

# Summary of United States and European Union Workshop on Employment Policy and the Promotion of Employability Security



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## **Executive Summary**

This workshop marks the beginning of an active dialogue between the United States and the European Union (EU) on employment matters of mutual concern under the New Transatlantic Agenda (NTA). A section of the Agenda called for the establishment of a joint US/EU Working Group on employment issues, which was formed in 1996 and included among the issues to address employability security and human capital investment. The purpose of the workshop is to explore these issues in a policy context.

Europe and the United States face similar challenges on how to provide a smooth transition from school to work, from job to job, and from unemployment to work. Labor markets at the end of the 20th century are characterized by global competition in a context of rapid technological progress, change in the way work is organized and performed, and far-reaching developments in society such as declining birth rates and aging workforces but increasing life expectancy.

There was a convergence of views on how to respond to these challenges. First, there needs to be a new balance between workplace flexibility and security, and between providing re-employment services and financial support while unemployed. Most important, this balance must be achieved between the promise and potential of technology on one hand and the demands on human resources to utilize technology on the other hand.

There is also a common view that providing macroeconomic stability for growth and improving the labor market structures to make them efficient and equitable are mutually supportive.

Second, on the issue of helping low-skilled workers, there was convergence on how to bring them into the job market. Macroeconomic growth was deemed necessary but insufficient to accomplish this objective. In the U.S., the biggest disincentive to work for this group has been declining real wages. In Europe, it is the need for more jobs. The focus should be on policies that provide incentives to work -- child care and wage subsidies through the tax system, for example -- as well as better access to training. More thought must be given to how to help those to whom training may be of little or no value.

Third, labor market policies were seen as potentially contributing to productivity growth as well as providing countries with a competitive advantage in a global economy. Unemployment benefits combined with effective re-employment services, education and training programs, and portability of pensions and health benefits can all help to promote labor market adjustment. Within the area of education and training, special consideration should be given to those skills that are widely demanded and therefore more readily transferred from job to job.

It is important for policy makers to consider that more and more firms are competing on the basis of intellectual capital, but their work organization

models are still for the most part based on physical capital. Government policies need to be continually modernized in line with changes in work organization and in the way companies are doing business. Two "flexible enterprise" models became apparent, both characterized by lateral job movements but with a different degree of reliance on forces outside the enterprise. The external model, as exemplified by the high tech industry in Silicon Valley, is characterized by workers who retain the same occupation but change companies frequently as skill and job demands change. In this model, it is important for workers to deepen their skills. A second "flexible enterprise" model follows an internal pattern in which employment security is attained by changing jobs within the enterprise, perhaps involving a change in working time arrangements. This means that workers should develop a broad skill base.

An important policy question concerns the relationship between the higher skills required by new work systems and the role of adult education systems in providing them. The workshop concluded that changes in work organization and training should move together. Decisions on work organization should take into consideration the views of workers, which would allow for changes in an agreed upon way, not an imposed way. However, these changes could lead to more pronounced segmentation of labor markets between workers who hold secure jobs in modern firms and those who do not. The workshop concluded

that further work on this issue is needed to gauge the nature and magnitude of it.

Workshop participants identified a number of priorities to meet the challenge of the future. Both the U.S. and Europe will need much better educated workforces, and the workforces must learn to learn. Therefore, a new architecture of lifelong education and training, including new forms of partnership between business, trade unions, and educators, must be developed. Governments can help by providing information on jobs and training opportunities, by leading the effort to set skill standards, by providing appropriate education and training, and by raising awareness that skilled workers contribute to the profitability of the company in the same manner as investments in machinery and equipment. Action has to be taken to ensure that access to training is evenly distributed across the workforce and in particular to both the unemployed and low-skilled workers.

It was agreed to continue discussing these issues of mutual interest. The next activity will focus on deepening our understanding of current developments in work organization, the implications of the emerging information society, and identifying appropriate policy responses. Special attention would be focussed on the development of new forms of organizing work in small and medium-sized enterprises and on the need for a cooperative effort of workers, enterprises, and public authorities in ensuring a lifelong approach to skill development.

