-side policies to improve the functioning of the labour market for young people. Active labour market policies should concentrate on early, targeted measures of linked work experience and training.
- Long-term unemployment is the intractable element of the unemployment problem in Europe, increasing again in 1995 to over 50% of the unemployed. Policy action must focus not only on the reintegration of the long-term unemployed but even more on the prevention of long-term unemployment, by offering every job seeker work experience or training before they reach the threshold of long-term unemployment.
- A major role in implementing this early action will be played by the public employment services. Member States' Multi-annual programmes, as agreed by the European Councils should take account of this. Such early action should include appropriate monitoring of those most at risk, adequate counselling services, and access to an appropriate range of active measures.
- Women are accounting for an increasing proportion of the Union labour force, and for a considerable share of the new jobs being created. While some real progress in equality has been achieved, it remains incomplete. The thrust of policy should remain the mainstreaming of equal opportunities for women and men while recognising the specific needs of women in reconciling work and family responsibilities. Policy action should focus on the removal of labour market segregation of women and the barriers which prevent them from improving their situation on the labour market. Women and men should be encouraged to seek non-conventional career opportunities, thus breaking down occupational segregation.

- The employment strategy calls on the Member States to re-balance their labour market policies in favour of active measures. This requirement is two-fold: to transform passive labour market expenditure into active policies, and to strengthen preventive measures in the framework of active policies. Such a strategy is fully compatible with the objectives of budgetary consolidation and stable exchange rates.
- Evidence suggests that progress in shifting towards more active labour market policies is being achieved. Further progress requires greater efforts in the focusing of labour market policies, a review of the incentive effect of the benefit system and the central role of the public employment service.

**The policy challenge:
from uncertainty to confidence.**

A successful outcome to the employment strategy thus requires a concerted effort on the part of all Member States and the Union in three areas:

- a re-balancing of macro-economic and structural policies
- a balanced approach to efficiency and equity
- a balanced approach to the participation of all those involved

There is much which has already been achieved. There is still much to be done. Continuing the European employment strategy offers the most potential for real progress in providing more and better jobs and raising the standard of living of all European citizens.

Meeting the employment challenge — issues and policies

The Employment in Europe Report 1996 analyses the current trends and developments in employment and the labour market in the Union in the light of the objectives and priorities defined in the employment strategy. Last year's report had put forward a note of cautious optimism, suggesting that the recovery in output which had begun to spread across the Union would lead to some increase in net job creation, but that the impact on unemployment would be small. This year's report confirms that view, but points out that the structural performance of the European labour market needs to be improved at the same time as other measures are taken to strengthen the recovery in output growth.

The European employment strategy

To increase employment in the European Union is still the most fundamental challenge facing Member States. Although many of the building blocks are in place for sustainable, employment-creating growth, the edifice is far from complete, and the commitment is far from total. There is uncertainty, and a lack of confidence, at the same time as macro-economic conditions are more stable than for many years.

The fundamental challenge for both employment and macro-economic policy remains the same to combat the problem of low employment rates and high unemployment rates. From after the first oil shock to the monetary crises of 1992-93, when unemployment tripled from 5 million to 15 million, both macro-

economics factors and structural features played a role in Europe's poor employment performance.

It is for that reason that since the Essen European Council in December 1994, the Member States of the Union have been committed to a European employment strategy based on inter-related measures to enhance employment-creating growth, social solidarity, equal treatment, and special efforts to promote access to jobs for the most vulnerable groups on the labour market.

This strategy calls for an integrated approach, whereby all the relevant policies, including macro-economics and structural policies, have to contribute and support each other in the fight against unemployment. The macro-economic component of the strategy is based on budgetary consolidation aiming at a balance in the medium-term, and wage devel-

opments which take into account the objectives of monetary stability and investment profitability. Wage developments should also reflect productivity determined by skills, and to a certain extent regional and sectoral differences. This paves the way for lower interest rates and higher investment which will be favourable to growth and employment.

In its Communication of the 5 June, 1996, the Commission has called for a 'Confidence Pact' for employment, which brings the European employment strategy a step forward, i.e. by mobilising all those involved in the job creation process, particularly the social partners.

The structural and labour market components of the European Employment Strategy call for a new effort to invest in human resources, notably through education and vocational training, and the

promotion of employment in particular through more flexible work organisation, the promotion of initiatives at regional and local level, including the territorial pacts referred to in the 'Confidence Pact', the reduction of non-wage labour costs on low-paid and low-skilled workers and a more effective labour market policy. Special efforts should be devoted to the integration of young people into working life, to the prevention of long-term unemployment and to achieving equal opportunities for men and women in the world of work.

In the following sections, an examination is made of both the macro-economics and labour market context within which the above strategy is being implemented, and issues are identified where further action is needed. This report, however, does not attempt to present an exhaustive analysis of all many and varied factors which may have an impact on employment in Europe. Three factors, in particular, which potentially have important effects on employment both now and in the future merit a more detailed analysis in subsequent reports — the role of small and medium-sized enterprises (see *Employment in Europe 1994*), the impact of globalisation and trade liberalisation and the prospective enlargement of the Union.

Macro-economics stability and confidence

With the sharp recovery of 1994 and until mid-1995, there were hopes of positive developments in the European economy with forecasts of output growth of around 3% for the years 1995 and 1996, and with it, an improvement in the employment

situation. In terms of pace and composition, such a recovery was indeed just what the European economy needed. On the basis of the macro-economics strategy set out in the Broad Economic Policy Guidelines, this could have been transformed into the sustainable investment-led growth path which would have progressively created productive capacity and the associated jobs. This would then have formed the basis for a gradual resorption of unemployment and an easier application of structural reforms on the labour market. Business surveys of investment plans at the end of 1994 effectively confirmed early and strong capital stock projects.

Since then, however, there has been a marked slowdown in growth which has directly affected labour market developments, bringing the moderate employment growth registered since the middle of 1994 which had reached 0.8% in 1995 more or less to a halt at the beginning of 1996.

These lower than expected performances are essentially explained by the lagged effects of two adverse developments in financial markets. Firstly, the marked rise in long-term interest rates on world and Community financial markets during 1994. Secondly, and more importantly, the exchange rate turmoil in the Spring of 1995, with sizeable and abrupt movement between EC currencies. These two events are themselves linked and reflected credibility problems or a lack of timely application of the agreed convergence policy in several Member States.

Among the causes of the long-run interest rate rise, the lack of determined action for cutting structural budget deficits along with the recov-

ery (only -0.2% of EU GDP in 1994 and -0.3% in 1995) seems to have played a significant role. It was also more pronounced in countries whose public finances were not yet perceived as having been put on a sustainable downward path.

The currency turbulence of early 1995 had a significant negative impact on the economies of the appreciating currencies as well as the depreciating ones. In the first group a profit squeeze occurred in the export/import-competing sector which, combined with a still relatively restrictive monetary policy, induced a downward revision of private expenditure plans. In the depreciating currency countries the efforts to moderate the inflationary effects of depreciation also dampened the demand side through higher interest rates (already pushed upwards by the widening of the risk premium), and the erosion in purchasing power of consumers, while the export boom was to some extent offset by lower growth of their main export markets.

Such a situation, combined with the expectation that immediate additional efforts are required to make up for the budget deficit slippage, has sapped economic confidence among consumers and investors alike.

A resumption in growth is expected during the second part of the year gaining speed in 1997 and 1998. Indeed, leading indicators point in that direction, and developments are well on track with the Spring forecast of Commission services. A gradual acceleration from about 1.5% in 1996 to around 2.5% in 1997 is forecast, with employment growth of 0.2% in 1996 and 0.6% in 1997.

The need for action

The disappointing effects on employment and unemployment of recent macro-economics developments show clearly the extent to which a higher and sustainable rate of growth is a priority for fighting unemployment. Attention has once again turned to the urgent need to restore a stronger growth path by achieving a credible re-balancing of the policy-mix. To achieve that, two kinds of conditions must be fulfilled, according to the time horizon.

In the short-run:

- given the good performance in terms of wages, prices and profitability and with strong international demand, EU growth of output and employment is limited by a lack of confidence-restraining domestic demand. Taking into account the recent progress in policies towards convergence and the resulting shift in the policy-mix, the conditions are met for a renewal of the domestic recovery.
- from a policy point of view, demand should not come from budgetary or wage expansion but from restoring confidence in a full application of the Broad Economic Guidelines. This means continuing with fiscal consolidation, maintaining appropriate wage developments throughout the EU, speeding up the structural reforms and creating further room for easier monetary conditions. Budgetary consolidation will have positive effects on business and consumer confidence only if continued in a credible way, i.e., allowing for lower interest rates to be sustained.

