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COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.11.2009
COM(2009)639 final

COMMUNICATION FROM THE COMMISSION

Key messages from the Employment in Europe 2009 Report

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1. INTRODUCTION

The unprecedented crisis in global financial markets which gathered pace in autumn last year has led to the **severest recession since World War II**, affecting the global economy and increasingly impacting on EU labour markets. After several years of relatively high economic growth and job creation (9.7 million new jobs in the period 2005-2008 alone), pushing Europe's employment levels to historical highs, the global crisis is hitting businesses, jobs and households and increasingly affecting the livelihoods and prospects of EU citizens. The sudden reversal of employment growth has set **new challenges for policy making**. As unemployment continues to rise, the spotlight has fallen on limiting the social impact and creating favourable conditions to support rapid transitions back to work once economic activity recovers.

In a coordinated response, the EU has taken important steps to address the impact of the crisis. Last autumn the EU took the necessary steps to prevent a meltdown in financial markets and to provide a broad response to the crisis. In December 2008, the European Council endorsed the European Economic Recovery Plan (EERP)¹ to cushion the effects of the recession and, at its meeting in spring 2009, identified the following key priorities for employment policies:

- maintaining employment, creating jobs and promoting mobility
- upgrading skills and matching labour market needs
- increasing access to employment

Building on this common effort and on the extraordinary Employment Summit held on 7 May 2009, the Commission published in June its Communication entitled 'A Shared Commitment for Employment', aiming to strengthen cooperation between the Union and its Member States as well as between the social partners, on the three key priorities, focussing on **concrete actions supported by all the available Community instruments, particularly the European Social Fund and the Globalisation Adjustment Fund**.

The new economic context shaped by the global crisis has highlighted not only the need for more up-to-date monitoring and analysis of the labour market situation, which has been addressed in part by the Commission's publication of a new monthly monitoring report², but also for further research on ways to **limit the negative impact of the crisis on labour markets and better position them so they are well placed to respond to the recovery** when it comes and to prepare them against future crises.

¹ COM(2008) 800

² Available on the website of DG Employment, Social Affairs and Equal Opportunities at <http://ec.europa.eu/social/main.jsp?catId=120&langId=en>

In this context, the current, already the 21st edition of the annual *Employment in Europe* report focuses on two themes crucial (although certainly not exhaustive) to the ongoing debate on the orientations of the future European Employment Strategy - **dynamics of European labour markets and the implications of climate change for labour market outcomes.**

Analysis of labour market flows becomes critical in times of crisis to enable timely policy response, especially measures to **foster re-employment, and limit the incidence of long-term unemployment**, which can lead to permanent losses in welfare associated with the deterioration of human capital. Preventing the worst-case scenarios in this respect is therefore not only the precondition to a successful tackling of the current crisis, but also a cornerstone to the building of a structurally sound and internationally competitive European economy for the future.

At the same time, a shift towards a competitive low-carbon, knowledge-based economy has become a pressing priority requiring immediate action. The **scope for creating new 'green jobs'³ and for greening of existing jobs in Europe is significant and covers all types of workers.** Nevertheless, in order to exploit these opportunities effectively, adequate policies must be put in place, based on a solid understanding of the key trends underlying both adaptation to and mitigation of the impact of climate change.

2. KEY TRENDS, FINDINGS AND POLICY IMPLICATIONS

Crisis takes its toll on EU labour markets, reversing most of the employment growth achieved since 2000

The current recession is expected to significantly affect EU labour markets and lead to substantial rises in unemployment, although in certain Member States job losses to date have been restrained thanks to the use of arrangements such as shorter working hours or temporary partial unemployment⁴.

However, even if labour markets have proven to be more resilient, Europe is still **expected to lose more than seven million jobs over 2009-10, and unemployment could reach over 10% by 2010⁵**. Indeed, as employment reacts to economic conditions with a certain lag, labour market conditions will continue to worsen for some time even after the economy enters a recovery path.