## Discussion

Problems of labor market performance have long been a central concern of market-based economies. The workshop theme of employment policy and employability security was chosen to enable participants to look for solutions to the general problems of unemployment and low wages in the modern context of rapidly changing labor markets. While all present agreed that well-paying jobs and stable careers were common goals for the countries present and that competitive firms were necessary to achieve those goals, there were clear differences as to how to go about achieving them.

In recent years, much of the European debate about employment and social protection has been whether the US model provides positive lessons for Continental Europe in promoting flexibility and job creation. The US performance in job creation has been cited as model to be emulated if Europe is to be serious about tackling Europe's growing problem of unemployment.

However, an important feature of this symposium was a recognition by the participants from both sides of the Atlantic that each has something to learn from the other. It has long been acknowledged that, despite US economic growth and job creation, wage inequality has widened with average wages for those at the bottom falling significantly. In Europe, job creation is clearly the major obstacle, while it is now accepted that social protection systems must become more

employment-friendly. But the living standards for most workers, especially those at the bottom of the distribution, appear to be better than those in the US. Both economies have concerns about whether they will have enough skilled workers to meet the demands of a changing economy and whether their employers will be able to adjust to the ever faster pace of global economies.

There was a clear recognition amongst participants of the central need for a flexible economy that also provides security for the workforce. Without protecting employment and living standards, employees are less willing to take risks and accept change. The concept of employability security is designed to reconcile these two pressures: provide security of employability for the employee in a changing labor market.

The central theme of the workshop, therefore, was how to have a flexible economy that also provides security for its workforce. Issues of equity as well as efficiency are important demands that society makes of economies. After an overview of the economic and employment performance of each of the economies, the workshop examined the promotion of employability security from a policy perspective through a focus on five key issues: (1) the flexible enterprise; (2) the role of enterprises in training; (3) helping low-wage and other disadvantaged workers; (4) providing employment incentives and a social safety net; and (5) promoting reintegration into a constantly changing labor market.

To obtain the full benefits of a dynamic economy, we must reduce labor market adjustment costs for all workers. Effective employment services, adequate unemployment benefits, education and training opportunities, and portable pensions and health benefits can all help reduce adjustment costs between jobs. Moreover, we must protect against unnecessary displacement of workers. A stable macroeconomic environment with full employment will minimize the need for layoffs and expedite the re-employment of all workers.

**Economic and employment performance.** Some part of the success that the US economy has had over the past few years has come because deficit reduction led to a reduction in interest rates and, in turn, to economic expansion. The challenge for public policy has been to protect workers without creating the kind of labor market constraints that would make labor more costly and restrict the way in which it can be deployed, restricting job growth in the process. One area where social problems and economic problems overlap is in health care and related employee benefits. In the US, these are tied to employment, specifically, to one's employer. Mobility between jobs is restricted by the fact that changing jobs can lead to a loss of health care, pensions, and other important benefits. Efforts to make them more portable both benefit workers and improve economic performance. Interestingly, the economic performance of US companies that downsized by simply

cutting their workforce were no better off than their counterparts who did not. By contrast, companies that had to downsize but did so through work redesign or systematic change had a consistently positive relationship with performance.

In Europe, while there is considerable diversity in economic policy across countries the pursuit of a common strategy ensures some similarities. The social safety net has helped maintain relatively high living standards not only for the unemployed but also for the lower paid. The debate about how to create more jobs has included questions on (1) whether increasing the ability to move workers across jobs would help, and (2) whether the social welfare system hinders it. High non-wage labor costs may reduce the incentives for employers to hire people. The fact that the benefits for the unemployed are often generous may act as a disincentive to look for work. Part of the European employment strategy aims to reduce such burdens on labor, particularly the low-skilled, and some Member States have attempted to scale back social benefits in an effort to raise employment. Meanwhile, concerns that firms are having trouble adjusting to a new competitive environment are greater in Europe than in the US.

There was some consensus about the scale of the problem and that its solution does not necessarily lie with either the US model of flexibility through deregulation or the EU model of high levels of social protection accompanied by measures to enhance productivity

growth, investment and innovation. Instead, a solution should be sought by learning from the experiences of both these approaches, building on good practice on both sides of the Atlantic. The European model, which was in place when joblessness was lower than in the US, cannot alone be blamed for the growth of long-term unemployment.