- A major obstacle for growth in the short-run could be a renewed risk of exchange rate turbulence. Such a risk could mainly occur in two cases:
 - a lack of credibility in the nominal convergence policies of some Member States for meeting the EMU conditions. This would be merely a repetition of the 1995 currency crisis, with damaging effects on output and employment in all countries. It would only occur if the agreed convergence objectives were abandoned or insufficiently applied.
 - a lack of credible prospects for employment creation in other Member States. This would result from a fundamental weakness in the growth and employment strategy and especially in the social consensus required for restoring the growth path. Only recovery in an environment of macro-economic stability with a gradual return to employment creation would ensure the consistency of the whole strategy.

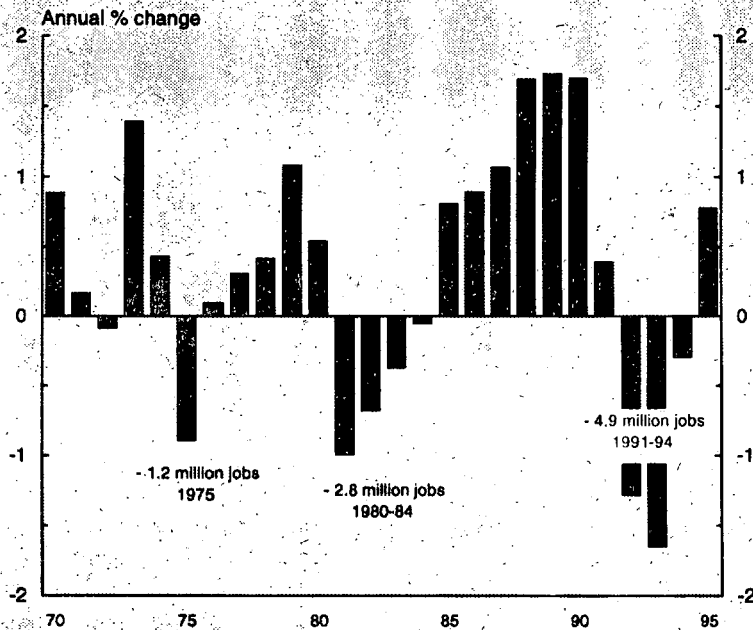
In the medium-term:

- the expansion of productive capacity will result from an investment-led growth path if budgetary consolidation leads progressively towards a balanced budget and if any stability conflict can be prevented on the wage side as well as on the goods and services markets. To achieve a significant absorption of unemployment, the sustainable rate of growth has to be higher than in the past two decades

(2.2% average annual growth). If the 1974-96 trend in labour productivity remains stable — currently at around 2% per year — only that part of the growth in excess of 2% is job-creating. Taking into account a probable increase in the labour force of about 0.6% per year, that means that the medium-term growth should be in the 3 to 3.5% range for progressively reducing unemployment at a satisfactory pace (0.5 to 1% per year) and raising the EU employment rate. Amongst other things, this is important for dealing with the prospective fiscal problems caused by an ageing population.

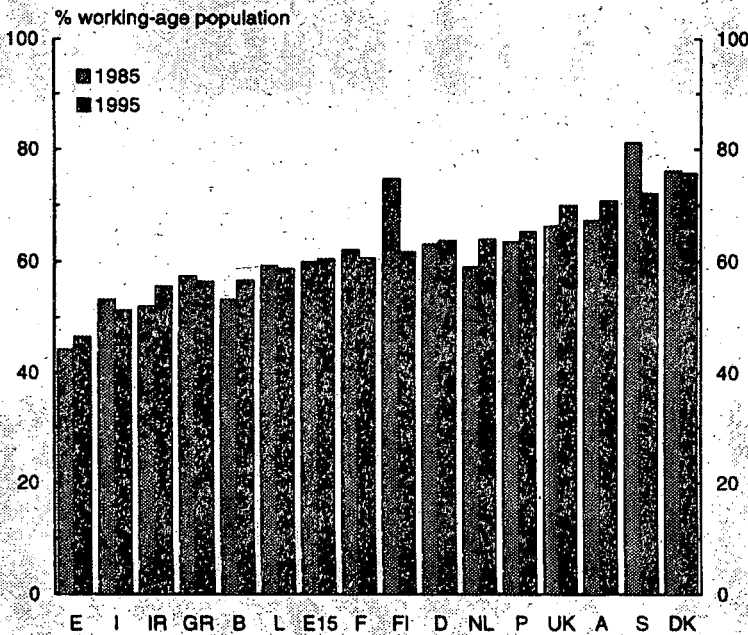
- with any lower rate of growth, the only way to increase employment would be by increasing the labour-content of growth. One way to do this is by reducing the substitution of capital for labour. This would result in a reduction in the rate of growth of labour productivity as measured by output per person. The creation of jobs through local initiatives, which are a means of meeting new needs, are a further way of increasing the employment content of growth. In this perspective, a reduction in non-wage labour costs at the bottom end of the scale, as suggested in the White Paper, could be linked to effective job creation. Linking the reductions with net job creation by firms, where the employer only receives the fiscal advantage if a new job is created, can reduce dead-weight costs and prevent displacement effects (where a certain category of worker for whom the incentives are available are recruited at the expense of other categories).

ME2 Annual change in employment in the Union, 633 1970 to 1995



The European Union has to rise to the challenge of globalisation and the integration of newly industrialising countries as major players in the world economic and trading system. On the one hand, this will increase competition primarily in manufacturing but also in services and requires supporting structural policies to enable individuals and enterprises to adapt to change. The integration of emerging market economies, especially those in Central and Eastern Europe, will also create the need for structural adjustment both in entrepreneurial strategies and in labour markets. On the other hand, such structural adjustment is also necessary for European firms to reap the employment opportunities presented by access to new markets.

ME2 Employment rates in Member States, 1985 and 1995 641



The major conclusion of the macro-economics analysis is that restoring a higher growth path as set out in the Broad Economic Policy Guidelines is both the first priority and the most favourable way, from a political and social point of view, of achieving a durable solution to the employment problem in the EU. Structural reforms in product and labour markets can contribute to this, although most of the structural policies, which should be accompanying the macro-economics strategy, aim to stimulate the endogenous forces of growth i.e. essentially acting through increases in the productivity of the EU economy and facilitating the conduct of a sustainable macro-economics policy.

Low employment rates, high unemployment rates

Employment increased in 1995 in the Union as a whole for the first time since 1991 but there is still a long way to go to make good the job losses which occurred in the three years 1991 to 1994 (Graph ME2633). Europe lost some 5 million jobs during that period and there were some 4 million fewer people employed in 1995 than four years earlier (a decline of 2½%). In Finland and Sweden the numbers in work were some 10% lower than four years before. Employment continued to fall in 1995 in some Member States such as Germany, Italy and Portugal. The employment rate in the Union, at only around 60%, is significantly lower than it was 20 years ago and considerably below the level in the US and Japan, in both of which it has risen since the mid-1970s (Graph ME2624). Indeed the overall performance of the Member States in providing work for those who want it is only slightly better than after the second oil price shock in the

1980s, though the situation varies markedly between countries (Graph ME2641).

Unemployment in the Union was lower in 1995 than in 1994, but having fallen from its peak of 11.3% in April 1994 to 10.7% in July 1995, remained unchanged before starting to rise again in November 1995 to reach 10.9% in the Spring and 10.8% in July 1996. Only 5 of the 15 Member States have experienced a continuing fall in unemployment since mid-1995, and in 8, unemployment has risen (Graph ME2625) particularly in Germany (to 8.9%, up from 8.1% 12 months previously).

The rise in unemployment would have been even greater if the average rate of labour force participation had not continued to fall in 1995, following its decline of the previous four years. This fall is concentrated on two groups: young men and women under 25 years, and men of all ages. The decline in participation of young people is almost exactly matched by an increase in participation in education and initial training, reflecting both the efforts of Member States to improve skill levels and the decision

of young people to postpone entry on to a labour market where job opportunities are limited.

