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**DRAFT REPORT FROM THE COMMISSION TO THE COUNCIL**

**Draft Joint Employment Report (JER) 2009/2010**

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### 1. THE EMPLOYMENT SITUATION IN 2009 AND OUTLOOK TO 2011

Despite signs of economic recovery in the EU, employment prospects generally remain unfavourable, with overall unemployment still on the rise, albeit at a diminishing pace. After a period of strongly improving labour market performance until early 2008, the worldwide financial and economic crisis has threatened much of this previous success. While some Member States have seen much worse outcomes than others, developments since mid-2008 are marked by **falling demand for new workers** (around -30%), **employment contraction** (-1.9% = 4.3 million jobs), and **rising unemployment** especially among groups already in a relatively weaker labour market situation before the crisis (young people, low-skilled, migrants). This severe deterioration reflects the business contraction in the sectors/occupations most affected by the downturn, but also the growing use of flexible work arrangements, especially for the less-experienced workers, who were thus the first to lose their jobs (between Q2 2008 and Q2 2009 employment among temporary workers fell by 1.7 million, of which 1 million in ES).

The unemployment increase in the EU was not as strong as could have been expected from the rapid GDP decrease. Several countries have introduced measures to avoid mass dismissal including wage subsidies and adjusting working time. Wage moderation and other concessions in return for employment have also helped maintain jobs in several sectors<sup>1</sup>.

The latest Commission forecast foresees a gradual economic recovery over the next two years (EU GDP + 0.7% in 2010 and + 1.6% in 2011)<sup>2</sup>. However, the positive impact on the labour market will take time to manifest itself, given the lag before employment reacts to a change in economic activity. With an estimated fall in employment of 2.3% in 2009 and a further 1.2% in 2010 (equivalent to an employment contraction of around 7.5 million during these two years), unemployment is forecast to rise further across almost all Member States, potentially reaching 10.3% by 2010 and remaining at 10.2% in 2011, up more than 3pp. on 2008 levels.

Whether the economic recovery will result in a considerable creation of new jobs or 'jobless growth' will largely depend on successful exit strategies preparing individuals and companies to meet structural challenges, and on the efficiency of public policies in modernising labour markets to provide both high levels of flexibility and security. Member States will need to regularly assess the effectiveness of crisis measures in a constructive dialogue with social partners and supported by EU-wide mutual learning.

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<sup>1</sup> A detailed analysis of trends and policy responses to the employment crisis gives the Commission's Background paper to the EPSCO Council of 30.11.2009. For detailed data, see also the Commission's DG EMPL Monthly Labour Market Monitor and the 2009 Employment in Europe Report.

<sup>2</sup> EC Autumn forecast of 3.11.2009.

## 2. MEMBER STATES EMPLOYMENT MEASURES IN 2009

To provide an immediate stimulus to the economy, and to protect vulnerable groups from the impact of the crisis on labour markets, Member States have stepped up considerably their employment and social policies under the three priorities of the European Employment Strategy<sup>3</sup>.

### 2.1. Increasing labour supply and modernising social protection systems

Because of the risk of a further increase in unemployment, additional efforts to avoid long-term unemployment and permanent inactivity remain necessary to preserve human capital. Moreover, continued efforts to increase labour supply, especially for groups with structurally low labour market participation, are essential to restore sustainable economic growth and strengthen social cohesion. Despite efforts to address the pressing concerns of specific groups (youth, migrants, low-skilled, people with disabilities) setting the right incentives to work for these groups proves difficult, and more so in times of crisis. Member States have introduced measures to **improve work incentives and make work pay**, by reducing taxes or raising in-work benefits: increased tax-free income thresholds or an upward adjustment of brackets (AT, BE, DE, DK, FI, LV, MT, SE, SK); reinforced income supplements and targeted in-work tax incentives (BE, ES, FR, LT, LV, NL, SE, SK); as well as reduced income tax rates, often targeted at low income earners (AT, DK, FI, FR, HU, LT, LU, LV, PL, SE, UK). Other tax reductions are aimed at stimulating mothers' return to work (MT) or supporting families (AT). These reforms have improved work incentives for low income earners, and more should be done to achieve a high and balanced labour market participation, in terms of skills levels, gender (exclusion is a particular risk for women especially those having care responsibilities) and age.

