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REPORT FROM THE COMMISSION

Employment in **EUROPE**

1997

An employment agenda for the year 2000: executive summary

The Employment in Europe report 1997 comes at a defining moment in the development of the Union. The new Treaty, agreed at Amsterdam, makes employment a matter of common concern and introduces employment as an explicit goal for the Union. This report contributes to the preparations for the extraordinary European Council on employment and unemployment and to the further development of the European employment strategy. It presents the latest trends in employment and the labour market and looks forward to the challenges of the 21st Century as the European Union prepares itself for this new phase in its development with the completion of the Single Market, the third phase of EMU and the preparations for the new wave of enlargement.

Recent developments in jobs and employability

At 1.5%, economic growth was slow in 1996, the recovery not gathering momentum until the end of the year. Inflation, at 2½% continued to be low and wage developments were moderate.

- employment rose by some 600 000 in 1996, not enough to make significant inroads into making good the job losses of the recession or reducing unemployment;
- part-time jobs again accounted for all net job creation in 1996, as they have each year since 1990;
- the rise in job opportunities led to a renewed rise in labour force participation. Participation of women increased further, from 56½% to 57% and withdrawal of men from the labour market slowed down;
- unemployment remains stubbornly high at 10.8% in mid-1997, and over 5% of the labour force in the Union had been unemployed for a year or more in 1996;

- the unemployed had great difficulty in finding jobs: under a third of men, and a quarter of women who were unemployed in 1995 had found a job by 1996.
- unemployment of women is still some 3% points higher than for men (12.7% compared with 9.4%)
- while youth unemployment has improved slightly, due to demographic factors and a higher participation in education, the average rate in the Union remains at over 20%;
- job losses over the last 10 years have been concentrated in sectors which account for less than a quarter of total employment in the Union;
- 17% of the working age population is hampered by disabilities; nearly half of these are in the 50-64 age group. The average employment rate of disabled people is 44%, nearly 17% below the overall rate.

The main questions for the employment agenda

The challenges of the next decade raise serious questions about the ability of the European labour market to respond to them. The single market and EMU focus attention on mechanisms of economic adjustment and their effectiveness and on whether the European labour market is sufficiently flexible to secure a balanced and sustainable development of employment in the years to come.

The main problem is job creation

Whatever the relationship between employment and output growth, it is clear that the major problem remains the creation of more jobs. The response in terms of increased labour market participation to the relatively small improvement in job opportunities in the period 1994-96 shows that there is a labour reserve in Europe which can be mobilised, over and above those recorded as being unemployed. Compared with the em-

ployment rate in the US, this reserve amounts to over 20 million people to be found jobs. A range of measures are needed to unlock this growth potential and to make growth sustainable.

- While in the short term, net job creation depends mainly on the rate of output growth, in the longer term it also depends on institutional structures and societal choice on the priority given to employment and how possible conflicts, between this and maintaining productivity growth and competitiveness are reconciled.
- Tax-benefit systems should continue to be made more employment-friendly to create an environment that stimulates enterprise and the creation of jobs.
- investment, particularly in Europe-wide infrastructure projects, can have a major impact on employment, adding to capacity and productive potential, with less inflationary risk than consumption, and promoting competitiveness and sustainable growth.
- Job creation depends to a high degree on creating the right economic environment. Product and services markets need to function in a more effective way in order to create new opportunities which will generate additional demand for labour. Measures proposed under the action plan for the Single Market should therefore be implemented without any delay at national and Community level.

The skills gap — A major structural problem

The ageing of the Union's labour force, allied with the increasing pace of new technology means that we are facing an ever-expanding skills gap. Societies must maintain their competitiveness with a shrinking number of young people with modern skills and a large proportion of older workers who have been trained for technologies no longer used or for jobs no longer needed. A triple-pronged strategy which aims to ensure that learning, training and updating skills and competence is an on-going process throughout life is therefore called for: first, to reorganise fundamentally initial education and training systems to bridge the gap between school and work and to enable young people to be adaptable in later working life by ensuring that they have the relevant skills and competence. Second, to commit

government and business to much more than the current token efforts to upgrade and continuously train the whole of the adult labour force so that they have the ability to meet the challenges brought about by new technologies and third, to develop better programmes combining training, incentives and opportunities for unemployed and displaced workers to equip them with the skills and abilities to enable them to reintegrate into the mainstream of society. *Bridging the skills gap is a key to a more flexible and dynamic labour market.*

At the same time, efforts to improve the skill levels of the work force must go hand in hand with continued efforts to ensure sufficient flexibility in labour markets and that labour costs are conducive to job creation so that employment opportunities are provided for those whose skill levels are likely to remain limited irrespective of the kind and extent of training received. This means that the overall cost of employment for the latter, including the non-wage element, is at an appropriate level in relation to productivity and that artificial barriers inhibiting job creation are removed. Such measures will also help to increase confidence that policies for fostering labour demand will not simply lead to increased inflation.

Flexibility in working patterns

Flexibility in goods and services markets, in the form, for example, of the relaxation of restrictions on Sunday trading, is translated in the European labour market into non-standard patterns of work and employment contracts. Part-time working and fixed-term contracts have become the standard response to slow market growth and uncertainty. Such patterns can also result from high levels of regulation, which alter the way in which employers hire labour, as well as affecting the rate of net job creation. A new approach is therefore required which neither condemns them outright nor promotes them superficially. *Carefully designed programmes of reform are required, preferably negotiated through social dialogue between governments and social partners. Such programmes should both end the discrimination against permanent work contracts due to excessive regulation, and extend social protection, acquired and transferable rights, to non-standard forms of work.*

Flexibility in wages and salaries

Differences in wage levels across Europe tend to be wider than in the US, not only between Member States, which is to be expected, but also between regions within

Member States. Average labour costs vary at the extremes from ECU 5 per hour to over ECU 25 per hour. Such differences largely reflect variations in labour productivity and there is little sign of wages being excessive relative to the contribution of labour to value-added. Analysis of labour cost differences between regions in Europe and the US suggests that *regional problems of inadequate infrastructure, low local labour force skills and so on may be as important as wage flexibility in giving rise to unbalanced rates of economic development and employment growth. Policy, therefore, needs to be focused on correcting these problems, together with labour market rigidities which can deter job creation.*

Geographical mobility

The scale of migration into the Union is relatively small: less than 0.5% of the working-age population in 1995. Inflows into the Union have slowed significantly since the early 1990s; only half of immigrants are from third countries and many of the rest are returning nationals. While the policies for labour migration must continue to give priority to absorbing the excess labour supply in the EU, it must also recognise the value of the contribution made by migrants to the economies of the Union and, in accordance with the Treaties in force, promote their rights and equal treatment commensurate with that contribution.

Within the Union, movements of labour between Member States are also small, much smaller than movements between different parts of the US. Less than 2% of the working age population in EU Member States are from other EU countries. However, movements between regions within Member States are much larger than between countries and are comparable in size to those between States in the US. In 1993-94, an average of just under 1.5% of the population moved between NUTS 1 regions in Europe, which compares with just over 2.5% in the US. In most instances, these movements are linked to employment or education and training opportunities and are particularly important among younger age groups. *Policy should aim to provide people with a real choice between staying in the place where they were brought up and moving elsewhere to live and work.*

The scale of regional migration was slightly lower in 1994 than in 1990 both in Europe and in the US, perhaps because economic activity was lower in the later year. This suggests that the availability of jobs may be just as important in encouraging people to move

as job shortages. It may also reflect the constraints which exist, in both Europe and the US, on someone who is unemployed moving from their home to another part of the country to look for work. *Policy should aim at alleviating these constraints.*

Regional mobility is not confined to migration. Large-scale commuting occurs in many parts of the Union and is potentially important in correcting labour market imbalances. *Policies should aim at improving the trade-off between such benefits and disadvantages which arise in other policy areas in relation to the provision of social services, traffic and environmental degradation.*