All this represents a significant setback for reaching the Lisbon targets for 2010. Since the beginning of the Lisbon Strategy, considerable progress has been made in the employment policy area - the overall employment rate has risen by close to four percentage points, reaching 65.9% in 2008, while the employment rates for women and older workers have also increased substantially, attaining 59.1% and 45.6% respectively in 2008.⁶ Unfortunately, the

³ Bearing in mind all the definitional problems with 'green jobs' discussed more in detail in the report

⁴ For similar observations, see also e.g. Labour market and wage developments in 2008, European Economy 8/2009

⁵ European Commission economic forecast, autumn 2009, European Economy 10/2009

⁶ Although it must be acknowledged that this progress often coexisted with significant numbers of workers in precarious jobs and persistent levels of in-work poverty

current economic recession is expected to largely reverse that growth⁷, leading to employment rates moving away from the respective targets between 2008 and 2010.

This crisis is characterised by the severity of impact on some groups of workers more than others. In particular, workers with fixed-term or temporary contracts have borne the brunt of the employment contraction while unemployment among young people has reached new historical highs over recent months. These trends highlight a need for intensified action to tackle youth unemployment and reduce labour market segmentation.

EU labour markets display a high degree of dynamism pointing to structural improvement...

EU labour markets have demonstrated considerable dynamism in recent years. Over the period from 2002 to 2007, average annual labour turnover⁸ amounted to 22%, which indicates that **every year between one fifth and one quarter of all European workers change jobs.**

Such labour market dynamics are not just limited to countries usually considered as 'flexible', such as the UK or Denmark, but concern all Member States, although annual labour turnover, relative to total employment, ranges from 14% in Greece and 16% in Sweden to between 25 and 30% in the UK, Finland, Spain and Denmark.

The extent of labour turnover varies considerably between different groups of workers. Flows tend to be substantially higher for women than for men (five percentage points difference at aggregate EU level) with only a few exceptions (Estonia, Poland and Sweden). Turnover rates for young workers (15 to 24) stand at about 70% of their employment level, being much larger than those of prime-age and older workers. At the same time, turnover rates tend to decrease with the level of education, although to different degrees across Member States.

Sectoral differences account for a much larger fraction of overall variability in EU hiring rates compared to differences between countries or the effects of the economic cycle, underlying the importance of sector-specific technological, organisational and demand factors in driving labour dynamics.

It is **difficult to draw definite conclusions about the desired or 'optimal' levels of labour turnover.** While more rigid labour market institutions tend to create obstacles to the reallocation of labour from declining to expanding activities, high labour turnover can also be associated with welfare costs, such as high frictional unemployment, matching costs, a loss of specific human capital, as well as possible higher spending on unemployment benefits.

In line with the evidence on labour turnover, the stock of unemployed is not static being affected by large in and out flows. On average **during the period 2002-2007, nearly a third of unemployed people, and about 10% of inactive people, found a job within one year.** However, such unemployment-to-employment transition rates range from 40% or more in the UK, Spain, Portugal and the Netherlands to 25% or below in Germany, Greece, Poland and Belgium; while inactivity-to-employment transition rates range from 15% or more in Sweden, the UK and Denmark to 3 and 4.5% in Greece and Italy.

⁷ It must be noted, however, that the improvements since 2000 have been mostly structural while the recent deterioration is to some extent cyclical

⁸ Labour turnover measures the number of workers who either change employment status or move between jobs

A sustained rise in the trend components of both unemployment-to-employment and inactivity-to-employment transition rates (which are considered as the 'positive' labour market transitions) has occurred since the second half of the 1990s in the EU, **suggesting a fundamental structural improvement in our labour markets** during this period⁹.

In relation to worker characteristics, unemployment-to-employment transition rates for older workers (aged 55-64) are less than a third of those for prime-age workers (aged 24-54). Also, more highly educated unemployed or inactive people have a substantially higher probability of moving back into employment (compared with low and medium skilled groups).

...but long-term unemployment remains a problem

Although the long-term unemployment rate in the EU declined since the mid 1990s, the incidence of long-term unemployment and its duration remains a problem to be tackled. In Europe, on average during the period 2005-2007 **close to 45% of all unemployment spells in progress lasted longer than a year**, compared with only about 10% in the US, raising concerns on both equity and efficiency grounds.

Gender gaps in average unemployment duration are very small across the EU (12 months for women against 11.7 for men). However, unemployment duration tends to increase with age and decreases with the level of education (12.3 months for the low-skilled unemployed, compared to 8.1 months for the skilled unemployed).