#### The employment situation of young people

The rise of unemployment among **young people** (aged 15-24) has been dramatic in 2009 calling for stronger policy action, in particular by delivering better transition pathways from education to employment, and a stronger provision and quality of vocational education and training (VET), including EU and national financial support to companies. VET systems may limit the impact of the crisis on the young (DE), and the increase of apprenticeship training (FIN, FR, UK) has potential to become a more permanent VET provision. **Job subsidy schemes** (BG, EL, FR, IT, UK) support labour demand for young workers.

Labour market segmentation is a structural challenge in several Member States, and the crisis has shown how it imposes the burden of labour flexibility mainly on young people through the more widespread use of atypical contracts. Vigorous efforts are needed to reduce early school leaving and the segregation and discrimination of young people with a migrant or minority background or disability. However, progress has been made, and several recent initiatives go in the right direction: an education or training guarantee (AT, DE), jobcentres' immediate support to at-risk young (DK), the Labour Foundation's support to young people after job loss (AT) or outreach services for young people not in education nor employment (MT, SI).

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<sup>3</sup> See the Commission's EERP report of December 2009.

The current labour market outlook compounds the urgency of implementing comprehensive **active inclusion strategies** with balanced and integrated action across the three pillars: inclusive labour markets, access to quality services, and adequate income support. Tax reforms including lowering labour taxation (see p.6) can help support labour market inclusion. Several Member States have put in place positive measures in support for those **furthest from the labour market**: targeted employment subsidies (FI, FR, HU, IT, LT, PL, SE) and incentives for the employment of people with disabilities (ES, IE, RO). Complementary measures include enhanced and/or more accessible training programs in most Member States and promotion of jobs in the social economy or non-profit sector (AT, ES, PL, PT, SI), and workfare schemes (LV). Direct public sector job creation has only been envisaged in a few countries (ES, CY, HU, SK), either as a consequence of public spending constraints or of hesitation as regards the efficiency of such measures. Most Member States have mainstreamed actions into their policies in favour of disadvantaged groups. In addressing the specific problems which affect Roma and other similarly marginalised groups, some countries are following an 'explicit but not exclusive' approach. It is important that progress made in the implementation of these policies is monitored and evaluated on a continuous basis, including their interaction with mainstream policies.

**Older workers** have not been at particular risk of losing their job due to the crisis so far, but they face substantial difficulties in becoming re-employed. Several Member States have introduced specific measures to support older workers' labour market participation (NL, PL, PT) and to stimulate demand for older workers (NL). Although there is general agreement regarding the need to avoid early retirement, there are indications that some countries may be reverting to this option. This should be avoided through better employment opportunities for older workers, supporting their skills' upgrading to facilitate labour market re-entry and improved incentives to continue working via pension systems and other tax/benefit structures.

Despite a global falling demand for new workers, some countries (BE, DE, FI, FR, LT) facing labour and skills shortages continue to actively promote labour supply through **economic migration**. Specific measures to attract highly skilled people (DE, FI, FR, LT), simpler visa extension and residence permit procedures (FI, PT) and special visa and residence permits for the highly qualified (FR, IE). However, Member States need to pursue more vigorously the longer term integration of migrants and their descendants already living in the EU, among whom unemployment has increased strongly during the crisis. Current policies focus mainly on raising qualification levels and facilitating overall integration. Further action is needed including encouraging companies to employ a more diverse workforce, for example through diversity charters (BE, DE, ES, FR).

**Public Employment Services (PES)** must tackle the increasing number of unemployed people and their modernisation is an effective means to cope with the new challenges. Indeed this has been pursued through organisational mergers/intensified cooperation of integration and insurance services (DK, EE, EL, FI, FR, HU, NL, SI), new types of service delivery combining web-based and personal services (EE, EL, IE, MT, RO, UK/Scotland), special counselling for companies to train employees and early proactive intervention in case of redundancy (AT, BG, DK, EE, IE, MT, NL) and outplacement guidance for employees and employers (DE, BE, FI, IE, LU, PT, UK). Some PES have intensified cooperation with private employment agencies (AT, FR, NL). These approaches could inspire further reforms in other countries, and more systematic evaluation could enlarge the evidence base regarding which procedures and programmes are the most effective and efficient, especially in times of increasing budget constraints.

**Social protection systems** have suffered a strong stress test with the sharp increase in unemployment. Automatic stabilisers have been instrumental in cushioning the immediate social impact of the downturn though to different degrees within the EU; therefore a number of Member States saw the need to adjust the duration (CZ, ES, LT, RO), level (BE, BG, CZ, EL) or coverage (IT, PT) of benefits, or to establish new or larger income support schemes for those not qualifying for unemployment benefits (e.g. FR, LV). Beyond the group of people qualifying for unemployed benefits, some Member States also stepped up support to vulnerable groups (BE, CY, FR, PL) and low income pensioners (CY, RO). The capacity to meet the rising demand for social security varies greatly among Member States; this challenge will inevitably increase over time and underscores the need for strong activation policies.