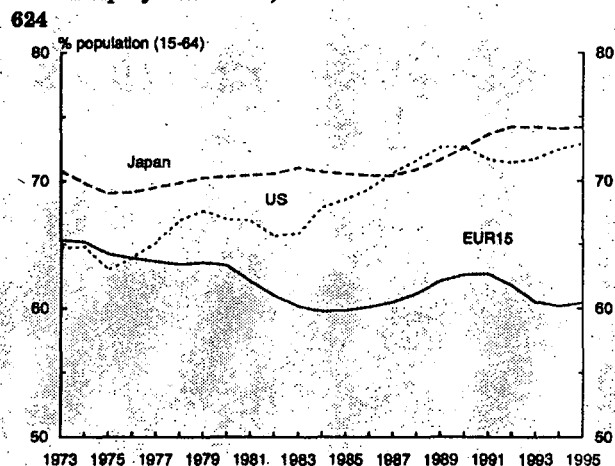
In addition, the decline in the number of young people coming onto the labour market is likely to be reinforced by the underlying demographic trends, thus leading to considerably fewer people in the labour market with new skills, to compensate for the rising retirement rates in the older age groups.

The continuing trend towards early retirement has had a disproportionate effect on the participation of men over 50 years. Despite the fact that the official retirement age is 65 in most Member States, under a third of men aged 60 to 64 in the Union are still economically active, and only just over two-thirds of those aged 55 to 59. Most disturbingly, there is an increasing withdrawal from the labour market of men in the prime age group 25–49.

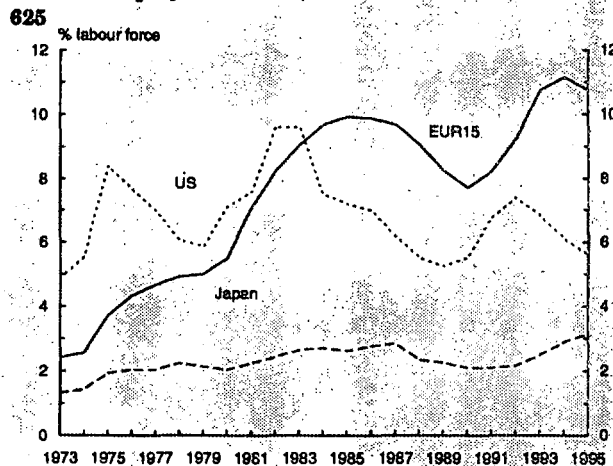
Output growth and employment

The renewed growth in employment in 1995 reflects the growth of GDP.

ME2 Employment rates, 1973-95



ME2 Unemployment rates, 1973-95



Employment responds to changes in output only with a lag, which is why employment can be expected to increase slowly over the Union as a whole in 1996, despite the modest rate of GDP growth now forecast, though the increase is only likely to be small. GDP growth results from a combination of growth in productivity (value-added per employee) and the volume of work (total employment). In 1995 productivity grew by 1.9% and employment by 0.6%. Nevertheless, growth of GDP has led to a larger rise in employment in some countries than in others. In Germany and Italy, GDP growth in the two years 1993-95 was around the Union average, but employment fell. In other Member States experiencing a similar rate of growth (Belgium, Spain, France, the UK and particularly the Netherlands) employment increased.

The need to increase employment-creating growth is one of the priority objectives of the European employment strategy, the aim being to ensure that the output growth which is achieved is translated into more jobs. In other words, the objective of policy in the Union is not simply to secure GDP growth for its own sake, but as a means of generating employment creation to provide work both for those who are unemployed and those who are discouraged from seeking work because of the lack of job opportunities. It is not designed to slow down the rate of productivity growth. On the contrary, high productivity growth is a prerequisite for improved competitiveness of the economy and greater prosperity. Employment creation in SME is an example of this. In the period 1993-95, a 10% increase in turnover in SME coincided with an increase in employment of over 5%, while the same rate of turnover growth in large companies only con-

tributed a 3% growth of employment.

The recent growth of employment in the Union, even in those countries which have been most successful in translating growth into more jobs, was significantly below that in the US, where GDP increased by only slightly more between 1993 and 1995, but where the number employed went up by an average of over 2% a year as compared with only a marginal rise in Europe as a whole. This partly reflects the fact that whereas the US has had sustained growth in output since 1991, the European economy is in the initial stages of recovery. Largely, however, it reflects the underlying difference in the rate of net job creation for any given growth of GDP which has been much higher over the long-term in the US than in Europe.

Various analyses have been put forward for this difference in the employment-content of growth, though there is disagreement over the relative weight to be attached to various factors. Two important elements are, first, the significant job losses which have occurred over the long-term in agriculture and manufacturing in Europe, which are substantially greater than in the US and which have been associated with higher output growth in the US rather than lower productivity growth and greater competitiveness and dynamism.

The second element is the higher rate of net job creation achieved in the US in services, where the growth of output (or value-added) has not differed much from that in Europe. It is the high growth of employment relative to output in this sector which underlies the highly employment-creating growth in the US economy as a

whole. There are differences, however, both in the scale of service sector employment growth and in the extent to which services are provided privately or publicly (see below). This employment performance is also linked to low rates of average wage increase or low rises in labour costs overall and to a complex of factors such as the widening of wage differentials at the lower end of the wage scale, particularly in the 1970s and the 1980s combined with better functioning services markets. This flexibility of the wage scale combined with the low coverage and limitations of the unemployment insurance system which obliges many of the unemployed to work at any wage rate, is one important factor explaining the creation of low productivity jobs in services in the US.

The need for action

There is, therefore, no room for any let up in the pursuit of the European employment strategy, nor for any complacency arising from the slight fall in unemployment which has occurred since 1994. There is a need to continue with the modernisation of Europe, fully deploying the potential offered by the Union.

- The establishment of the Single Market is leading to the creation of the world's largest economy in terms of GDP and purchasing power with 370 million consumers. The harmonisation of legislation in different areas and the removal of barriers to trade and the free movement of productive factors in the fields of services, public procurement or financial markets, have resulted in an increase in intra-EU trade and is consequently a factor in the further modernisation of the European economy, growth and

employment creation. This process has to be pursued, improved and its benefits fully utilised. The insufficient co-operation between Member States over taxation, especially indirect taxation where decisions require unanimity, appears now to be one of the biggest obstacles to the compatibility between one market and 15 different, uncoordinated ones with different taxation systems. Europe's infrastructure must also be developed to match the Single Market, moving from a patchwork of national networks to truly Trans-European Networks in transport, energy and telecommunications. This common economy, properly exploited, offers scope for growth, for new employment, in a way that cannot be achieved by each individual country acting alone.

- European Monetary Union will ensure the conditions for sustained growth and reduced unemployment. The requirement to maintain convergence will improve the conditions for a balanced policy mix. The stable macro-economic framework will stimulate investment and private consumption. Moreover, Monetary Union will allow the full potential of the internal market to be realised. The permanent elimination of exchange rate distortions will increase price transparency, competition and efficiency.
- The modernisation of Europe's employment systems. The old, mass-production, mainly male, and single skill, employment system has gone. The modern economy is knowledge-based, where information and technology play a crucial role in

re-shaping the organisation of work, creating an economy based on the skills and versatility of people. Each year, at least 10% of all jobs disappear and are replaced by new ones, in new processes, in new enterprises, requiring new skills. But the rapid changes on the demand side of the labour market have not been matched by adequate measures on the supply side to improve the skill development of the work force. This two-speed labour market is one of the root causes of labour market problems in Europe. The long-run competitiveness of the European economy therefore depends on a new, co-ordinated approach where investment in human resources, in training and re-training, in the reintegration of the unemployed, will improve both the quality of the skill supply and the flexibility of the labour market.

This structural change would ensure sustained employment growth in the medium and long term. This effort should be supplemented by the appropriate labour cost developments. In addition, sufficient job prospects, especially in services, need to be provided for that section of the labour force which cannot be reasonably be expected to become high skilled. This, in particular, will enable the European economy to face the challenge and opportunities presented by increasing globalisation and increasing competition from newly industrialising and emerging countries, including not only those in South-East Asia but also those in Central and Eastern Europe. Access to new markets offers opportunities which should lead to employment creation. The challenge is to develop new areas of specialisation, and new areas of job

creation in Europe, in place of activities in which low labour costs are the key element in competition from these countries and the increasing globalisation of production in low labour cost sectors in the Union could lead to even higher unemployment in the Union and growing pressure for protectionist measures in these sectors.