**Firm Flexibility.** One of the traditional arguments about how flexibility and security could be balanced is to do so inside firms. By making the internal labor market within the firm more flexible, companies may be able to respond more quickly to changing product markets, keeping the firm in business, while reducing its need to hire and fire workers. In these internally flexible firms, employers and unions agree to invest in raising the skills of workers and in retraining them when skill requirements change. They also agree to deploy them with greater freedom. Questions that remain to be addressed include:

- why more firms are not adopting these models;
- can firms be encouraged to move in this direction;
- why are firms relying more on part-time or temporary help to adjust to market demands; and
- what are the net effects on employees;

Europe seems to have more of these flexible firms than the US which may account for its greater job stability. In the US, more employers are achieving flexibility outside the firm through outsourcing, layoffs, and hiring workers

with different skills. Most US employers and employees now believe not only that they are likely to see their job change but also their employer and that "security" in the labor market turns largely on their ability to find employment with other companies: the concept of "employability." Most firms seem to be combining efforts to be more flexible internally, especially through teamwork and flatter organizations. The model of Silicon Valley where firms rely heavily on markets to meet their needs and skilled employees move frequently across companies is now seen by many high-tech US employers, as the best balance between flexibility for companies and security in the long term for employees.

A system that relies more on the external labor market needs an infrastructure to function smoothly and more efficiently. In planning a career, for example, the new work arrangements require more and better information about work outside the company, including the skills and credentials required for jobs and how they can be acquired, which are important elements of facilitating job changes. Since this information is usually generally not available (a market failure), the government must ensure that there are institutions to provide such services and information.

Although employment protection legislation apparently reduces flexibility, studies show that it does not necessarily reduce the *rate* at which jobs are created. It is more likely to affect the *types* of jobs created and

hence reduce flexibility.

The potential economic benefits of new forms of work organization based on participation and trust are substantial. Public policies need to be built on this understanding. Also, care is needed to ensure that all workers share in the potential benefits of the new work organization.

**Training.** There was consensus among the participants that the goal of well-paid jobs and meaningful, secure careers requires investment in the workforce, particularly through education and training, and that this investment was an essential prerequisite for sustained economic growth. The question as to who should provide those investments and how they should be allocated across types of skills remains to be examined. In general, employers are arguing that the education system needs to provide better graduates and that individuals need to take more responsibility for their skills; other representatives argue that employers needed to make a greater investment in their workers.

Who should pay is closely related to the earlier issue of how jobs are organized within firms. Employers no doubt bear a greater responsibility for these investments where workers are retained inside flexible firms. Employees bear more of the responsibility for developing skills where they are more likely to be moving across companies, but how much of the costs should be paid for by employees, in contrast to employers or the public more generally, is an open

question. The US practice where employers pay for the further education of their employees through tuition benefits was intriguing to the participants who saw it as effective for employees. How it benefited employers was less clear. Many of the most successful of these programs have been introduced through collective bargaining.

From the European perspective, the question of how employers could be persuaded to make greater investments in their employees is a lingering issue. For the US participants, how skills can be provided in ways other than through firms needs to be addressed. The discussion of training programs needs to come to grips with the considerable evidence that government-sponsored training schemes have been less than effective, to move beyond general calls for training to consider alternative arrangements that might work better. European strategy emphasizes the need for training and education through lifelong learning to ensure that people are able to adapt their skills to changing circumstances. This applies equally to those in employment as well as the unemployed since loss of skills is a major cause of the risk of unemployment. But the unemployed are not without work simply because of a failure on their part to acquire the skills and education to make them employable.

Lifelong learning is only likely to succeed in tackling unemployment if there is a commitment from all actors — individuals, state, employers and trade

unions. The question was raised as to whether lifelong learning should be mandatory. Since employers may be reluctant to invest in training for skills which are not directly task or job related, Governments should increase the understanding of the value of investment in human resources. This can be done by developing and publicizing indicators that provide the long-term value on such investments, and by implementing policies to promote lifelong learning.