Occupational mobility

Sectoral and occupational mobility are equally important aspects of labour market flexibility and there is evidence that this is relatively high in most Member States. In 1995, job turnover was around 16% for men and 19% for women. *Making it easier for people to change jobs and ensuring access to the necessary retraining is important for combating emerging skill shortages, narrowing productivity gaps and thereby promoting growth and employment.*

Adjusting to the capacities of individuals

Flexible labour markets mean that employers also, adapt to the needs and capacities of individuals and to capitalise on their potential so as to maximise the supply of skills. Evidence of a lack of such adjustment is the low rate of training of workers and the low employment rate of disabled people. While this varies between Member States, it tends to be higher in countries where the overall employment rate is also high. Disability is often the result of dangerous working conditions and poor safety standards. 10 million people every year are stricken by occupational diseases, injuries or accidents. *A decisive implementation of agreed health and safety standards would substantially improve the safety situation, reduce public expenditures and increase the employability of the work force.*

Dynamics of the labour market

An average of 30% of the unemployed find work within a year. This proportion tends to rise slightly in periods of strong growth. In 1996, some 5½ million people had been unemployed for more than two years. In 1992, this figure was 3 million, suggesting that even the hard-core

long-term unemployed can be tackled with a period of sustained employment growth. Structural unemployment reflects the nature of the economy, not the individual. *Policy needs to recognise that dealing with the unemployed is three-fold: bringing about a sufficient, but sustainable rate of growth, tackling the employability of the unemployed by enabling them continually to update their skills in line with labour market needs and improving and simplifying the business environment.*

The way forward: an employment agenda for the year 2000

The Amsterdam Resolution called for the improvement of the functioning of European markets and enhanced coordination of economic policies. It also called for an immediate implementation of the relevant provisions in the Employment Title in the new Treaty. The key provision is the reference to employment as a common concern. That is why it provides for the appropriate coordination of employment policies at EU level and the development of a common employment strategy. The message of Amsterdam is that the completion of the single market, monetary discipline and job creation have to be pursued in parallel. This is the task for all those concerned.

The Commission Communication "Agenda 2000" presents the economic, technological and social trends in European society in the years to come. This communication is the basis for the Commission's contribution to the further development of the European employment strategy. It indicates four directions for action in this respect: setting the conditions for sustainable, employment-intensive growth; putting knowledge and technology to the forefront; modernising employment systems; improving living conditions. Certain priority programmes, with a high value-added from Community-level action are highlighted. They include the trans-European networks, research, education and training, the introduction of environmentally-friendly technologies and measures to support SMEs.

The European employment strategy is of fundamental importance in tackling the employment problem, and will be even more important when Economic and Monetary Union is implemented. While high employment and well functioning labour markets are priority objectives in their own right, high employment is the best way to make EMU successful. The existing employment strategy, based on a combination of macroeconomic

stability and structural reform to modernise labour markets, has been underway since December 1994. There are experiences of good progress and performance both on a national scale and at local and regional level.

The 1997 Demographic Report has focused on the underlying population changes which will affect labour force trends in the first decades of the new century. These changes must be taken into account in the development of the Employment strategy for the year 2000.

There is, however, a question of responsibility for action and how it should be shared.

Member States continue to have responsibility for employment policy and the provision of sustainable growth and a favourable business environment.

Employers, above all, must maintain the competitiveness and job creating capacity of their enterprises. Maintaining and developing the productive capacity and motivation of their work force depends on the provision of on-going and relevant training and by treating this as an investment rather than as a cost for the enterprise. Many job opportunities are lost when businesses face complex and difficult administrative requirements during their start up and early years, and when businesses are transferred. Simplifying the business environment would help to overcome these difficulties faced by employers.

Trade Unions have a major role to play in promoting equity in the labour market in encouraging responsible wage determination which increases investment, productivity and welfare and which helps insiders to keep their jobs and outsiders to gain access to them.

Local governments, within a coherent national strategy, must bring all relevant bodies together in partnerships for local development, to tap local capacities and local markets to identify sources of jobs. They must also act as agents for change, promoting sustainable local restructuring.

Individuals have a claim on opportunities offered to them. But they must also combine these opportunities with an individual responsibility: a willingness to adapt, to respond to incentives and to seek and master new capacities and skills.

The European Institutions have an important contribution to make. In line with the conclusions of the

Amsterdam European Council, the Commission will present a proposal for a Joint Employment Report and draft guidelines for Member States' employment policy to be submitted to the Jobs Summit to be held at the end of 1997. These will be designed to specify an agenda for employment for the year 2000 and beyond and provide the basis for operational action to provide for more and better jobs in the Union.

An employment agenda for the year 2000: issues and policies

The Employment in Europe Report for 1997 comes at a defining moment in the development of the Union. The adoption of an employment Title in the Treaty provides both the recognition that employment is an issue of common concern and the tools necessary to address this issue at European level. The Report examines the challenges of employment and labour market policy in the years to come and suggests where the main priorities for policy should lie.

Employment is a common concern

The inclusion of an employment Title in the Treaty marks a new departure for the recognition of employment as an explicit objective for the Union. The Treaty now states that "Member States ... shall regard promoting employment as a matter of common concern and shall co-ordinate their action." This reflects the commitment of Member States who have the main responsibility to implement the decisive action required to produce a substantive and sustainable improvement in employment performance. It also provides for action at Community level: "The objective of a high level of employment shall be taken into consideration in the formulation and implementation of Community policies and activities." The Treaty identifies the promotion of "a skilled, trained and adaptable work force and labour markets responsive to economic change" as a key objective in developing a coordinated strategy for employment.

Furthermore, the revision of Article 2 of the Treaty also confers on the Community the task of promoting equal opportunities for men and women. It is not only the culmination of a process which began with the White Paper on *Growth, Competitiveness, Employment* in 1993, but also the recognition that the roots of the present situation go back 25 years, to the economic shocks of the 1970s, and the apparent inability of the European economic system to recover sufficiently from periods of economic downturn. The third, and most recent of these shocks, aggravated by the failure of economic policy to maintain growth in the last decade, has brought us to the present situation.

In the turmoil of the early 1990s, half of the new jobs created in the period of rapid growth of the late 1980s were lost — 4.9 million between 1991 and 1994 (though as noted in last year's Employment Report, employment in SMEs increased between 1988 and 1995, compensating in some degree for job

losses in larger enterprises). Unemployment soared to new peaks, exceeding 11% on average for the first time ever in 1994. Neither the production system by itself nor the macro-economic policies underpinning it seemed capable of generating the growth of output needed to deal with the employment problem. In a world of increasing globalisation, attention turned to improving the performance of the European employment system within the context of stability-oriented economic policies and structural reforms aimed at increasing the employment-content of growth.

Meeting the challenge of insufficient growth and intolerable unemployment requires a profound modernisation of Europe's economy and its social system for the 21st Century without giving away the basic principles of solidarity which should remain the trademark of Europe. The completion of the Single Market and the move to Economic and Monetary Union will bring the potential for greater prosperity,

stability and choice to citizens both as workers and consumers. This is being matched by the modernisation of the labour market and reform of social security systems to bring about a new balance between flexibility and security.

The new Treaty provisions strike a new balance by making employment an explicit objective and by giving the Union a role in developing a common employment strategy.

Economic and Monetary Union and employment

Europe has now left behind a long period of monetary instability and high inflation. There is now a strong political will to maintain monetary stability, to be achieved through the third phase of Economic and Monetary Union and the convergence programmes. EMU, as a fundamental change in the economic policy framework, will influence growth and employment performances through its impact on the policy-mix in the Euro zone as a whole. Successful implementation of the employment strategy will be even more important under EMU.

Efforts undertaken in the late 1980s and 1990s to create a single market was a major supply-side stimulus for the European economy. The introduction of the single currency, together with the implementation of the Action plan measures, will significantly improve the functioning of the single market. This will provide the European economy with the solid economic basis which will help to ensure that EMU will work.

The objective of Economic and Monetary Union is to modernise the European economy, to bring about a more integrated system aimed at monetary stability, leading to an increase in long-term rates of economic growth and employment with living standards in the Member States rising in step.