Job creation and destruction

The sectoral pattern of employment growth was much the same across the Union in 1995, with business services, health, education and recreational and personal services and the environmental sector providing most of the net addition to jobs, and job losses occurring, as in the past, in agriculture and, in most Member States, in manufacturing (except in instrument engineering, partly linked to the growth of environmental protection). This continues a long-run trend which is equally evident in the US and Japan. In these two economies, the sectors of activity in which most job growth has taken place have been remarkably similar to those in Europe, as have the sectors where employment has declined or remained largely unchanged. There are differences, however, in the scale of changes.

Over the recent cycle, employment in SMEs has held up well. From 1988–1990, while employment increased in all size classes, it expanded more significantly in SMEs. From 1991, employment in very small enterprises (less than 10 employees) continued to increase. In small (10–49) and medium-sized (50–249) enterprises, employment held up, while employment in large companies started to fall. Since the upturn, however, employment in

large companies has recovered substantially.

In Europe, 18 million additional jobs were gained in services in the 13 years 1980 to 1993, compared with 22 million in the US. In proportional terms the scale of job growth was around a third higher in the US than in Europe. Communal services (health, social services and education), together with recreational and leisure activities, contributed almost 1% a year to employment in the US and about ½% a year in Europe, as well as in Japan. The only other sectors which were a significant source of net job creation in Europe and the US were business services, distribution and hotels and restaurants.

A bigger difference between Europe and the US, and even more between Europe and Japan, was in industry and agriculture. In Europe, employment in these two sectors combined fell by 13 million. In the US, they fell by under 2 million and in Japan, they increased slightly. These differences are principally due to changes in employment in industry, as employment in agriculture fell in all three economies, — albeit to a different extent. In quantitative terms, the scale of job losses in these two sectors are a more important aspect of the poor employment performance of Europe in relation to the US than the lower rate of job creation in services: applying the same speed of job creation in services as in the US, the EU would have created 7 million additional jobs while manufacturing industry effectively destroyed 6 million more than in the US and agriculture and construction together lost some 4 million more.

This superior employment performance of the US in industry, unlike in services, entirely reflects a much

higher rate of output growth rather than a lower rate of productivity growth. Indeed, the latter has also been higher than in Europe over the past 15 years, so helping, with the considerable devaluation of the dollar against other currencies, to boost the competitiveness of US producers in home and export markets and thus to underpin the expansion of output.

In services, on the other hand, output growth seems to have been much the same in the US as in Europe, the greater expansion of jobs in this case reflecting a much lower growth of productivity in the former or, in other words, a more employment-intensive pattern of development. This, however, does not seem simply to be related to a lower rate of average wage increase in the US service since the growth of real wage costs in services (+3.9% during the period 1984–94) has not been so much lower than in Europe (+4.7%). It could also be related to wider wage dispersion, especially at the bottom end of the earnings scale during the 1970s and 1980s when a significant proportion of the new jobs created in services in the US seem to have been for low-paid, low skilled workers.

However, in the 1990s a reversal of the trend for the US seems to have occurred: the evidence on the sectoral location of new jobs in the US suggests that employment growth has been concentrated in more highly skilled activities. Indeed, 68% of the net growth in full-time employment between 1994 and 1996 was found in job categories paying above-median wages. Furthermore, 52% of employment growth was found in the top 30% of job categories.

This has been accompanied by a policy change in the US which now

emphasises much more the need to improve the quality of jobs, particularly among low-skilled occupations, hence the efforts of the US administration to improve and expand training and employability. This convergence in policy approach was reflected in the conclusions of the G7 Jobs Summit in Lille.

Sectoral mobility and job turnover

In Europe as in the US, the scale of job creation and loss each year is substantial, many times greater than the net changes in employment which are usually the focus of attention. An average of around 1 in 8 of those in employment in the Union at any time were either not working at all or were not working in the same sector a year before. Adding the number who change jobs within sectors produces a figure for job turnover each year of around 1 in 6 which seems to be on a par with that in the US and, in some Member States, such as Spain, Denmark, the Netherlands or the UK, a figure higher than this.

The scale of movement into and out of sectors of activity, however, bears little relationship to their rate of employment growth or even whether they are expanding or declining. More important seem to be the skill levels required of workers and by implication the amount of training needed to do the job. In agriculture, therefore, job turnover (in terms of employees only) amounts to 20–25% a year, while in hotels and restaurants, it is almost 30%. By contrast, in banking and insurance and public administration, where educational and training requirements are on average markedly higher, only some 9% of employees tend to be new to the

sector each year. This reflects, in some degree, the difficulties of people moving from one profession to another (rather than between similar jobs in different sectors) in a number of countries, which still seem to be one source of labour market inflexibility. It can be questioned, however, whether the increasing existence of two-worker households is a factor limiting geographical mobility.

The need for action

The comparative experience of Europe and the US in terms of employment growth raises a number of policy questions which are not so easy to answer.

- The US has succeeded in generating more jobs and achieving a more employment-creating pattern of growth. The reasons for this and the lessons to be learned by European Union Member States remain open to debate and revolve around social, political and cultural as well as economic factors. Although wage dispersion at the lower end of the wage scale in the US compared to Europe is one important factor, other fac-

tors such as differences in the degree of mobility of labour (for a variety of reasons) and in the regulation of goods and services markets are also at play. While it is doubtful if the same kind of wage differentiation is compatible with the European Social model, there is anyway a growing convergence of views on the approach to the problem as demonstrated by the conclusions of the G7 Jobs Summit, which noted that there should not have to be a choice between worsening unemployment and widening income inequality. There is, however, no question that pragmatic reforms are necessary to remove possible disincentives to job search and achieve better functioning labour markets. In this context, reducing non-wage labour costs — especially if targeted at the lower-end of the wage scale — would help to increase employment. But the impact is likely to be limited, so that it is all the more important to meet the conditions for raising the rate of growth higher than the productivity trend and to address any other factors which may hinder the growth potential of the European economy.

- Moreover, though the policy focus tends to be on the growth sectors per se and on measures for stimulating the development of new activities, a large part of Europe's failure to sustain high enough rates of employment growth is the result of the scale of job losses in declining sectors. These are predominantly due, not to technological advance and automation destroying jobs but to lower rates of output growth. This points to the need for improved levels of competitive-

ness and more favourable market conditions.

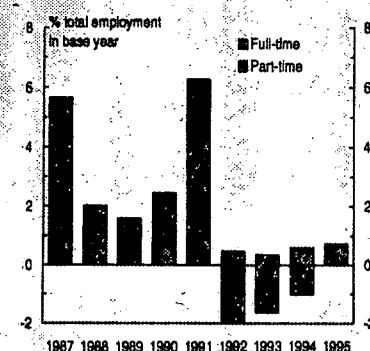
- The scale of job turnover does not suggest that labour markets are excessively inflexible, at least in terms of unduly limiting the flow of workers between sectors. The evidence does suggest, however, that low skilled workers account for a large part of these flows and that it is perhaps easier for them to move between different activities than those with higher and usually more specific skills.

Flexibility and security

The debate in recent years has increasingly cited the need for increased flexibility on European labour markets as a necessary structural condition for competitiveness and employment growth. Much less consensus exists on what this flexibility means, how it should come about and whether it is a sufficient condition of growth. At the same time, there is comprehensive evidence that the European labour markets are becoming more flexible in terms of work organisation, the regulatory framework and working time arrangements.

The number of people working at night and at weekends has increased in most parts of the Union in the past few years — although many people remain reluctant to do so (a recent survey of employers in five countries suggest that firms have difficulty in finding staff to work on Saturdays) — signifying some move towards more flexible working arrangements. At the same time, the average length of the working week for those working full-time has hardly changed at all

ME Change in part-time and full-time
262 employment, 1987-95



over the last 10 years and actually increased between 1990 and 1995. The reduction in average working time that has occurred over the past decade or so across the Union has been partly a result of the shift in employment between sectors (in particular, the loss of jobs in agriculture where long hours tend to be worked) but mainly as a result of increased part-time working.

Indeed, the majority of the net additional jobs created during the early 1990s were part-time, both for women and men, and this trend continued in 1995 (Graph ME2626). Some 71% of the net additional jobs for men were part-time, and around 85% of those for women. This reflects a move towards a more flexible labour market, including the fact that employment rights of part-time workers are often weaker than those of full-timers. In addition, the relatively small growth in full-time jobs for men has probably contributed in large part to their withdrawal from the labour market. The big rise in part-time working among men has occurred in the prime-age group where it is up by 50% over the period 1990-95, and a significant proportion of these have taken a part-time job because they could not find a full-time one.