### Female employment

Labour market data indicate that in 2009 women were generally not as adversely affected as men by unemployment. However, strong gender imbalances persist in many Member States, with lower activity and higher unemployment rates of women. Due to the crisis, some measures for gender equality have been delayed or cancelled and no new measure have been taken except support to new jobs in the care sector (FI, NL, UK). Gender mainstreaming should be more actively applied in employment policies, notably when defining and implementing recovery policies. Many Member States have continued to promote **reconciliation** between work, private and family life, mainly through increased access and/or quality of childcare services for small children or pre-schoolers, and through support for care of other dependants (ES, PT). Recent reforms in **maternity leave schemes and/or benefits** aim at reinforcing female participation/returning to the labour market (AT, DE, HU) and improving rights to parental/paternity leave or protection of workers taking leave (BG, NL, PT). Rights to flexible working arrangements (HU, RO, SK, UK) and protection of workers in flexible employment (LT, SK) have been improved. While the **gender pay gap** remains insufficiently addressed by most Member States, some new measures have been taken: better transparency (DE, UK), re-examination of job evaluation schemes (BE), involvement of labour inspection and new research (NL), and a new tripartite strategy (FI).

## **2.2. Improving the adaptability of workers and enterprises**

Member States have over the last two years focussed on the development of the flexicurity approach, and started to formulate comprehensive flexicurity pathways in line with individual structural challenges and starting positions. With the onset of the crisis the pressure for adaptability has increased enormously and has shifted attention to measures helping adaptation to the new context in a rather short term perspective. The main measures taken in this respect are temporary adjustments to falling production through **flexible work arrangements**, mostly short time working arrangements to avoid dismissals and the loss of human capital<sup>4</sup>.

Some Member States under huge economic pressure have introduced or envisage **wage moderation** in the public sector (BG, EL, LT, LV, RO). In NL, economy wide wage moderation over the medium term was traded against cuts in social security contributions.

High non-wage labour costs and a high **tax wedge** are a major impediment to employment. Despite progress in recent years, the EU 27 average tax wedge on labour costs remains at its

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<sup>4</sup> More details on STWA gives the Commission paper to EPSCO (cf. footnote 1).

2000 level of around 40½%. Action taken to **reduce the tax burden on labour** includes the reduction of social security contributions (BE, BG, CZ, DE, ES, FI, HU, SE) and revising the tax system to reduce labour costs. To keep people in jobs and/or promote recruitment, **labour costs** have been reduced in a number of Member States, with varied targeting at low-wage workers (CZ), SMEs (NL), self-employed (SK) or otherwise through tax benefit incentives to stimulate unemployed to set up a business (PT). An alternative approach tested in SE allows employers to defer social contributions and taxes for up to 12 months, to help cash flow and ease credit constraints.

Labour market **segmentation** remains a challenge. While a few countries (BG, CY, EE, HU, LT, PT) have revised **employment protection legislation** over recent years, in line with the flexicurity approach, more action is needed to prevent the segmentation of labour markets which threatens long-term labour market performance, in particular for specific vulnerable groups. In 2008 already, most Member States saw a declining share of fixed-term contracts, including temporary agency work, as the crisis tends to hit these types of work arrangements first. Developments in 2009 highlight that labour market segmentation concentrates the ‘flexibility’ mainly on workers under fixed term contracts; this inequality is harmful and inefficient and calls for a better distribution of the flexibility/security balance among all workers.

**Undeclared work** remains a persistent feature; in a number of Member States its share of in the national economy is around one fifth and some action is being taken. In PT, irregular independent worker contracts are now being severely penalised. A few countries (BG, CY, EL, HU, MT) have improved inspection mechanisms and increased sanctions or introduced successful voucher systems (BE). Overall, the commitment to transform undeclared work into formal employment needs stronger action.

**Geographical mobility** in the EU remains low. Only few Member States have taken new action which includes regional job fairs (BG), special support offered to move between regions (DE, ES, LT) as well as investment in transport infrastructure (LT, SK). Incentives to step up labour mobility, such as commuters tax allowances, were increased in AT, DE, ES, LT, NL and SK.