Under EMU, the suppression of exchange rate and currency disturbances between participating countries eliminates an important obstacle to growth. At the same time, the adoption of a common, price-stability oriented, monetary policy, the budgetary discipline resulting from compliance with the convergence criteria and the Stability and Growth Pact will reduce considerably the risks of conflict between budgetary and monetary policies. In such a context, it is probable that wage developments will also take into account the objective of price stability and the profitability of employment-creating investment. Thus the risk of a stability conflict, which, in the past, repeatedly contributed to the unsatisfactory growth and employment performance of the Community, could be avoided in the coming years.

Although EMU as such is not an "employment policy", it provides the opportunity to achieve a macroeconomic policy mix favourable to a sustainable growth of output above the rate of growth of labour productivity, thus resulting in net employment creation. In this way, it would fulfil its role as set down in Article 2 of the Treaty to achieve *a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States*.

The macroeconomic policy mix is determined by the interaction between the three main variables: money, public budgets and wages.

A single monetary policy will strongly influence the macroeconomic policy-mix of the whole Euro-area. While the primary objective of this is price stability, a second objective is to support the general economic policies in the Community, including explicitly sustainable and non-inflationary growth and a high level of employment. The more the stability task of monetary policy is facilitated by appropriate budgetary measures and wage developments, the more it will be favourable to growth and employment.

Expenditure from national budgets amounts to about half of Community GDP and budgetary policies will remain under Member State responsibility. In addition to the provisions for achieving and preserving budgetary discipline, the Stability and Growth Pact will reinforce the implementation of the required discipline, thus ensuring that no conflict will occur between budgetary and monetary policies. In addition, the implementation of this Pact will allow Member States to restore the room for manoeuvre that budgetary and fiscal authorities need for an optimal management of their economies in a full EMU.

Wage developments will continue to be determined largely through negotiations between the social partners, though with significant differences in the specific features of national systems across the Union. Wages, including social contributions, account for about half of Community GDP. The macroeconomic policy mix will be favourable to growth and employment insofar

REV: D12

Current date is Thu 10-02-1997 En

as wage developments do not contribute to a stability conflict with the single monetary policy and preserve, or strengthen as appropriate, the profitability of employment-creating investment. Wage developments by country, region, qualification and sector will not be the same all over the Euro-area. Differences in price and productivity trends and competitiveness will play their normal role in the wage-setting process at all levels.

Because of their role in determining wage developments, the Social Partners have an important responsibility under EMU to facilitate the pursuit of a growth and employment-oriented policy, as recognised by the European Council at Amsterdam.

EMU in no way replaces the need to carry out the structural reforms required to improve the functioning of the labour market which have been defined by successive European Councils since Essen in December 1994. These reforms are an integral part of the European employment strategy, with or without monetary union, and efforts to pursue them must continue as before, reinforced by the surveillance procedure provided for in the new employment Title.

EMU focuses attention on mechanisms of economic adjustment and their effectiveness. Under EMU, a principal adjustment mechanism to respond to short-term fluctuations in economic activity in particular parts of the Union are the automatic fiscal stabilisers rather than discretionary changes in monetary or budgetary policy. Adjustment of exchange rates is no longer an option with a single currency. Policy will therefore need to ensure that such stabilisers are allowed to func-

tion as effectively as possible, so that regions suffering a decline in economic activity and increased unemployment will benefit from the higher net fiscal transfers from national budgets (in the form of lower tax payments and higher social transfers) which are the automatic result of their operation.

At the same time, there will need to be a greater focus on achieving balanced regional development to prevent excessively large migration of labour in response to lack of jobs, which needs to be avoided in order to maintain economic cohesion within the Union. This will continue to be a major objective for the Structural Funds.

Labour market adjustment is the other major element in these mechanisms. Is the European labour market sufficiently robust to face up to the challenge of helping to

secure balanced development of employment across the Union at a rate high enough to ensure jobs for both the unemployed and newcomers on to the labour market? These issues are addressed below.

Major trends in 1996

More detailed analysis of the trends highlighted below is set out in the background analysis annexed to this report.

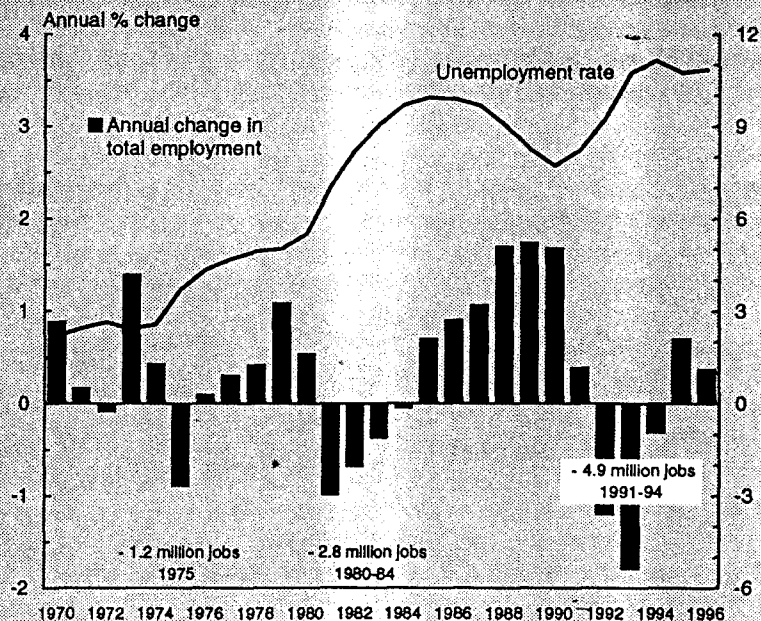
Economic performance evens out

Between 1991 and 1996 the EU economy registered its worst post-war performance over a 5-year period in growth and employment. While this poor performance has often been attributed to globalisation or the introduction of new

REV: D12

Current date is Thu 10-02-1997 En

1 Annual change in employment in the Union, 1970-96



technologies, it was mainly caused by the deep recession of 1992/93, which resulted from a stability conflict: initial overheating in the production process was aggravated by a distorted policy-mix, amplified by the effects of German unification.

After a setback to economic growth in the second half of 1995 and in early 1996, a gradually strengthening upturn in economic activity seems to be underway, underpinned by a sound re-balancing of the macroeconomic policy-mix and progress towards convergence. Combined with low and declining inflation rates and prospects for moderate wage increases, these have paved the way for a significant easing in monetary conditions. Thus the stance of economic policies has become more conducive to sustained expansion of output, investment and employment.

For the Community as a whole GDP growth is expected to be 2.4% in 1997 and 2.8% in 1998. This progressive acceleration in GDP growth above the upward trend in labour productivity is forecast to result in employment growth of 0.5% and 0.9% in 1997 and 1998, a cumu-

lative increase of about 2 million jobs. However, the decline in unemployment will remain somewhat limited (from 11% of the labour force in 1996 to 10.3% in 1998) since labour supply is still expected to rise by about 0.5% a year.

The policy challenge

These positive developments rely upon the continuation of a favourable policy mix, including credible budgetary policies and appropriate wage behaviour. Budgetary consolidation combined with the political determination to start EMU as announced contribute to the improvement in the economic prospects themselves. The inherent risks in these forecasts are about the credibility of pursuing such a strategy and the timely realisation of the third stage of EMU. Slippage from budgetary targets would put at risk the favourable trends in interest and exchange rates and therefore would undermine the prospects not only for EMU but also for stronger economic growth and employment.