Similarly, a high proportion of the jobs created in 1995 were temporary. Temporary working accounted for all of the increase in the employment of men in the Union and just under half of the rise in the employment of women. While temporary working accounts for a relatively small proportion of total employment in the Union (around 12%), over 50% of the unemployed who found jobs in 1995 took temporary positions. A slightly larger proportion of the under-25 year-olds took temporary jobs (51% compared with 45% of those aged

25-49). While some of these jobs involved a period of training, this is not a reason for accepting a temporary job. The share of those unemployed who benefited from such on-the-job training was actually less than the share of those already employed. Thus, for most of these people, temporary jobs were the only ones available.

The relationship between temporary employment and educational attainment level is not uniform across the Union and it cannot generally be said that temporary jobs and low skills go together. While it is true that in the South of the Union a relatively high proportion of those with a low educational attainment level tend to be in temporary jobs, in the North, there is a greater chance that someone with a high educational level will be in temporary employment than someone with a lower level.

Most Member States regard the expansion of flexible working arrangements as a key element in the changing pattern of employment, particularly through the relaxation of regulations on part-time work and temporary contracts, but also through the re-regulation of rules on working time. Other regulations, notably on recruitment and dismissal may affect employment creation and the speed with which firms adjust their labour force in response to change. In several Member States a specific link between more flexible conditions of work and job creation has been put in place.

The need for action

While the above evidence suggests that there is more flexibility in the European economy than 10 years ago, the impact of this so far on employment creation is not appar-

ent. This may suggest that some barriers to job growth still exist. This raises the question why the employment potential of more flexible work and working time arrangements does not materialise. The explanation seems to be related to the way enterprises go about the reorganisation of production and working arrangements. Such measures are often confined to changes at the margin of the workforce through expanding the use of outsourcing, temporary contracts and atypical work arrangements. In order to exploit fully the employment potential of new forms of work organisation a positive and broader approach is warranted, involving the workers actively in the process.

- Any policy of work redistribution depends on lowering the barriers between internal and external labour markets so that people without jobs can move into employment and those with part-time and temporary jobs can move into more secure full-time ones. The introduction of policies to promote flexibility, such as making it easier to employ part time workers or people on fixed term contracts, raises issues of the role of the social safety net and equality between women and men.
- A reduction of working time which is accompanied by an intelligent reorganisation of working time can provide gains for both employers and employees. Encouraging the diffusion of innovative working organisation and working time changes and good practice in managing organisational change should be developed, especially for small and medium sized enterprises. Experiments bringing together reductions in working time and tax or social security

advantages, which until now have been fairly limited and mainly implemented at the firm or local level, should also be developed.

- The continuing existence of rigidities on goods and services markets is preventing the full potential of increased flexibility on labour markets from being realised. Such rigidities must be identified and action taken to overcome them.
- The 'learning company' must emerge as a vital component of flexibility. This will require new forms of partnership between business, other organisations, and educators, to ensure that the necessary new and changing skills are made available. Upgrading skills during existing working time can make a more important contribution to increased flexibility than reductions in working time itself.
- The capacity of enterprises to adapt to changes in technology and the market depends on the effectiveness of the way in which they are organised to ex-

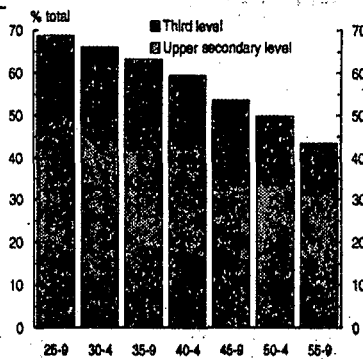
plot non-material resources, in particular, research and development, innovation and lifelong training. To meet this challenge, and, at the same time, to maintain the balance between flexibility and security, enterprises must be organised in such a way as to offer all workers permanent access to knowledge and information in order to strengthen their capacity to adapt and their employability.

- The employability of the workforce must be continuously reinforced through training. Otherwise, as firms develop more flexible employment contracts, with lower levels of job security, so as to rapidly adjust to changes in labour demand, the rationale for investment in the training of a principal labour force may weaken. Large Japanese firms invest in training in the context of life-long employment systems so that the returns on training are kept within the firm. In Europe flexibility must not be defined in terms of increased job insecurity. The capacity of enterprises to adjust to market and technological change depends on the existence and co-operation of a skilled, core labour force.

- Greater flexibility in a context of employability and security will depend on the existence of an adequate level of social protection. Experience in certain countries demonstrates that a flexible economy can be maintained by combining an efficient active labour market policy with high levels of social protection. High levels of output and production can provide for a system based on consensus about the respective role and obligations of labour market policy, employers and workers to enable markets to be flexible. Recent trends in Danish labour market policy provide an example of such a consensus approach. The Danish experience also demonstrates, however, that such a system needs to be supplemented with tight control and enforcement rules in order to contain its budgetary costs and prevent labour supply disincentives.

There is a need for a radical rethink of all relevant labour market systems — employment protection, working time, social protection and health and safety — to adapt them to a world of work which will be organised differently, in which the concept of security for workers has to be reformulated, focusing more on security based on employability in the labour market rather security based on the individual's work place. The focus should move away from a simplistic debate about regulation-deregulation towards a new balance between flexibility and employability security, with tangible benefits for both workers and employers. A widespread feeling of insecurity not just among the unemployed but also among those in employment has contributed to a low level of consumer confidence

ME Population aged 25-69 by education
262 level, 1985



- A European concept of security in relation to employment should focus on the employability of workers in the labour market rather than on their security in their existing job, thus promoting both flexibility and the acceptance of change, as part of the process of improving productivity and employment creation.

and dampened prospects for recovery.

Skills for the future

Technological developments and competition between enterprises are stimulating the speed of structural change. Ten years from now, 80% of the technology we operate today will be obsolete, and replaced with new, more advanced technologies. By that time, 80% of the workforce will be working on the basis of formal education and training more than 10 years old.

The trend towards the upskilling of the labour force is inexorable. Between 1983 and 1991, the numbers of people classified as managerial, professional and technical workers expanded by over 25% a year, while total employment growth was only some 1% a year. The shift of employment towards higher-skilled occupations in the Union continued in 1995. Increased employment of people in these occupations accounted for most of the increase in employment of both men and women which occurred in the year.

But a high level of educational attainment is not a guarantee of employment. In all Member States there is a growing proportion of people with higher levels of educational attainment who are unemployed. Various factors have created this apparent paradox. The rising overall level of educational attainment is likely to mean that the proportion of more highly qualified people among the unemployed will increase. Although levels of educational attainment are rising, the education and training being provided in many cases does not match the skills required, in terms of both the wider range of skills and greater flexibility.

The pattern of sectoral employment change has important implications for the skills and education attainment levels required of the work force. The sectors where jobs are expanding most rapidly are, in general, though not invariably, ones in which workers are relatively highly educated and trained, while those in which employment is declining tend to be ones where education and skill levels are relatively low. Whereas in declining sectors, some 45% of those employed in the Union had not progressed beyond basic schooling and only 13% had university degrees or the equivalent, in the high growth sectors, only 27% had only basic schooling and 35% university degrees, even though this group of sectors includes hotels and restaurants which have a work force with among the lowest education levels.

Moreover, a significantly higher proportion of those with low education levels are prone to lose their jobs than in the case of those with higher skills, irrespective of whether they work in growing or declining sectors. The clear implication is that sectoral trends are reinforcing the occupational trends within sectors and reducing the demand for low skilled workers while raising that for those with higher education levels.

In recent years, Member States have taken many steps to improve the structure, quality, and suitability of vocational education and training, both for employees and the unemployed (Graph ME2627).

A wide variety of instruments have been used to promote investment in training for those in work, including training levies (IRL), compulsory training investment (F), tax relief or reductions in social contributions (F, NL). A widespread measure is

the promotion of training leave (B, DK, D, F, P, FIN, SV).

All Member States also have a wide range of training programmes for the unemployed; in most of them, the promotion of participation is a cornerstone of the activation of labour market policies (see below). Despite this, however, there are indications that the proportion of the unemployed aged 25-59 in training has fallen slightly over the last 3 years from 7.1% to 6.9%.

Despite the above improvements, it is doubtful whether the current rate of human resources development and the institutional arrangements in place are sufficient for Europe to meet the global challenges of the 21st century.