### 2.3. Increasing investment in skills and human capital

The economic downturn underlines the urgency of reforming education and training systems, of investing more in the upskilling of the workforce, and of ensuring a better match between education, skills and labour market needs and more mobility e.g. through better language skills. In this respect, most Member States face a range of structural challenges. Some reforms have been designed and implemented, but results are still mixed and much remains to be done with a focus on pro-growth policies (education, innovation and green technologies).

**Skills upgrading strategies** as short-term measures have been implemented in several Member States, often with ESF support. To protect workers’ employability, **on-the-job training** has been stepped up (AT, BG, CY, EL, IT, LU, MT, PT, SE, UK). These measures are best when focussed on identifying new jobs and their skills requirements. Several Member States have developed new skills strategies that are better tailored to **meet labour market needs** (AT, BE, DK, MT, RO, SK). In addition, improved cooperation between social partners in identifying future needs and developing curricula has been accelerated (BE, BG, MT, SI) with social partners playing a key role in some Member States (BG, DK, FI, LU).

Member States' capacity for **forecasting and anticipating skills needs** varies. A new advanced system is being developed in FI with ESF support. Short term forecasting is necessary to prevent bottlenecks. Some Member States describe stimulating studies and approaches for skills anticipation (labour market analysis, surveys among employers in CY, IE, LT, RO), often with support from ESF. Both skills forecasting and anticipation should be enhanced in the future, also through assessment of future needs by industry and trainers.

Some Member States (AT, BE, DE, EE, ES, IE, MT, NL, PT) have laid out more long-term, specific plans for **gaining qualifications**. There is a clear trend towards competence based teaching and learning, in particular in school curricula. The implementation of the European Qualifications Framework (**EQF**) promoting a greater **transparency of qualifications** based on learning outcomes is entering a crucial phase. Most Member States are making significant progress in developing national qualifications frameworks, covering all levels and types of education and training, and in referencing their frameworks to the EQF by 2010. Some Member States have stepped up efforts to facilitate **validation of non-formal and informal learning** (AT, ES, FR, IE, LT, LU, NL, SE, SI)<sup>5</sup>. Some countries have taken initiatives to strengthen the role of **higher education** in continuing professional or personal development for those already in the workforce (BE, EL, FI, IT, LT, NL). However, higher education institutions still need stronger incentives to develop more flexible curricula and attendance modes and to expand the validation of prior learning.

The **funding of lifelong learning** is a crucial aspect especially in a context of spending constraints for both public and private budgets. Many Member States have increased expenditure on lifelong learning for the low skilled and the unemployed. Some have introduced support for combining short-time work and further training (BE, CZ, DE, FR, IE, LU, LV, PT). Efforts for training and retraining of adults also include measures to target resources towards higher education (DE, IE, UK). Funding mechanisms to help SMEs train workers have been put in place (DE, HU, SI).

#### **2.4. The use of EU financial support to enhance priority actions**

In order to help Member States finance anti-crisis action with aid from EU financial resources aimed at supporting people, the Commission modified **European Social Fund** (ESF) programming and management to improve the ESF capacity to expedite programmes and target them at sectors and groups most in need of support. Some Member States (AT, DE, HU, IE, LT, LV, NL, UK) have used the possibility of amending their Operational Programmes for crisis adjustment, while others used the already existing flexibility of ESF programmes to target interventions to those hit by the crisis.

Member States have also used the ESF for implementation of the **EERP priorities**, for example to widen the coverage of unemployment benefits (IT), to extend ESF potential beneficiaries to all age groups (AT), to extend short-time working schemes (DE, EL) and combine them with training (CZ) or to increase support for entrepreneurship (PT). Other Member States modified their ESF programmes by taking short term anti-crisis measures specifically targeted at unemployed people, such as transferring resources to actions supporting employability of unemployed (UK/Wales), to reorient priorities towards unemployed (IE), or to adapt to important socio-economic changes in a particular region

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<sup>5</sup> See COM(2009) 640, 24.11.2009.



(ES/Navarra). PL changed the selection criteria to ensure ESF projects are accessible to workers in the sectors particularly affected by the crisis.

The number of applications from Member States to the **European Globalisation Fund (EGF)** rose strongly in 2009 (20 compared to 5 in 2008). In total 12 countries have requested support for 24 300 workers who lost their jobs in sectors such as steel and automotive industry, manufacturing, construction and plane for a total amount of €152.7 million.

### 3. THE WAY FORWARD

Member States' employment measures in response to the crisis have significantly contributed to stabilising economies and have, in many cases, reduced the adverse impact on employment in 2009. However, many **challenges** lie ahead: the crisis has accentuated **structural problems**, particularly the risk of higher long-term and structural unemployment, of persisting skills mismatches, and of labour market exclusion of the most disadvantaged groups. Furthermore, EU **social and territorial cohesion** is at risk since the crisis has affected countries and regions in very different manners and degrees of intensity, resulting in different labour market outcomes.