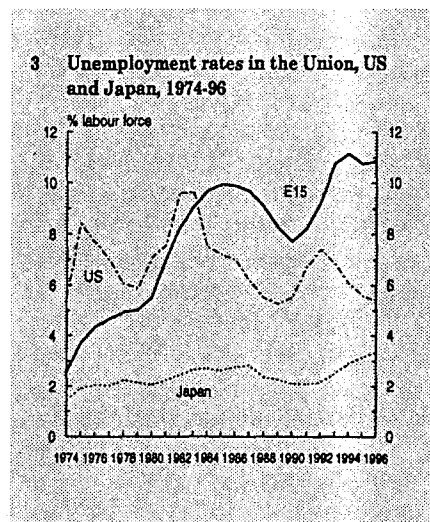
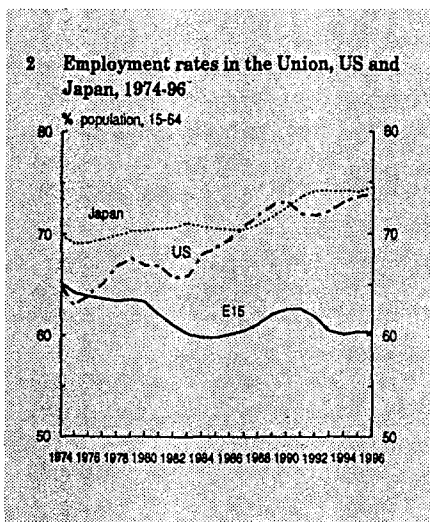
Employment and unemployment rates stabilise

1996 can be described as a year of "time-out" in terms of employment and unemployment. The situation did not get much worse, but neither did it improve significantly. The increase in employment which began in 1995 faltered in 1996, rising by less than 600 000, half as much as in 1995. The total number employed in the Union is now just over 148 million, still over 3 million below the peak of 151.5 million reached in 1991. There has been only slow progress in making up the 5 million job losses of the early 1990s, let alone in achieving the rate of expansion of jobs which is needed to provide employment for the increased numbers of people who would like to work (Graph 1).

The employment rate in the Union has therefore also remained virtually unchanged since last year, at just over 60% of working-age population. In both the US and Japan, by contrast, the employment rate reached a post-war high in 1996, in line with the upward trend of the last 25 years (Graph 2).

Furthermore, in 1996 as in previous years, part-time employment accounted for all of the net addition to jobs and the proportion of people working part-time went up again.

Because of the low growth in employment, there was no reduction in unemployment. Unemployment even edged up at the beginning of 1996 to reach 11% in March and since then it has hardly changed at all, but then stabilised and in July 1997, the rate was still 10.6%. In 8 of the 15 Member States, the rate of unemployment in July 1997 was higher than in 1994, in Germany



REV: D12

Current date is Thu 10-02-1997 En

markedly so. Unemployment also rose in Japan for the fifth consecutive year. In the US, on the other hand, unemployment continued to fall and in 1996 was only just above the lowest rate of the last 22 years (Graph 3).

Young people — brighter signs

For young people of both sexes under 25, though participation continued to decline (to 47%), it did so at only half the rate of the preceding four years. The long-term trend towards a higher proportion of young people remaining longer in education and training was still evident, but the rise was smaller as job opportunities increased.

Youth unemployment has declined somewhat over the last 15 years. Although it still remains at around twice the rate for adults (around 20% as against under 10%), the composition of the unemployed has changed significantly over the last decade as the relative number of young unemployed has declined as a result of both demographic factors and falling participation, while the

relative number of adult unemployed is much higher.

More jobs for women

Almost two-thirds of the net additional jobs created in the Union as a whole in the two years 1994–96 went to women, continuing the trend of the recent past. While part-time work has enabled many women to enter the labour market, it has not yet contributed to a greater equality of treatment between part-time and full-time workers. Employment of women had remained broadly unchanged during the recession years, while that of men had fallen markedly.

The average rate of unemployment of both men and women in the Union has remained virtually unchanged for the past two years, although the rate for women is still some 3 percentage points higher than for men at 12.7% compared with 9.4%. Unemployment of men tends to be more affected by fluctuations in economic activity than that of women, both because of the greater concentration of men in cyclically sensitive sectors — manufacturing and construction, in particular — and because of the

trend increase in the participation of women in the labour force as compared with the trend decline in the case of men. (Graph 4).

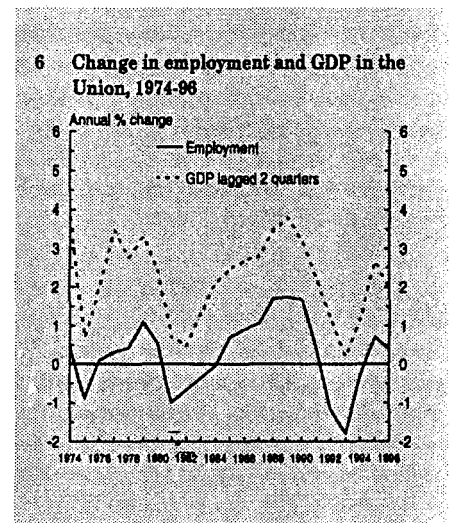
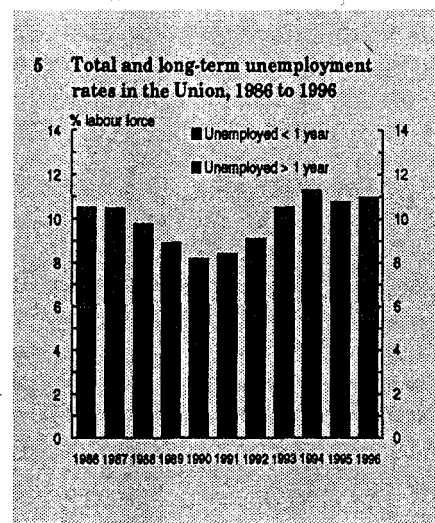
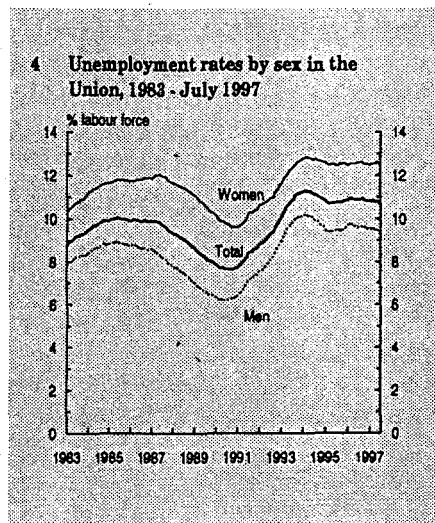
Long-term unemployment — an intractable problem

Long-term unemployment rates have largely followed the trend in overall unemployment rates over the last 15 years, with a lag of a year or more. Although total unemployment began to fall in 1985, the rate of long-term unemployment continued to rise and only showed signs of falling in 1986, when total unemployment was falling for the second year running. Both then continued to fall together until 1990. While unemployment then began to rise with the onset of recession, long-term unemployment rates continued falling and only increased in 1992, and have continued to do so since, reaching 5% in 1996 (Graph 5).

The evidence of the last 12 years suggests, therefore, that for long-term unemployment, even more than for unemployment, to fall, there needs to be both relatively

REV: D12

Current date is Thu 10-02-1997 En



strong and continuous growth in employment. A more detailed analysis of these three policy areas (youth employment, equal opportunities and long-term unemployment) will be published later in the year.

Underlying factors — structural trends and adjustments

The likely responses of the European economy to economic shocks and structural changes is a function of existing underlying economic trends and in the way in which the European economy, and in particular, the labour market, adjusts to these. The challenges facing the Union over the immediate future will raise serious questions about the strength and flexibility of those adjustment mechanisms and about whether Europe is ready to face up to them. The following sections provide an analysis of some of the reasons behind the overall trends described above. Deeper analysis of all these issues depends on the continued provision of timely, harmonised and consistent labour market statistics and, in particular, the need to move towards a continuous labour force survey providing at least quarterly results.

Output growth and its employment content — two necessary elements

The slowdown in employment growth in 1996 is a reflection of the slowdown in output growth in the Union — from 2½% in 1995 to 1½% in 1996. Indeed, the increase in employment which occurred in the two years 1994–96 was in line with the long-term trend relationship in the EU between GDP and employment

growth which implies that growth of GDP of just under 2% a year is necessary in order to generate any rise in the number employed at all. This relationship has remained very stable over the past 20 years, though there are signs of a very small increase in the employment-content of growth over the past 10 years as compared with the previous 10 years (Graph 6).