The need for action

The challenge for policy is therefore twofold: first, to make a quantum leap in investment in human resources to raise overall skill levels to meet the trend towards more skilled jobs. This implies both better quality and market-driven education and training, and a substantial improvement in the efficiency and appropriateness of current schemes. Secondly, to prepare an acceptable workforce able to meet the needs of continuous structural change. This entails two types of action: for the unemployed and new entrants to the labour market; and for those already employed, who make up the majority of the labour force.

- In a labour market with ever-increasing skill needs, too many unemployed people are insufficiently qualified. People with outdated or inadequate training find it difficult to re-enter the workforce. Rising overall skill levels imply that

those with lower educational attainment will be left even further behind and at greater risk of social exclusion. A particular effort is needed to raise their skill levels to enable them to compete more effectively in an ever more competitive labour market.

- But the even bigger challenge lies in retraining those already employed to adapt to the new requirements. This is particularly important for lower skilled workers, where upgrading and broadening of skills while in work could be the most significant and cost effective investment to be made to prevent long term unemployment and promote employability. Most training and retraining is organised for the young (see below), not for people already in the workplace, or for those who have been working for 10, 20 or 30 years and have lost their jobs.

- Improved training design and provision should be based on a partnership between industry and government, in order to link both to the needs of working life. Industry must recognise its role in the provision of training to its workforce, and public provision of training must respond to the needs of industry and the desires of employees.

- Upskilling the labour force will involve a substantial overhaul of education and training that can match the ICT revolution and keep pace with the continued ICT development in the years to come. This implies a new interplay between work and training, instead of the old interplay between work and

non-work. The education system must be transformed from teaching to learning. Enterprises must offer more learning by doing. The unemployed must be offered retraining instead of long-term unemployment and de-skilling.

- Stopping the decline in the participation of older workers, particularly men, in the labour market is a major challenge. Many of those taking early retirement are the low-skilled, often after an extensive period of long-term unemployment. It seems as if society neither knew nor cared what to do with them. The future competitiveness of the European economy and workforce depends on the continued participation of these people in work. Efforts to improve upgrading and upskilling

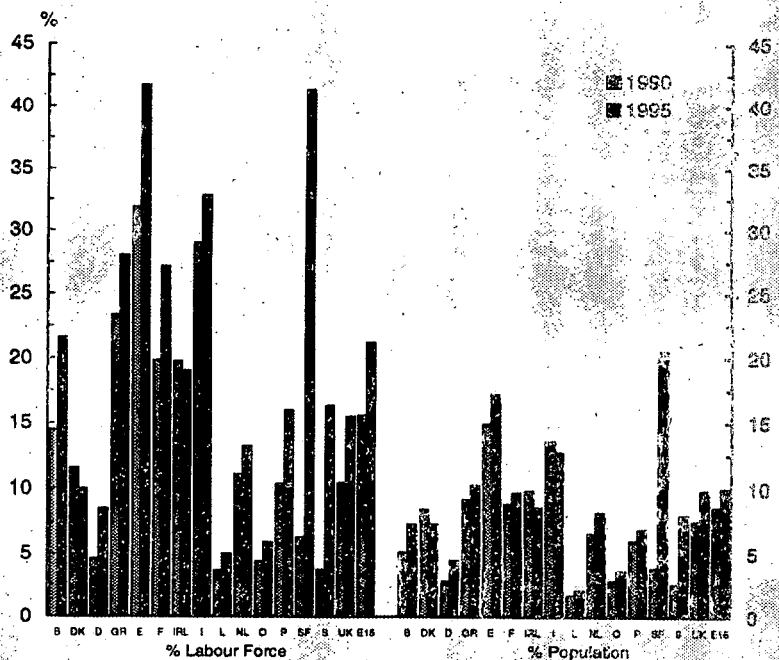
should concentrate more heavily on this group.

Europe needs to develop a new architecture of life-long education and training, with particular regard to gender, but also aimed more effectively at older people and those with disabilities. This effort is now being initiated by the 1996 European Year of Lifelong Learning and the Commission's White Paper on Teaching and Learning. But the urgent need is to arrest the growing skill obsolescence of the adult working population both those who are still employed and those who have retreated from working life.

Structural goals for employment policy

The Essen re-employment strategy underlined the priority to be given to certain disadvantaged groups on

MEZYouth unemployment in Member States, 1990 and 1995



the labour market: young people, the long term unemployed, and unemployed women.

Subsequently, in the Single Report to the Madrid Summit and the Interim Report to the Florence Summit the strategy has been developed and translated into three structural goals for employment policy.

- **Integration of young people into working life:** all young people should be provided with the level of education, training and work experience needed to make them employable
- **Prevention of long term unemployment:** all unemployed people should have the opportunity of retraining and reintegration *before* reaching the point of long term unemployment
- **Mainstreaming of all employment policies for equal opportunities:** An active policy of de-segregation of the labour market should be pursued using a renewed approach to part time working as a transitional measure and the reconciliation

of family and working life for men and women .

The purpose of these structural goals is not to limit the policies to certain groups. On the contrary: the purpose is to develop a comprehensive policy to get the whole labour market to work better.

The integration of young people into the labour market

Youth unemployment is still twice as high as that of adults, at over 20% on average. The gap between youth unemployment and adult unemployment which narrowed appreciably during the second half of the 1980s when unemployment fell widened again in the recession of the early 1990s. But it remains smaller than a decade ago and the numbers affected are much smaller, because of the decline in participation coupled with the fall in the population of young people (Graph ME2629).

The number of young people entering the labour force in 1995 in the Union would have fallen naturally even without any fall in participation because the size of this age group is declining in most Member States. This demographic effect alone reduced the size of the youth labour force by around 1% in 1995, and when the participation effect is added, the decline was some 3% in this one year alone. Unlike in other age groups, these trends are almost equally shared between men and women.

Much of the action taken by Member States to improve the employment prospects of young people, aims at providing the opportunities to acquire the right skills and qualifications for the job mar-

ket and avoid unemployment. In particular, action has focused on reducing the number of young people leaving the educational and/or training system prematurely and with few or no qualifications.

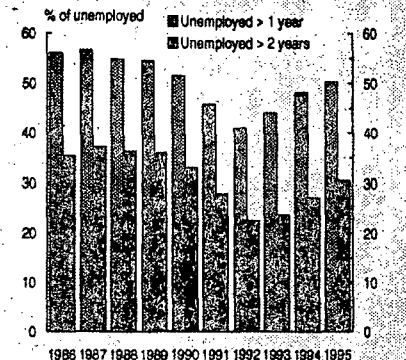
Some Member States guarantee a training place to young people who want one when they leave compulsory schooling (NL, UK). Other Member States ensure that a minimum number of places will be provided in upper-secondary school to ensure that anyone who wishes to stay on will be able to do so (FIN, SV). Various Member States have set targets to increase participation rates at various levels (F, IT, ES, UK). Even in Member States with long traditions of apprenticeship schemes, steps are being taken to strengthen them or improve their image with employers and young people. Other Member States are developing or widening their vocational training systems in order to make them more attractive.

The need for action

Since the employment and unemployment rates of young people are highly responsive to overall labour market trends, a successful youth strategy will involve a combination of: supply-side policies to equip young people adequately for the labour market, and demand-side policies to improve the functioning of the labour market and attack the root causes of high and persistent youth unemployment.

- On the supply-side, early intervention is the key to preventing young people from becoming unemployed and subsequently drifting into long-term unemployment. Evidence suggests that those without qualifications are four times more likely to be unemployed than those

ME Long-term unemployment in the 262 Union, 1986-95



with qualifications. Policy should focus on reducing illiteracy and school failure and increasing levels of educational attainment. Some countries have set quantitative and time-bound targets for improving standards. Where they exist, they should be supported by adequate resources.