#### **Helping the low-skilled and low-paid.**

Finding jobs for low-skilled and long-term unemployed individuals is a challenge in both parts of the world but perhaps especially so in Europe. Finding ways to raise the living standards for this group is also a common challenge but especially so for the US. Here the diversity of experience across Europe is especially telling where some countries like Denmark, Ireland, and the UK have made more progress on jobs than others (although not necessarily on wages).

The US has made real progress on both fronts for women but not for men who have seen tremendous declines in real wages for less educated workers. The figure cited by Richard Freeman that, from 1979 to 1994, 99 percent of the gains in family income in the US went to the top 5 percent of the income distribution was a particularly striking manifestation of the growth in income inequality. The US has also seen significant growth in average hours of work as well as growth in the inequality

of hours that coincides with the inequality of income (the better paid are working much more, the low paid much less) and contributes to it. While low income workers are doing relatively well in Europe because of the social safety net, the average worker has low purchasing power compared to their US counterparts.

What is causing the rising inequality in the US was a fundamental question for the workshop. If, as is sometimes argued, the greater flexibility of the US labor market has helped create the recent economic expansion but also generates the rise in inequality, then interest in transferring the US experience with job growth is reduced considerably. The popular view that changes in the global economic structure and in technology are raising the demands and rewards for higher skill seems to explain the growing wage differential between education levels. But it does not explain the fact that real wages have been falling and that even for the most educated, they have barely risen. The alternative view is that wage setting institutions, such as unions, have been weakened in ways that have generated greater inequality. This is a much more complicated argument with different components for different industries and occupations. Certainly more explanation of the causes of growing wage inequality in the US is important for this discussion.

One of the most popular arguments as to how opportunities for the low paid could be increased is to expand their education levels. At the same time, it is



important to distinguish educational qualifications, which may enhance an individual's mobility and flexibility, and more task related skills, which may enhance the flexibility of an organization. While the fact that more educated workers have lower levels of unemployment seems to be compelling evidence, the argument needs to be developed further to consider the other effects of expanding education to this group, such as the costs of the education itself or the consequent decline in the wage premium for education. Policies in the US have also worked on the principle of "making work pay" through tax credits (like the Earned Income Tax Credit) and raising the minimum wage. That is, policies must be aimed at improving the financial returns to work.

There was very little that linked the structural changes in the labor market with the skills gap. It is not that most of the unemployed are unskilled, but that the skills they possess can be quickly rendered redundant by structural change. Moreover, rising unemployment or a higher number of would-be workers has inadvertently raised the skill threshold for labor force entry, making it more difficult for some disadvantaged groups to find jobs.

**Employment incentives and the social safety net.** The role of the social safety net was central to the theme of the workshop as it helps guarantee income security for workers. The discussion at the workshop focused on how these policies might be influencing, perhaps restricting, efforts

to increase flexibility. Fighting unemployment and enhancing employment growth is the main priority and the biggest challenge facing the European Union today. The solution is to make European social protection more employment-friendly, by ensuring that it provides clear incentives for job-seekers to take jobs or participate in other employment enhancing activities, while still providing a safety net for the jobless. One key function of social protection systems is to provide the categories of people who cannot work with some income security. In Europe, however, the magnitude of transfers necessary to pay income compensation for people out of work is growing fast.

The lessons from US studies suggest that the level of social welfare payments create relatively minor incentives for individuals to avoid taking jobs and that cuts in those benefits have produced only small improvements in labor force participation. The bigger disincentive in the US is simply the low and declining wages for unskilled workers (like many of the long-term unemployed). While the variation in European practices needs to be kept in mind, there seems greater concern in Europe not simply with the level of benefits but also with the complexity of administering them, especially for small and medium-size enterprises. Countries like Finland seem especially concerned that high social benefits are hampering movement into jobs at a time when job vacancies are plentiful. It would be worth considering the experience of countries like Sweden and Denmark that have apparently had some success

in increasing labor force participation by changing the structure of benefits. It is also worth considering the extent to which mandatory reductions in working time is a solution to job growth, a particularly popular policy in certain European countries.

Similarly, because social welfare benefits are at a relatively low level in the US, it is difficult to discern whether they have a significant effect on employment levels. In Europe, less concern was expressed about the *level* of benefits, and more about their *structure*.