The policy challenge

A central aim of policy across the European Union is to seek to ensure that the employment-content of growth is compatible with other economic objectives, such as the maintenance of competitiveness over the long-term. There are substantial differences between countries with comparable income levels in both the way in which GDP is generated and the number of jobs which it supports. This suggests that the number of people in work is far from being the mechanistic result of market forces operating in an institutional vacuum and that there is a significant element of choice over this (in a societal rather than an individual sense) and that, therefore, this provides an opportunity for policy action.

- The disparities in GDP per head between European Union Member States are partly associated with differences in levels of labour productivity, partly with differences in rates of employment, in that the more prosperous countries tend to have both higher levels of productivity per hour worked and a higher proportion of their population in work. The association, however, is by no means systematic and there are striking differences in both productivity and employment rates between

countries with similar levels of prosperity.

- While some countries succeed better than others in attaining high rates of employment, the additional jobs which result are not concentrated in particular sectors and differences in the pattern of jobs between high employment rate countries seems to reflect differences in comparative advantages. Tourism is an example of a sector which offers good prospects for growth and employment. It already accounts for some 5.5% of GDP and 6% of total employment, and this is forecast to rise to 9% by the end of the next decade. Similarly, the social economy, with 5% of total employment and 6% of the enterprises in the private sector, could be an important potential source of new jobs if given the right support.

Getting the unemployed into jobs

A relatively small proportion of those who had been unemployed in 1995 had succeeded in finding a job one year later. Over the Union as a whole, under a third of men unemployed one year previously had found a job in 1996 (at the time when the LFS was conducted). Half were still unemployed — which is consistent with the figures for long-term unemployment — while the remainder (17%) had left the labour force completely (in the sense that they were no longer actively looking for work). For women, the proportion of those unemployed in 1995 finding work in 1996 was even lower, at only just over a quarter, with half remaining unemployed and 23% becoming inactive.

REV: D12

Current date is Thu 10-02-1997 En

The figures for individual Member States are broadly similar to those for the Union as a whole. In Belgium and Ireland, the proportion was under 20%, in both cases the low chances of the unemployed finding work being reflected in the figures for long-term unemployment which are much higher than in the rest of the Union. In Ireland, therefore, the high rate of net job creation (of 3½% in 1996) has not been of much benefit to the unemployed, with most of the increase in employment being fed by a growing labour force (by emigrants returning from abroad as well as by increased participation) rather than by people moving from unemployment into jobs.

The policy challenge

The inability of the unemployed to get back into work has long been a feature of the European labour market, even in periods of job growth, although this is certainly a necessary pre-requisite.

- a large proportion of the unemployed are not equipped for the labour market: in 1996, 35% of both unemployed men and women over 25 had no educational qualifications beyond basic schooling;
- maintaining the employability of the unemployed, and particularly the long-term unemployed is essential if this is to be improved;
- early identification and early action are among the ways in which policy can better target the reintegration of the unemployed and prevent them becoming long-term unemployed.

Labour force trends — participation and employment

The increasing number of job opportunities has affected labour force trends. During the late 1980s, increased participation combined with the growth of working-age population added almost 1½ million people a year to the Union's labour force. In the four years 1990–94, falling participation reduced total labour force growth by 1 million a year, so that instead of expanding by 5 million or so over the whole period, it only increased by just over 1 million. The decline in the availability of jobs was, therefore, accompanied by a fall in the proportion of people of working age actively looking for work. This had a substantial effect in containing the rise in unemployment.

Over the two years 1994–96, while the participation of men in the labour force declined, this decline was much less marked than in the recession years. With the exception of the under 25 year-olds, participation of women continued to increase, at an even greater rate.

In 1996, with the renewed rise in participation some 850 000 people joined the labour force — almost as much as over the entire four years of recession. The increase in the number in employment in 1996 was, therefore, accompanied by a rise rather than a fall in unemployment.

The policy challenge

The average age of the European population will increase significantly in future years as a consequence of declining birth rates, increasing life expectancy and the ageing of the post-war baby-

boom generation. The ageing of the population is set to have major consequences both for the European labour force and social protection budgets in 10 to 15 years time as post-war generations reach retirement age. Projections suggest that by 2015, the working-age population in the Union will be declining in almost all Member States and well over half will be 40 years old or more.

- The underlying demographic trends in the Union have clear implications for the productivity and adaptability of the labour force. The full impact on the labour force of these demographic trends will depend on future changes in participation rates. The experience of the last decade shows clearly that changes in these are closely linked to changes in both economic activity and employment.
- If current trends in participation continue, they could reduce the extent of the ageing of the Union's labour force over the next 10 years or so, but thereafter, they are unlikely to offset the demographic trend towards ageing significantly. The pressing need will be to maintain the skills and capabilities of an ageing work force. This emphasises the importance of reversing the trend for men to withdraw from the work force at an ever younger age, though this itself requires a fundamental change both in attitudes towards older workers among employers and in the underlying labour market situation which for too long has been characterised by too many people looking for too few jobs.
- This prospective decline in the Union's labour force should not

be seen as a solution to the unemployment problem. The low employment rate in the Union compared with similar developed economies demonstrates the extent of the labour reserve to be absorbed (over 20 million). A detailed analysis of these developments is presented in the main report.

- The Union's employment problem will not go away as prospective demographic trends unfold. On the contrary, it could well become more acute as the population ages and as their need for income support grows

Flexibility and employability — the skills gap

There are some signs of a widening skills mismatch in the Union. Occupational trends in the Union are reinforcing the two-speed labour market, with an increasing concentration of employment, and new jobs, in the high-level occupations. Virtually all the net addition to employment in the two years 1994–96 was accounted for by a growth in jobs with a relatively high skill content. While the number of managers, professionals and technicians increased considerably, by over 2% a year, the number of people in elementary occupations declined. The only less-skilled jobs which expanded significantly were those for sales and service workers, and around two-thirds of the net addition to these jobs went to women.

There is some evidence to suggest that skill shortages may be a particular problem for small and medium-sized enterprises. Comparing surveys of enterprises

carried out in 1989 and 1994, the shortage of adequately skilled applicants continued to be a greater problem for enterprises with less than 200 employees than for larger enterprises. In effect, in 1989, between 59% and 62% of large enterprises in all size classes above 200 employees considered said this an important or very important obstacle to employing more people. In 1994, however, only for enterprises with fewer than 200 employees (41%) or 200–499 employees (33%) was this still a major obstacle. The figures for larger enterprises of 500–999 (26%) and of over 1000 employees (16%) had fallen considerably. It should be borne in mind, however, that economic conditions were very different in these two years: 1989 was a year of high employment growth, while in 1994 labour demand was at its lowest level for many years.

Although participation in education and vocational training beyond basic schooling has risen markedly in all Member States in recent years, it remains the case that a disproportionate number of the unemployed have insufficient qualifications to be able to compete effectively for jobs. In 1996, over the Union as a whole, over half of all men aged 25 to 64 had no educational qualifications beyond basic schooling and just under half of women. By contrast, only just over a third of men who were in employment, and about the same proportion of women, were in a similar position.

This difference is particularly significant in many Northern Member States where a relatively high proportion of economic activity is in comparatively advanced sectors, such as business and financial services, where jobs typically have a high skill content, and a low propor-

tion in sectors where low-skilled jobs predominate, such as agriculture, basic manufacturing and distribution.

For women, there is an even bigger difference in educational attainment levels between those with jobs and those who are inactive than between the employed and the unemployed. Over the Union as a whole, 63% of women aged 25 to 59 who were economically inactive had no educational qualifications beyond basic schooling as opposed to only 34% of those in employment. As noted in *Employment in Europe, 1996*, the difference is significant in all Member States but is especially pronounced in countries where the participation of women in the work force is still comparatively low, such as, Spain (84% of inactive women having no qualifications as against 51% of those with jobs) and Ireland (62% against 27%). This almost certainly reflects in part differences in attitudes towards working as between well educated and less well educated women in these countries, but it also reflects the relative lack of job opportunities for those with only basic education.