The recession has also highlighted several **issues concerning the appropriate measurement of unemployment**, namely the insufficiency of relying exclusively on the unemployment rate as indicator for policy purposes.

Although requiring further research, preliminary results suggest that the usual statistics of unemployment duration based on incomplete spells (i.e. spells still in progress at the time of observation) tend to overlook many short spells of unemployment that occur between observation periods, leading to an over-estimation of the average duration of completed spells. In the EU over the 2005-2008 period, the average duration of completed spells in unemployment was just about one-half of the measurement calculated using incomplete spells i.e. the official statistic.

Although a measurement based on completed spells would be more appropriate for assessing the welfare implications of unemployment, the usual statistic of unemployment duration has a number of practical advantages in terms of timeliness, transparency, data availability and ease of calculation, which justify its continued use, despite the possible bias.

Additionally, an evaluation of a number of aspects related to unemployment duration, such as its relation with the multiplicity of unemployment spells, needs to use longitudinal data.¹⁰ Three particular aspects are associated with the use of longitudinal data to measure unemployment duration. First, their use allows for a more comprehensive coverage of shorter spells of unemployment. Second, they enable alternative indicators of long-term unemployment to be calculated, which are robust to short interruptions of unemployment, such as the fraction of unemployed persons spending a total of 12 or more months in unemployment over a number of years. Third, the data can be used to monitor multiple

⁹ This is also confirmed by developments in 'bad' transitions (or the net transitions)

¹⁰ From EU Statistics on Income and Living Conditions (EU SILC)

unemployment spells, allowing the calculation of unemployment duration statistics per number of spells.

The above considerations clearly indicate the need to calculate various indicators of unemployment duration, assessing their relative merits. This is particularly important during severe recessions, which are associated with significant rises in unemployment duration that might have major negative and long-lasting impact on the employability of those affected.

Supporting positive labour market transitions – key to lowering unemployment duration and preserving employability

The probability of leaving unemployment decreases with duration (i.e. 'negative duration dependence');¹¹ in part because employability tends to decline the longer people are away from the labour market. Thus a rise in unemployment duration, following an economic downturn, may become entrenched, **transforming a cyclical problem into a structural one**. In this context, adequate policy responses may involve, *inter alia*, better targeting of spending on active labour market policies (ALMP) towards those most at risk of staying unemployed for long periods, or of becoming inactive, including using profiling techniques.¹² Through relevant education and training programmes, this investment may help the most-at-risk to acquire the key competences and skills, which are necessary to succeed in the labour market.

A simple econometric cross-country analysis of the impact of various types of policies on the incidence of long-term unemployment as shown in the report suggests that **strict employment protection legislation tends to raise long-term unemployment, while spending on labour market policies tends to reduce it**.¹³

Flexicurity principles argue for focusing on protecting and **supporting workers in undertaking 'good' transitions in the labour market**, rather than preserving particular jobs. The econometric results provide broad support for this approach, with the specific prospect of lowering long-term unemployment.

Low-carbon policies will become a significant driver changing EU employment structures

The EU policy efforts¹⁴ aimed at a transition towards a competitive low-carbon, knowledge-based economy of the future will become driving forces from a labour market perspective. These drivers will have an impact on the structure of the economy because they will affect how and which goods and services are produced, imported and exported and because they will also affect the demand for goods and services through their impact on the behaviour of consumers, employees and employers, and public authorities.

¹¹ Although after controlling for individual characteristics, the magnitude of this effect seems to be rather limited

¹² Individuals profiled are those most at risk of becoming long-term unemployed, being referred to various ALMPs

¹³ This analysis does not find a significant effect of incentives linked to tax-benefit systems on long-term unemployment

¹⁴ These include initiatives to improve energy efficiency, to develop renewable energy sources, to capture, store and process CO₂ and other harmful emissions, to modernise the European infrastructure (including transport networks and supply), to integrate environmental responsibility in business models, to promote environmentally friendly land use and agriculture, and to create conditions conducive to climate related research and innovation

The underlying structural changes will involve re-allocation of workers and different effects across economic sectors, skill types, and regions. On the whole, however, the impact on the overall employment level should be limited and possibly slightly positive (at least in the long-run - provided that adequate policies are implemented).