**Promoting reintegration.** In addition to the issue of social benefits, the workshop also discussed whether active labor market policies are needed to create more mobility and more meritocratic access to higher-wage occupations. Flexibility in the economy should not be simply synonymous with the unskilled, low-wage, unregulated segments of the economy such as the growing "underground" economies, also termed the informal sector, in some countries. Requiring a period of work in the formal sector in order to qualify for unemployment and other benefits guards against this. Each country must decide on the level and duration of unemployment benefits that best balances providing a financial cushion while jobless with an incentive to return to work.

There was also concern, especially from the US, that employers may not respond to active labor market policies designed to help disadvantaged individuals move

into the labor market, that the financial incentives offered did not offset other concerns such as the stigma attached to being in special programs. Some evidence was presented that certain measures, such as assisting targeted workers with job searches, are effective in helping displaced workers get new jobs.

In both Europe and the US, the trend is to make passive labor market measures more active.

In the US, this passive form of investment on the part of federal and certain state governments has been combined successfully with measures to give the unemployment compensation system a more active role in aiding recipients. For example, the "profiling" of unemployed workers uses demographic and work history information to determine whether new claimants for unemployment insurance are at elevated risk for long-term unemployment, and if so, it provides them with intensive job search assistance and job counseling. A number of positive outcomes have been related to profiling, including reduced spells of unemployment, lower receipt of unemployment benefits, reduced costs to government, and no evidence that unemployed workers who participated in profiling did worse than similar individuals who did not. Sometimes the unemployment compensation system may also be used explicitly for investment purposes, as is the case when unemployment benefit recipients get entrepreneurial training, business counseling, employment allowances, or

lump sum payments that enable participants to set up their own businesses.

In Europe, 'activating' labor market policy is an explicit element in the employment strategy, along with targeting of measures on particular groups in the labor market. Emphasis is also placed on the early identification of those at risk of becoming long-term unemployed, with a reinforced role for the public employment services in several Member States.

From the US participants came concern that the changing nature of firms and of employment was not being adequately addressed and that these changes may be creating new challenges that existing systems were not meeting. Particularly with respect to skill development, individuals are finding ways to develop their skills outside of firms and outside of traditional education programs which may not be adapting fast enough to changing needs. Cooperation between firms in training workers is an important development. Employees increasingly see their careers as moving across employers and their attachment to any given employer as insecure. Skill shortages for fast-changing technical skills seems to be a particular problem in the US

In Europe, the ageing of the population and rapid technological change is producing an overall 'skills gap' between the skills of the workforce and the skills needed by employers. This was identified as requiring particular attention, if European industry was to

maintain its competitiveness in years to come. There was general consensus from the European participants on the need to get education systems to be more responsive to changing employment needs, and some representatives in countries like Ireland see similar developments in their labor markets, leading to a greater interest in expanding individual responsibility for skill development.

**Issues for the future.** There was general recognition from participants that there were important issues that could be addressed in the next meeting. The first set concerned building more of a common ground on which to base discussion; being clear that technical terms were used the same way, that statistics like unemployment were comparable across countries (or at least be clear about their differences), and that distinctions be made between concepts like education and skills which were sometimes used synonymously.

There was also a view that additional issues needed more consideration at the next meeting. One of these is to recognize explicitly the views of stakeholders such as employers and workers who have in mind quite different solutions to the issues of flexibility and stability, solutions that are often very different than those presented at the workshop. Hearing more about the employer's perspective was perhaps the most common suggestion. Another is to pay more attention to regional solutions to these problems that often rely on local networks of employers and trainers. And finally, to give more

attention to global trends as a way of understanding not only how the future will be different but also to the changes that policy can reasonably expect to bring about.

In the final analysis, there are social goals for the economy as well as efficiency goals and that cooperation on these social goals is also important.

Some topics which participants wished to take further included:

- the interaction of policies that promote the balance between giving workers employment security while allowing employers sufficient flexibility to compete in an international economic

environment.

- the nature and direction of corporate governance practices and how these relate to promoting skill development at the enterprise level. In the US, for example, firms are accountable to shareholders in more powerful ways than in Europe.
- new forms of work organization in an information society and the role of non-standard employment patterns, particularly in order to help low-wage workers.