The policy challenge

To meet the challenges of the next decade, we need a fundamental reform of our systems of education and training, based on the concept of lifelong learning, to raise skill levels throughout the labour force, beginning with our young people, and continuing through to those at the end of their working life, but whose usefulness we will need in the years to come.

- Over a third of young people aged 20 to 24 join the labour force with no qualifications beyond basic schooling. Efforts should be made to bring average

REV: D12

Current date is Thu 10-02-1997 En

levels up to those of the best Member States. For those who find it difficult to benefit from formal education, a wider range of vocational training opportunities should be found, preferably with a work experience component to reinforce the possibilities of obtaining employment at the end of it.

- Bridging the gap between school and work is a crucial stage, whatever the level of a person's qualifications. Apprenticeship is one of the most effective means of helping young people to develop the skills and competencies which match labour market needs, and thus make this transition. Different approaches to apprenticeship should be developed across the Union, accompanied by adequate provision of careers guidance.
- At the same time, a policy of increasing skill levels must go hand in hand with continued efforts to ensure that labour markets are sufficiently flexible and that labour costs are sufficiently conducive to job creation to provide employment opportunities for those whose skill levels are likely to remain limited irrespective of the kind and extent of training received. This means, in particular, that the overall cost of employment for the latter, including the non-wage element, is at an appropriate level in relation to productivity, and that artificial barriers inhibiting job creation are removed
- But this is merely to lay the foundations of the flexible and adaptable labour force of the future. The speed of technological change is such that the labour

force of the future will be increasingly required to change and adapt to new skills and capacities, and to radically change jobs frequently over the lifetime of work. This means that training must not only be aimed at those at the beginning of their working life, but at everyone right up to the end of their working life. Such a strategy of skills-upgrading is the only way in which the Union will meet the challenges of adjusting to the new environment.

- Unemployment in Europe is concentrated among the low-skilled, or those who have lost their skills. The seemingly intractable nature of long-term unemployment is partly a reflection of this. A major reduction in unemployment, and in long-term unemployment in particular, will not occur unless the skill levels of those affected can be raised through training.
- Occupational segregation between women and men removes an element of flexibility in the labour market. Girls and boys should be encouraged to diversify their occupational choices, thus contributing to greater desegregation on the labour market and greater chances for women to find jobs.
- Since high-skilled jobs in the Union are disproportionately located in the growth sectors, the problem of the skills gap is likely to become more acute over time, with an increasing proportion of those with only basic qualifications finding it ever more difficult to find employment. Upgrading and broadening skills while in work could be the most significant and cost effective investment in preventing

long-term unemployment and increasing employability.

- The Union has no shortage of potential entrepreneurs, nor do our new businesses fare any worse on average than those of our competitors. It is nevertheless, important for our education systems to encourage the development of entrepreneurial skills and an enterprise culture.
- There should also be a new reform of social protection systems to make them more employment-friendly. Income maintenance programmes alone do nothing to promote the employability or the security of those temporarily excluded from the labour market. The sums spent on unemployment benefit and other passive labour market measures, which still make up some two-thirds of total labour market expenditure, should be redirected and mobilised for promoting employability and re-integration into working life. Such a restructuring of public expenditure is important in the longer term in order to reduce dependency and social exclusion as well as to help people realise

REV: D12

Current date is Thu 10-02-1997 En

7 Change in part-time and full-time employment, 1987-96



their full potential — for the good of the economy as well as themselves.

A triple-pronged strategy is therefore called for: improving the initial education and training of young people to help them into the labour force and to enable them to adapt to new challenges later in life; a positive approach to upgrading the skills of the existing work force throughout their working life and an active programme of training for the unemployed, particularly the long-term unemployed. The European Social Fund will underpin this strategy.

Flexibility and work organisation

The increasing flexibility in working patterns noted in last year's Employment in Europe report continued in 1996.

Beyond the overall job turnover of 10 million jobs or more created and destroyed every year in the Union, the prevalence of the standard working week, a standard contract or a standard career with a lifetime

job is gradually declining. During the recession, all of the net addition to jobs was in part-time working, suggesting a flexible response to difficult labour market conditions. While there was some net addition to full-time jobs in 1996, the long-term trend towards more part-time working is continuing (Graph 7).

17% of all employees now work part-time. The long-term rise in part-time working among men has been common to all Member States. In the 6 years 1990–96, the proportion of men employed part-time has increased from under 4% to 5½% in the Union as a whole and there has so far been little sign of this trend abating as total employment has increased.

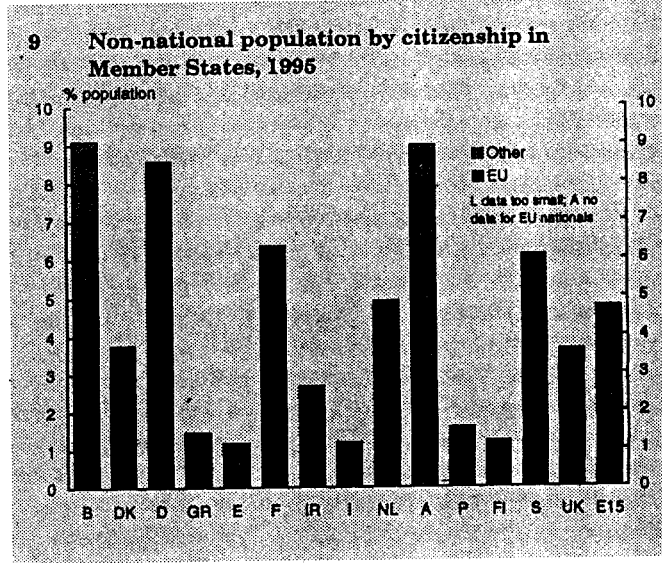
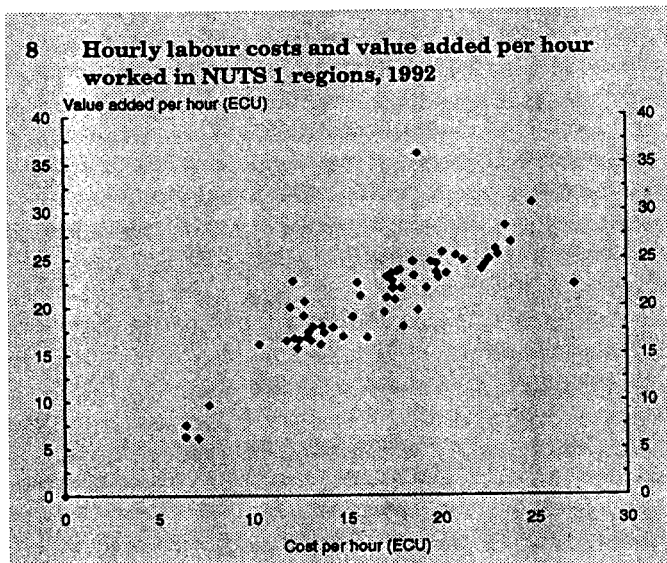
The trend rise in part-time working women also continued in 1996, with over 31½% of all women in employment working part-time. Part-time jobs for women accounted for around 60% of the rise in the number of women employed during the year.

While 12% of the Union's labour force have fixed term contracts there is wide variation between

Member States in their use which reflects the legislation and regulations in force. These affect the operation of the labour market, as well as the behaviour of both employers and workers, leading them to choose different forms of flexibility. What is much less evident is whether these different forms of flexibility affect employment performance, growth of output, or standards of living. Comparisons based on the OECD index of regulation, a relatively subjective measure, show at best only a weak correlation between these variables.

The policy challenge

The European employment strategy which has been pursued since 1994 has rightly placed a strong emphasis on increasing flexibility in labour markets. The type of flexibility which will be required of the European economy in a context of a fully-functioning Single Market and Economic and Monetary Union will be much more complex than simply deregulating labour markets.



REV: D12

Current date is Thu 10-02-1997 En

- The new kind of flexibility should be a parallel process of continuing the structural reforms in both markets for goods and services, and in labour markets. Deregulation and greater competition in goods and services markets should be seen as a way of improving productivity and job creation on a lasting basis. This is particularly true in services, where there is still enormous potential for job creation in a whole range of activities.