This will be best seen in changes in the **sectoral composition of employment**. There will be the creation of new green jobs, greening of existing jobs, and the loss of some existing jobs. In addition, indirect knock-on effects will ripple through the economy and affect employment via price, wage and income effects.

Not all employment effects will be permanent as for instance the labour intensities in the production of new products and new production processes will decline as technologies mature and an important part of the employment gains will disappear once the production and installation of new infrastructure has been completed. On the other hand, competitive markets should ensure that companies continue to innovate and invest in new technologies and production processes, thereby continuing to keep and create new jobs associated with the production and installation of new infrastructure.

The transition to a low-carbon, knowledge-based economy might **favour high-skilled employment** at least initially. In an initial phase, high-skilled workers will benefit more as transitions to new activities call for the implementation of advanced technologies for which only the high-skilled have the necessary qualifications, with the introduction of new 'green' technologies increasing the demand for corresponding skills, and rendering obsolete others. However, with market deployment of new technologies, lower-skilled workers should also be able to fill these jobs – provided they receive adequate training.

The employment effects of the transition will also contain a regional dimension, reflecting different initial starting points regarding regional weather conditions, the characteristics of local economic activity, as well as specific features of local labour markets.

Labour market policy response to climate change: support transitions; focus on skills, social dialogue

In view of the expected structural economic changes, there is a strong case to be made for promoting labour market policies that ease transitions so that workers can be encouraged and helped to become receptive to experimental innovations as they shift towards less polluting activities. In particular, **adequate training and education schemes, inside and outside of enterprises, are required to avoid the emergence of skill gaps and shortages**. The "New Skills for New Jobs" initiative has mobilised community instruments to anticipate and match labour market skills needs. The European Social Fund (2007 – 2013) has budgeted € 13.5 billion for adaptability measures in support of this. Such policies should be complemented by appropriate measures to promote the anticipation and management of restructuring in a socially responsible way, involving all main stakeholders. In this connection, it is vital to guarantee workers' rights to information and consultation in line with existing EU Directives¹⁵. Appropriate room should also be left for social spending focused on items that support and accommodate the transition process in an active way.

¹⁵ See inter alia Directive 2002/14/EC of the European Parliament and of the Council of 11 March 2002 establishing a general framework for informing and consulting employees in the European Community,

In order to support the development of labour market policies that promote the creation of more and better jobs for all in a sustainable economy, further research should be aimed at **strengthening the EU capacity for assessing the employment effects of a transition to a low-carbon, knowledge-based economy**, and social dialogue should be reinforced in order to ensure that structural change in relation to climate change is achieved in a way that is efficient and acceptable from both economic and social perspectives.

The current economic downturn should not hinder the speed and direction of the transition process, as **tackling climate change and other environmental challenges provides a major opportunity to create new jobs**.

3. CONCLUSIONS

The crisis has had a major impact on economic growth in the EU. Although the effect on the labour market was initially rather limited - partly due to the usual lags of six or more months before output changes affect employment levels, but also to the fact that labour demand started to adjust through flexible working arrangements (e.g. shorter working hours) rather than through reduction of employment - the negative impact has become more manifest in recent quarters and this is expected to continue in the months to come. Policies to assist economic recovery and mitigate the loss of employment have thus gained importance especially in the medium term as any pick-up in employment will lag behind the recovery in economic activity.

Europe must not just tackle the recession but must turn it into an opportunity to create a more productive, more innovative, better skilled and greener economy; one with open and inclusive labour markets, offering more and better jobs for women and men. This cannot be a one-off effort but rather a continuous and well-coordinated process, involving not only structural policies in the labour market but also action in other policy areas of the Lisbon process.

European labour markets will be changed profoundly by the crisis and the transition to a low-carbon, knowledge-based economy, and workers and companies must be given the necessary means and incentives to successfully **adjust to these changing realities in ways which favour inclusion, equity and social justice**. Flexicurity, combined with comprehensive active inclusion policies, remains the right approach to both modernising labour markets and ensuring a successful recovery.

The *Employment in Europe 2009* report is published on the following website:

<http://ec.europa.eu/social/main.jsp?catId=119&langId=en>