- For unemployed young people active policy measures should be triggered much sooner than is usually the case at present. Over-emphasis on legal rules linked to qualification for benefit can push young people into long waiting periods and raises the risk of active labour market policy becoming remedial and subservient to the benefit system rather than pro-actively seeking to get these young people into work.
- Once young people enter the labour market, they should have access to an integrated package of advice and guidance and the opportunity to develop the skills and experience required. Modernising the apprenticeship model where it exists, and developing programmes which reflect the essence of the dual system is one way to achieve this. For those who already have vocational qualifications, access to jobs to enable them to gain relevant work experience is the most important. Countries which make a guarantee of an offer of work experience or training at a certain point of unemployment have been successful in significantly reducing youth unemployment.
- On the demand-side the provision of work-experience and entry-level jobs are essential. The social partners have a key

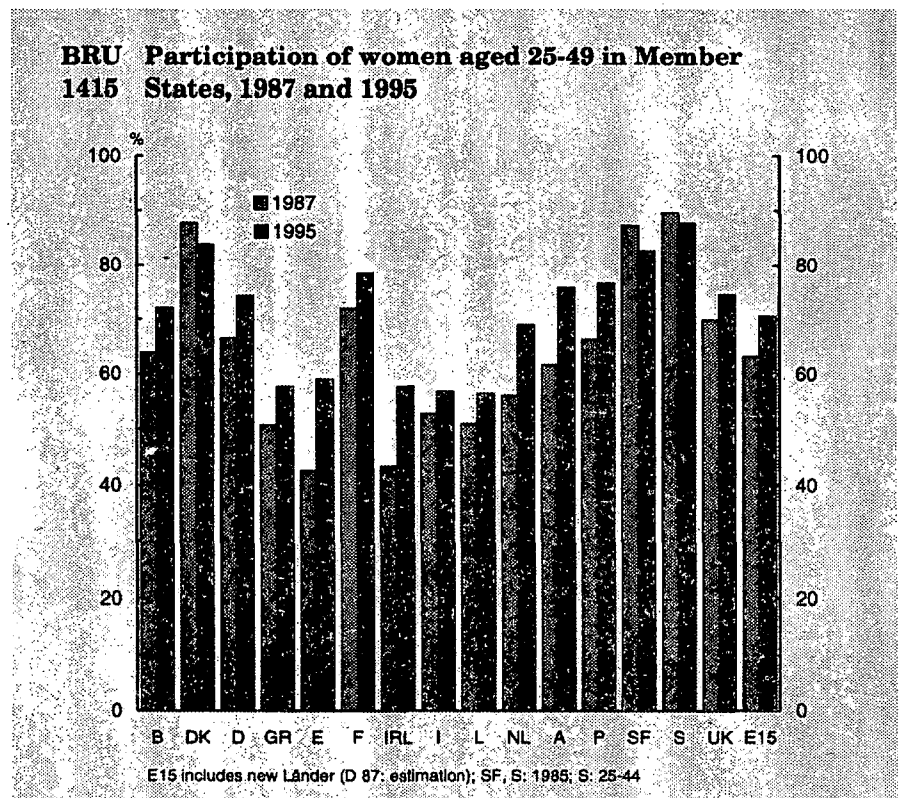
role to play in making that happen and in developing innovative forms of work organisation (career breaks, gradual retirement etc.) and flexible working time to create additional openings to help young people into the labour market.

Preventing and combating unemployment and particularly long-term unemployment among Europe's young people requires targeted, early, active labour market measures of linked work experience and training opportunities for the 3 million young people who have already been out of work for at least six months. They should be designed to maximise the life-time employment chances of this group, reducing the risk of unemployment later in life.

The prevention of long-term unemployment

Long-term unemployment in the Union increased during 1995 from 48% of those unemployed to over 50% (EUR12). The proportion of the unemployed without jobs for two years or more rose by even more, from 27% to over 30% (Graph ME2628). Long-term unemployment has risen continuously since 1992 when the proportion was down to a 10-year low of 41%.

A much higher proportion of those currently unemployed will have experienced a previous spell of unemployment (often a spell of long-term unemployment) than those currently employed. The proportion of the workforce experiencing a spell of unemployment, neverthe-



less, seems to have increased over time. Around 45% of young people under 25 in the Union have experienced a spell of unemployment either before or after starting their first job.

Long-term unemployment is the result of the outflows and inflows into unemployment. Evidence from some Member States suggests that some 20% of those who become unemployed are likely to become long-term unemployed.

Long term unemployment also leads to de-skilling. Individuals not only lose confidence and self-esteem during long periods of unemployment, they also lose employability. This process has profound consequences for individuals and for the economy as a whole.

The scale of long term unemployment is an indicator of deficiencies in economic and employment policies. The overall employment situation explains part of the problem, but the different labour market policy strategies are as important. Member States with a proactive policy have been more successful in preventing long term unemployment (Luxembourg, Denmark, Austria, Sweden).

Most Member States have had a benefit-oriented strategy with a small element of active policies, and active measures are often focused on curing, not on preventing, long term unemployment. Curing measures are necessary and important, but if labour market policy is confined to such measures, there is a risk of giving wrong signals to job-seekers, enterprises and to the employment service, delaying action and thereby maintaining, or even creating, long term unemployment.

The need for action

Policy action needs to approach the problem of long-term unemployment from two directions: reintegrating the long-term unemployed back into work, and preventing the unemployed from becoming long-term unemployed. This approach is motivated by two considerations. Firstly, proactive measures aim to stop the inflow into long term unemployment, acting on the number of long term unemployed, the length of unemployment spells and total unemployment. Secondly, measures are likely to be more cost effective if actions are taken when people still have confidence and employability.

- Reintegration should start long before people become long term unemployed and discouraged. Member States must give a clear expression in their Multi-annual programmes that this agreed preventive approach will be implemented in the daily work of the employment service.
- Early action requires systematic monitoring of people who risk becoming long term unemployed. The local employment service must be capable of delivering a high quality guidance and counselling service.
- Successful reintegration often includes training for the new more skilled jobs; greater targeting of the skill needs of enterprises and of the local economy improves the prospects for the unemployed.
- Combined measures of training and work experience may help to overcome resistance to training, motivating the long-term unemployed by pointing to pos-

sible labour market opportunities. On-the-job experience is more appreciated by employers than pure training.

- Employment creation schemes should be based on active partnership and joint funding involving all actors in the local labour market. Particular emphasis should be put on the active participation of the social partners. Smaller scale job creation programmes, targeted at the most disadvantaged groups and communities often offer a greater potential and are more cost-effective than some of the large scale schemes.
- More generally, successful prevention and re-integration strategies for tackling long-term unemployment and social exclusion depend on the development of wider institutions and support structures (full-time and part-time work, self-employment, education and training; reconciliation of family and work).
- The effectiveness and value of active labour market policies to prevent and combat long-term unemployment should be judged not only in terms of short-term placements, but also in terms of long-term employability.
- The concept of transitional labour markets, with short term jobs that help to maintain or regain employability, should be developed as an important element in an proactive, preventive strategy.

Early action is the crucial element in the fight against long-term unemployment, both for prevention

and reintegration. The nature of long-term unemployment implies a differentiated approach to match the diverse needs of this group, including appropriate support structures, combined training and work experience and the active involvement of the public employment service.

The promotion of equal opportunities for women and men

Equality of opportunity for women and men is a key objective of the European employment strategy. Partly this is due to the increased participation of women in the labour market and their ever-increasing role in the European economy. To a certain extent, therefore, women are already experiencing real, though incomplete, progress in equality of access, as well as in opportunity, conditions and remuneration.

Women, for the past 20 years or more, have accounted for the entire growth of the Union's workforce, and are likely to continue to do so in the future. Rates of women's participation, taking for example the 25-49 age group, show a rise, during the short period between 1987 and 1995, from 63% to just over 70% of the population across the 15 Member States (Graph BRU1415). It has risen, during that period, in all of them except Denmark, Finland and Sweden, where it is still high at over 80%, and the increase has been especially pronounced in countries where the level was low at the start of this period, such as Spain and Ireland, where it rose from around 40% to around 58-59%. Nevertheless, participation of women in this age group remains less than in the US, where it is nearer to 80% — an

effective difference in the number of women employed (i.e. allowing for the difference in the size of the population) of around 6 million.

While the employment and participation rates of women have tended to increase over time, those of men have tended to decline. Just over 62% of the net additional jobs created in the Union in 1995, as in all of the recent past, went to women rather than men. To a certain extent this reflects the sectoral pattern of changes in employment with job growth being concentrated in services, and agriculture and manufacturing jobs, which are predominantly filled by men, continuing to decline.

The sectors of activity which are growing most rapidly in terms of employment are those in which women account for a disproportionate share of the work force. Over 60% of the jobs in these sectors are filled by women in the Union and a similar share of any additional jobs being created go to women rather than men. By contrast, men account for over 70% of employment in the declining industrial sectors. A significant proportion of the women in the growing service sectors are highly educated with university degrees or the equivalent. Indeed, some 70% of women with such qualifications worked in these sectors in 1995 as opposed to only 46% of men with similar education levels. More significantly perhaps, just over 40% of women with only a basic level of education also worked in the growing sectors of activity as compared with only 14% of men.