- Flexibility in product markets means flexibility at the level of the firm. Such flexibility will require an increasing focus on new types of work organisation, which may lead to more flexible patterns of working time. The 'flexible firm' should become the norm, not the exception. In introducing new patterns of working, a certain number of principles should be respected: they should be specific to the individual plant or office, and they should be negotiated between the employers and the workers. The new agreement on part-time working negotiated by the Social Partners at European level in the context of the Social Protocol should be seen as a first step in the search for such preferred strategies.

- Flexibility and security need not be mutually exclusive. To a growing number of people, job security will probably no longer mean a job for life, but the demands of new technology and the new flexibility mean that a new partnership should be developed between workers employers and governments to guarantee employability throughout the working life. This means, first and foremost,

measures to maintain and upgrade skills.

- The Commission will intensify efforts to simplify and improve the business environment, including the setting up of the eBusiness Environment Task Force in response to the invitation from the Amsterdam European Council.

Flexibility and labour cost dispersion

Labour costs vary considerably across the Union, ranging from around 5 ECU per hour in industry in Portugal in 1992 to around 23 ECU per hour in most German regions, and ECU 27 in Hamburg. These differences largely reflect variations in labour productivity (Graph 8). In terms of unit labour costs, there is relatively little variation across the Union and, certainly, no tendency for unit costs to be lower in places where the average cost of employment is also low. Productivity differences tend to compensate for labour cost differences and there is, therefore, little incentive in this regard for firms to shift production from one Member State to another — at least at the aggregate level.

Differences in labour costs between regions are much less pronounced in the US, and there is comparatively little variation in the unit costs of producing in one part of the US than another. This is only to be expected, however, since the US has effectively been a single economy for a long time, has a single currency and enjoys a higher degree of economic integration between the individual states than is yet the case in Europe. In terms of labour market adjustment, a more relevant comparison is between the

extent of labour cost differences within Member States in Europe and within different parts, or broad regions, of the US.

Average labour costs in the two highest-cost regions were around 30% higher than in the two lowest in four of the five largest European countries in 1992. In the fifth country, Germany, the difference was 18%, if the new Länder are excluded. In the US broad regions, the difference was between 20 and 30% in each case. Using a more sophisticated statistical measure of disparity (the variance or standard deviation) and weighting regions according to the numbers employed, all of the nine US regions except two have a smaller variation in average labour costs than is the case in European countries.

There also tends to be less variation in unit labour costs between US States than European regions within countries, especially in Spain and the UK. This suggests that economies are more flexible in the US than in some parts of Europe, or that there are fewer obstacles to mobility of both producers and workers, in the sense that there is more of a tendency for market forces to eliminate any unit labour cost differences which emerge (through, for example, encouraging shifts in economic activity between States). A more detailed analysis is presented in the main report.

The policy challenge

The Amsterdam European Council stressed the need to make tax and social security systems more employment-friendly, and to create a tax environment that stimulates enterprise and the creation of jobs. In particular, the prevailing structure of the tax system in Member

States, and the scale of the tax wedge (between the cost of labour to employers and employees' take-home pay) need to be re-examined in the light of the effect on employment growth, especially of less-skilled, lower-paid workers.

- Member States should have flexibility in choosing the method of reducing taxes on labour and the means of financing those reductions. However, there are great benefits to be gained from exchanging information and experience regarding these issues as well as from coordinating tax measures as part of a Community-wide effort to reduce unemployment.

Migration and mobility

Mobility of the labour force is one of the ways in which the labour market brings about adjustment to long-term divergence in economic and employment opportunities between countries and regions — divergences which structural policies seek to minimise. As time goes on, however, the need for an adjustment to long-term divergences should decline as a more balanced economic development is achieved and there is greater economic and social cohesion between countries and regions

Some 5% of people resident in Union Member States who are of working-age are non-nationals (Graph 9). Of these, around a third come from other EU countries.

Although most Member States in the Union have experienced net immigration since the late 1980s, which has added to their population of working age, the scale has been relatively small. Only in Germany,

Greece and Austria has net immigration consistently amounted to much more than 0.3% of population over this whole period, and this has now declined. The peak period of net immigration, which was around the turn of the decade when it reached 1% of population in Germany and Austria and just over ½% in Greece, mainly because of inflows from Central and Eastern Europe, now seems to have passed.

Some 30% of immigrants into Member States are returning nationals and another 17% citizens of another Member State. Immigration into the Union from outside amounted to under ½% of the Union's population of working age in 1995. This is only slightly lower than the inflow into the US. Moreover, in the EU, about half of the inflow of migrants was offset by people emigrating from the Union (more than the very low outflow from the US). Since this is around twice the increase in the natural growth of population, the inflow of migrants is making a significant contribution to the growth of working-age population and to the Union's potential labour force. The inflow is particularly important in Member States such as Germany where population is naturally falling.

The scale of labour movement in the US is greater than in Europe, but not significantly so. In practice, while movements over long distances, from one part of the country to another, are more frequent than between different parts of Europe, the scale of migration between regions or states within these 'parts' or broad regions (within, say, the Mid-West or the North-East) is only slightly higher than between regions in Union Member States. In 1993–94, an average of just over 2½% of the resident population moved between either state or

broad region in the US, which compares with a figure of just under 1½% who moved between either NUTS 1 regions or Member States in Europe at about the same time.

Migration between regions in Member States is not so different from movement between states in the US. In 1993–94, an average of just under 1½% of people (14 in 1000) in each of the 9 broad regions of the US moved from one state to another within that region.

Across the Union, significant numbers of people regularly travel quite long distances from their homes to their places of work, and in some cases even cross national borders. Such commuting serves to enlarge what might normally be defined as a local labour market and is a far more common occurrence than people moving house to take up employment.

In 1995, just under 3½% of employees lived in one NUTS 1 region and worked in another. In Belgium, the figure was substantially above the Union average at almost 13%, and in Austria, it was over 10%, mostly consisting of those travelling to Brussels and Vienna respectively.

Around ½% of employees (600 000 people) in the Union in 1995 lived in one country and worked in another. Half of these worked in another Member State, the other half in a country outside the Union, (mainly Switzerland). Not all of these necessarily commute on a daily basis, but may work in another country for a lengthy period of time without changing their place of residence. The great majority, however, almost certainly commute regularly.

REV: D12

Current date is Thu 10-02-1997 En

The policy challenge

There are various obstacles to migration between European countries, such as cultural and linguistic difficulties, rigidities in regulations, the spillover effect of restrictions on third country migrants, and racist attitudes. These are difficult to overcome through economic and labour market incentives to migration.

- The adjustments required in a more integrated European labour market do not, however, call for large increases in migration or geographical mobility. The development of EMU should make wage and price comparisons more transparent, but other factors play a possibly greater part in the employment-wage decision. The need is to provide a situation where potential migrants have a real choice — between the opportunity to stay and the security to move, through adequate rates of job creation where they live, and the dismantling of artificial barriers to their ability to work elsewhere.
- Promoting job opportunities in potential migration areas — both those which send and receive migrants — will decrease barriers and improve integration. In particular, such policies will address the problem of discrimination in local labour markets based on fears of jobs being taken by those coming from elsewhere.
- Beyond this, policy should aim at facilitating freedom of movement through removing remaining restrictions on labour mobility (many of which are not actually linked to the labour market, such as pensions and

housing), improving information on job opportunities, and extending mechanisms such as EURES which help those wishing to move. While barriers to cross-border commuting have been reduced considerably in recent years, there are still significant obstacles, to people working in another Member State.

Facilitating mobility adjustments will make a positive contribution to combating emerging skill shortages, correcting productivity differences and thereby promoting growth and employment.

Sectoral and occupational mobility

The extent of mobility between sectors is relatively high across the Union. In 1995, job turnover for men was around 16% a year and for women around 19%. These figures, however, conceal substantial differences both between sectors and between Member States.