Given the prospect of still rising unemployment and the dearth of job vacancies in 2010, robust labour market measures will remain essential over the short term. In this framework, the key issue is to enhance the **coherence between short-term measures and longer-term structural reforms**.

The over-extension of some of the measures undertaken over recent months to tackle the employment crisis could have a negative longer term impact on productivity, labour market performance and Member States' budgetary positions. Improving employment security, supporting transitions and reducing labour market segmentation as well as safeguarding budgetary equilibria are particularly important, highlighting the need for comprehensive policy responses in line with the flexicurity approach. Thus, with positive signals on a moderate pick up in economic activity in 2010, the key issue over coming months will be to determine when and how to gradually **phase out crisis measures**. Phasing-out stimulus measures too early could have a negative impact on employment and labour demand while phasing them out too late could have a negative impact on recovery and jeopardize medium-term growth objectives with a slower reduction in unemployment, low productivity, or an unsustainable budgetary position.

While constraints and situations differ and will require different strategies, Member States have a number of **common employment policy objectives**: higher unemployment must be reversed and prevented from becoming structural; job transitions, especially matching between skills and jobs, need to be improved; the young and others hardest hit by the crisis need sustained support; skills upgrading must be better linked to labour market requirements; and labour market participation must be further enhanced especially for women, older workers and immigrants. A **coordinated approach across Europe** with active involvement of social partners is instrumental in meeting these objectives.

In this context, there are **three broad types of challenges** for future employment policies in which crisis measures need to be adjusted within a framework of ongoing structural reforms:

- The need to **reinforce existing crisis measures**. This will arise particularly, though not exclusively, for those Member States where unemployment is expected to increase significantly next year. Here the key is to focus on **improving the effectiveness** of these measures. In particular, short time working arrangements can remain temporarily justified for sustainable jobs as long as unemployment keeps growing - but eligibility criteria must be much stricter compared to those applied in 2009. These schemes, which can mitigate the social impact of the crisis in the short-term, save considerable firing and hiring costs for firms and prevent the loss of firm-specific human capital, may lead companies to get massively overstaffed over the longer term and may risk delaying necessary restructuring. Member States faced with increasing unemployment should also consider giving more weight to other measures which have shown to have a favourable impact on labour markets, particularly stepping up the **capacity of Public Employment Services** to provide a more personalised approach in pre-redundancy job search assistance. Moreover, a number of temporary changes introduced during the crisis could be the occasion for opening to more stable structural reforms improving the **efficiency and effectiveness of specific labour market institutions**. This is notably the case for changes introduced in some countries concerning the design of unemployment insurance schemes or of ALMPs. Finally, short-term measures in line with the flexicurity approach including proper work incentives can be an important tool to address labour market segmentation.

- The need to **re-orient crisis measures**. This will arise especially in countries under strong pressure for fiscal consolidation. Here the key issue is to **reduce inactivity and unemployment traps** (notably to reinforce female participation) while ensuring income security for those most in need and those experiencing transitions. It is also true that, while the counterproductive passive measures introduced in past recessions should be avoided (early retirement, exit towards disability and sickness benefit schemes), income support measures have provided relief to many in need since the onset of the crisis, and have thus contributed to preventing poverty. Moreover, experience shows that it is extremely difficult for people furthest from the labour market to make effective use of active measures such as training and job counselling. Member States should also consider improving both **internal and external flexibility**. It is a priority to **tackle increasing labour market segmentation** with a view to improve the situation of people on non-standard contracts who often have inadequate coverage by unemployment insurance systems and active labour market policies (as their provision is usually linked to benefits). The ultimate goal is to shift the focus from protection on the job to insurance in the market.

- The need to **phase-out crisis measures**. This will be an immediate concern in countries where the economic and employment outlook is most favourable and the focus can be fully on **structural reforms**. Here there will be additional pressure on the longer-term labour market reform measures that will now be faced with higher numbers of unemployed; increasing the effectiveness of these measures will be a high priority. Flexicurity-inspired reforms that improve the flexibility and security of labour markets are called for, including balancing employment protection and security in the market, bridging the gaps between emerging demands and the skills currently available in the labour market, promoting labour mobility across regions and between occupations, and enhancing the response of wages to productivity developments. The ultimate objective is to **increase the economy's resilience** to future sector or country specific shocks.