However, unemployment of women has hardly been affected at all by the recovery and remains higher than that for men in all Member States except in the UK and Sweden. The average rate over the

Union as a whole declined by less than that of men between 1994 and 1995. But between mid-1995 and Spring 1996, the rate for both men and women edged up to much the same extent before stabilising. Germany is an exception in that unemployment of men has risen much faster than that of women, though this largely reflects the significant withdrawal of women from the labour force in the former East Germany where their participation had been particularly high.

The need for action

- The continued participation of women in the labour market is an essential element in the future development of employment in Europe, particularly in view of the future demographic trends. High levels of female participation are linked to high levels of employment growth, of income and overall economic development. Policy should therefore be directed at ensuring and facilitating the access of women to adequate and appropriate job opportunities.
- Despite the fact that a higher proportion of the jobs being created tend to be for women rather than men, it remains true that women across the Union are more affected by unemployment than men. It is important to implement suitable policy action to ensure that women are fairly and equitably treated in the work place and have every opportunity to combine work with caring responsibilities without suffering career disadvantages.
- A crucial element is a higher and more effective provision of facilities to support household members to reconcile work and

family responsibilities (including both childcare and care of the elderly). This implies a revision of all those regulations which directly or indirectly penalise women when interrupting work for child-bearing or caring responsibilities.

- There is a pressing need not to neglect the many men whose skills are no longer required on the labour market, and who are condemned to long-term idleness, whether this is called long-term unemployment or early retirement. So far, no effective measures have been devised to assist them back into work and policy remains focused on passive measures of income support in a variety of guises (unemployment benefits, disability benefits, early retirement pensions or social assistance).
- Mainstreaming equal opportunities policy into labour market policy implies gender impact assessment to see if government policies have unintended, unforeseen but important effects on gender relations although they are assumed to apply equally to both women and men and affect them in the same way.

Policy efforts should be directed to removing labour market segregation and all existing barriers which prevent women improving their situation on the labour market. Women's employment is characterised by too much low pay, atypical work, insecure job conditions and too few career possibilities. Policy should concentrate on mainstreaming equal opportunities for women and men.

From passive to active measures to promote participation and job access

A number of factors, particularly macro-economics developments, played a role in the emergence of mass unemployment. But structural factors also had an impact. Rising unemployment is the result of two factors: more people becoming unemployed, and the lengthening of unemployment spells. Imbalances in labour market policies may have aggravated structural unemployment by merely offering income support to the majority of the unemployed, instead of the means of acquiring new skills for a re-start in the new, more skill-based labour market. This may have promoted the emergence of long-term unemployment and social exclusion.

Multi-Annual Employment Programmes confirm a widespread belief that public expenditure should be re-balanced from passive to active policies. It makes more sense to finance employment creation or training than merely to support the income of the unemployed and to shift outlays from consumption to investment. However, the ways of obtaining this outcome are diverse. In some cases, priority has been given to a direct substitution of passive outlays by active ones, such as training and job offers, and new measures tend to focus more on opportunities to take up a new job. In others, an improved complementarity between these two categories of expenditure has been sought, by connecting income maintenance and active programmes more efficiently through a restructuring of unemployment

benefit systems in order to strengthen incentives to active job search.

The role of the Public Employment Services (PES) is recognised in all Member States as a key instrument in the fight against unemployment and the achievement of a high degree of flexibility in the labour market. In response to criticisms stressing the perceived ineffectiveness of PES in the light of the changing needs of the labour market, most Member States have recently reformed their employment services. This often involves a decentralisation of the PES, deregulation and progressive extension of private services in placement activities, the provision of more targeted counselling to job-seekers, and the effort to increase levels of customer orientation.

In 1995, the 15 EU Member States spent approximately 180 billion ECU in labour market policies, of which ECU 63 billion was spent on active measures. Only slightly more than one third of total expenditure was spent on measures specifically designed to promote the reintegration of the unemployed, rather than to support their income.

Increasing awareness of the relative modesty of active policies in total spending by most Member States as well as of the alarmingly high level of long-term unemployment, has led many to undertake efforts to shift expenditure from passive income support of the unemployed to active labour market measures to help them find work.

This is difficult to achieve, especially during a recession when the numbers of the unemployed increase and exert pressure on resources. The recent trends in expenditure illustrate the tendency

for passive policies to crowd out active ones in recession periods. Between 1990 and 1994, the average share of active policies in total spending in the Union declined from 36% to 33% before increasing to 35% in 1995.

The increase in 1995 can be attributed in part to a slight reduction in unemployment, partly to identifiable efforts to activate labour market policy. This strategy is not limited to a substitution of passive by active expenditure. An important part of that strategy has been an overhaul of the unemployment benefit system, to ensure that the level and duration of unemployment and related welfare benefits do not act as a disincentive to job search and to integrate income support more fully into the delivery of active programmes.

The need for action

- A successful outcome to such a policy change will depend on action both to re-examine the objectives and interaction of both active and passive measures, and an examination and strengthening of the instruments used.
- It should be accompanied by a review of the incentive function of benefit provisions. This should aim at two effects. First to change individual preferences from passive income support to active job search and participation. Secondly, making tailor-made programmes available to help the unemployed to find a durable solution to their problems. Such a move from passive to active measures is crucial not only to reintegrating those already unemployed but also to engaging the productive potential of the whole labour

force. But it is only achievable if there is a clear and mutual understanding of reciprocal responsibility between the unemployed and the public institutions which are there to help them to return into employment.

- Member States use a wide range of measures to increase benefit incentives, in particular to hire employees with low skills and to make them accept a new job rather than remain inactive. Such measures need to strike a difficult balance between their direct and indirect effects. They may increase pressure on the unemployed to accept employment, but discourage their spouses. They may reduce marginal tax rates at the lower end, but increase the median or average wage. This may reduce total labour costs for lower skilled jobs, but with a substantial fiscal impact. Careful review of programmes is required and the most efficient solutions need to be identified.
- A crucial instrument for achieving this is the public employment service. A wide range of measures are being used by Member States to develop and reform the services. The aim so far has focused on decentralisation, regulation, and more targeting of special needs groups. Further reforms should aim at strengthening the four major functions of the public employment service in order that they can play a full role in the activation of labour market policies. The first of these is the conventional job brokerage function, bringing together job seekers and job offers. The second is the infor-

mation function; providing information to job seekers and employers about programmes and measures, and the third is the guidance function, providing advice and counselling to job seekers about job opportunities, training and retraining, and schemes. The fourth is the delivery function, managing active programmes in close co-ordination with the other functions and the income support system. The latter three will demand a much more proactive role to be played by the employment services, but potentially offer the greatest scope.

The policy challenge: from uncertainty to confidence

With the Single Market, Europe is taking a leap forward in the modernisation of the economy. It offers the framework and the potential for growth and employment-oriented macro-economic policies, allowing Member States to make better use of the multiplier effect, as emphasised in the Commission's Action for Employment in Europe — A Confidence Pact. Together with the continued support for employment from the activities of the Community Structural Funds, in particular the European Social Fund, which play a significant role in promoting economic and social cohesion between and within Member States, it highlights the potential of the integration process. This potential has not yet been used to optimum effect. Sustained co-ordinated action gives more value added than the sum of individual, disparate measures in each Member State. This approach involves replacing the zero-sum game of beggar-thy-neighbour poli-

cies with a plus-sum game of co-ordinated growth policy, creating confidence among consumers and investors.

Community offers the best chance of overcoming the climate of uncertainty and moving ahead with confidence in the future.

This report has pointed out the areas of action which still need to be addressed if the European employment strategy is to be pursued successfully. The framework exists, now the task is to make it work. The key to success lies in the reconciliation of often conflicting objectives:

- a decisive approach balancing macro-economic and structural policy to improve the performance of the European labour market in parallel to measures to promote the recovery in the economy
- a decisive approach balancing efficiency and equity, promoting the creation of productive employment, while pursuing the structural goals of integration, prevention and mainstreaming to meet the needs of the most disadvantaged groups — young people and long-term unemployed — at the same time as ensuring equality of opportunity
- the active involvement of all those concerned in the decisions that concern them. An efficient and equitable economy and society can only function if both employers and employees have a mutual and balanced perception of their role and function in that society.

Europe has the means to solve its employment problem. The path to that solution lies in the resolution of a number of serious and difficult policy choices. The co-operative path which is the hallmark and the watchword of European construction since the founding of the

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