In general, the rate of new entry tends to be higher in sectors which are expanding more than others, although the link with employment growth is not systematic. In particular, the scale of sectoral mobility is much higher in sectors like hotels and restaurants (around 25% of all employees in the sector not having worked there the year before), where a high proportion of new entrants tend to be school-leavers, than in sectors like banking and insurance, education or health, where higher education attainment and skill levels required of the work force both limit the number of suitable applicants and make employers reluctant to lose people once they have been recruited and trained. High rates of labour turnover, in other words, are

not necessarily synonymous with a high degree of competitiveness.

The policy challenge

Differences in the extent of turnover, however, do not seem to be systematically related to the degree of labour market regulation, or more specifically, to the severity or laxity of protection against dismissal, which is generally held to affect the willingness of employers to take on new people. Spain, for example, has one of the strongest systems of job protection (as assessed by the OECD) but also one of the highest rates of labour turnover, while Finland also has a high rate of turnover coupled with an above average degree of worker protection and Belgium with the lowest turnover rate in the Union is judged to have below average restrictions on dismissal.

- Rather than deterring employers from hiring new people, tight restrictions on dismissal may alter the way they do so, in particular, by encouraging them to take them on under fixed-term contracts. This, paradoxically, would tend to increase the rate of labour turnover rather than reduce it, and the evidence suggests that this is indeed the case.
- Restrictions on dismissal tend to increase the number of people employed on temporary contracts and, accordingly, the rate of labour turnover. This could lead to the development of a dual labour market with established employees enjoying a high degree of protection against losing their jobs and others having little or none. This is not necessarily the most desirable or efficient way of increasing labour market flexibility.

- There is a need for a radical re-think 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 than security in a specific job.
- The focus should move away from a simplistic debate about regulation and deregulation towards a new balance between flexibility and employability security, with tangible benefits for both workers and employers. Workers will be better able to combine professional and family life, while employers will be given the opportunity to adapt faster to the increasing changes of the market.

Integrating disabled people into the labour market

If past trends continue, as the Union's population ages, there will be an increasing proportion of people with disabilities among those of working age. This poses multiple policy dilemmas on a sensitive issue which has polarised debate in the past and which the Employment in Europe Report this year addresses in a special section.

Approximately 17% of the Union's working-age population is hampered by disabilities. Nearly half of these are in the 50–64 age group. The average employment rate of hampered people in the Union at 44% is nearly 17 percentage points below the overall rate, though this

varies markedly between Member States. Rates tend to be higher in countries where the overall employment rate is also high. A significant proportion of those who are in employment, moreover, tend to be people who have become disabled while working and who have remained with the same employer, if not necessarily in the same job. Indeed, around 10 million people a year are affected by occupational diseases or accidents and injuries at the workplace. Contrary to conventional wisdom, rates of unemployment for disabled people are not much higher in most countries than for the rest of the work force. In the Union as a whole, the average rate is under 2 percentage points higher than for the total labour force.

The proportion who are inactive is, however, considerably higher than for other groups. This is especially so in countries like Greece, Spain, Ireland and Italy, where family support is still strong. These are also the countries, together with Portugal, where the educational attainment of disabled people is lower than for the rest of the population and where disproportionate numbers are employed in agriculture and in elementary occupations generally, whereas in other countries where disabled people have a similar educational attainment level to the rest of the population there are not significant differences in the sectors and occupations in which they work.

The policy challenge

In the past, there has been a strong socio-economic bias in many Member States towards granting disability benefits to those who have difficulty in finding employment. As a result, expenditure on such benefits has become the third

largest item in the Union's social protection budget after pensions and sickness benefits, amounting to 10½% of the total budget in 1993. This is larger than the amount spent on unemployment benefits (7% in 1993).

Two of the main obstacles faced by disabled people in terms of access to employment are prejudice and bias. As a result, there has been an extensive movement among disabled people for the introduction of anti-discrimination legislation to protect their civil rights and for 'reasonable accommodation' so that they can exercise their right to employment. In economic terms, this is an investment in human capital which, as well as the social benefits, promises positive financial returns for State budgets, insofar as additional employment generates more tax revenue in place of the expenditure required to support the income of those who are inactive.

- Anti-discrimination legislation should be complemented by measures aimed at improving the employability of disabled people, as in Sweden, for example, so strengthening the competitiveness of the Union's work force as well as improving the job prospects of disadvantaged individuals.
- Quota-levy systems should be completely re-oriented to respond to new working environments where employees are encouraged to learn and to change the work process as they learn, so becoming part of a company's capital. In such adaptable and employment-friendly environments, those with disabilities are much more likely to stay on and develop their personal skills. The employment prospects for disabled people,

REV: D12

Current date is Thu 10-02-1997 En

however, cannot be divorced from general labour market conditions. Disabled people are usually the first to lose their jobs and among the last to get hired: the imposition of quotas is self defeating if the employment-base to which they are applied is shrinking.

Environment and employment

The environment has become an area of significance for employment. Environment related jobs include a wide range of activities, with the core ones such as wastewater treatment, waste disposal, air pollution control, soil remediation and noise abatement providing the bulk of jobs and accounting for at least 1.5 million jobs or 1% of all employment in the European Union.

Other jobs are linked to the provision of environmental goods and services which are not for environmental purposes only and so are less easily identifiable. These include: recycling, the use of renewable energy, nature and landscape protection and the renovation of urban areas. Preliminary estimates suggest that these activities may account for further 1.5 million jobs in the Union, so increasing employment in the environmental sector broadly defined, to around 2% of the Union total. The environmental sector is a sector with positive forecasts for job growth.

Of course, environmental policies may also have adverse effects on employment in other sectors as controls on pollution and measures to reduce ecological damage are introduced. Despite the problems that this may cause for particular sectors or regions, especially in the

short-term, there is no convincing evidence that environmental policies are liable to have an adverse effect on employment or competitiveness overall and in the longer term are likely to strengthen both. Recent analysis suggests that pursuing environmental objectives has, on the whole, a positive, albeit limited employment effect.

Much more important for the sustainability of growth in the long-term than "green industry" is the problem of the prevailing pattern of consumption and investment. Major investment is likely to be needed in the coming years to renew the current capital stock by putting in place more environmentally-friendly technologies and production methods, especially in manufacturing, agriculture, energy and transport.

The way forward

The 1997 Employment in Europe Report highlights a number of the major factors which are likely to make the long-term environment of the European labour market significantly different in the next two decades than in the last 25 years of the 20th Century.

The European employment strategy, built on the concept of employment as a common concern, set out in the Amsterdam Treaty, will play an important part in securing a high rate of net job creation which is essential for ensuring the success of EMU. This strategy, initiated at the Essen Summit, combines macroeconomic stability and structural reforms to modernise the functioning of the labour market.

In the coming decade, it must put even more emphasis on the development of a knowledge infrastructure

which will ensure sustainable growth in a competitive world economy and will enhance human resources, so that everyone in the labour force can maintain and increase their skills and employability. Flexibility must be built on the confidence of workers in their adaptability and employability and on constructing an effective partnership between the work force and employers.

At the level of the Union, a number of political decisions have been taken, new commitments made, and new institutional arrangement put in place to focus the employment policy actions of the Union and the Member States:

- the inclusion of the employment Title in the revision of the Treaty will provide the Union with the tools necessary to develop a coordinated employment strategy adapted to the needs of the 21st Century, while at the same time taking account of the different situations in the Member States;
- the creation of an Employment Committee provides a forum for promoting coordination between Member States on employment and labour market policies. This Committee will monitor employment policies in the Member States and the Community, and advise the Council and the Commission on such issues;
- the Commission will draw up employment policy guidelines which will be discussed and approved by the European Council after extensive prior consultations. They will be consistent with the Broad Economic Guidelines;
- there will be monitoring and surveillance of Member States

employment policies in the light of these guidelines;

- employment will be taken into account in all Community policies and actions, accompanied by an examination of all relevant existing Community policies to ensure that they are geared towards job creation;

Employment policy must respond to global challenges. In the last analysis, everything depends on our ability to provide decent and acceptably paid jobs for all of our citizens who want to work. Europe must respond to that challenge.

REV: D12

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