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REPORT FROM THE COMMISSION

# Employment in Europe 1998

Jobs for people — people for jobs: turning policy  
guidelines into action

## Jobs for people — people for jobs: executive summary

The Employment in Europe Report 1998 presents the latest trends in employment and the labour market, and provides the analytical background to the review of the employment strategy process and the adoption of the Employment Guidelines for 1999. The full impact of the employment strategy and the broader measures promoting an employment-friendly environment will only be felt in the medium-term. The employment strategy is a multi-annual process and sustainable progress will require a continuing commitment over a number of years by the Member States.

### Recent developments in jobs and employability

Trends and prospects reveal both encouraging signs and positive outcomes of the policies pursued over recent years. They also indicate changes in the nature of labour markets and continuing challenges which must be addressed if the opportunities at hand are to be translated into more and better jobs.

- Economic growth recovered in 1997, rising by 2.7%, and prospects for a continuing robust economic performance are confirmed in spite of the deterioration in the external economic environment.
- Employment rose by some 800,000 in 1997, to bring total employment to 149 million and the employment rate to 60.5%.
- Women accounted for 62% of the net new jobs created in 1997, a slight decline compared to previous years, and the gender gap in employment rates has declined to 20% points from 26% points in 1990.
- In recent years, real wage growth has been lower than the rate of growth of productivity, allowing for an improvement in the profitability of investment and the wages share in the Union (60%) is now significantly lower than in the US (66%) and Japan (67%).
- While the employment recovery is stronger than the 1970s, and weaker than the 1980s, the demographic

situation is entirely different, with much slower growth in working-age population in the years to come.

- For the fifth time in six years, there was a decline in the number of full-time jobs and part-time jobs accounted for all the net jobs created.
- Unemployment was still 10.2% in mid 1998, and the rate of long-term unemployment was unchanged at 5%.
- Most of the decline in unemployment since 1994 has favoured men, and the gender gap in unemployment is now 3% points.
- In 1997, around 47% of both unemployed men and women over 25 had no educational qualifications beyond basic schooling, and while high-skilled jobs grew by more than 2% a year between 1992 and 1997, manual jobs declined significantly

### Employment Guidelines 1999 — deepening the strategy

Even in the context of slower than expected growth in the global economy, the macro-economic fundamentals in Europe are robust. A vigorous implementation of the employment strategy, therefore, combined with a successful pursuit of the macro-economic strategy set out in the Broad Economic Policy Guidelines should continue to bring about the desired increase in the employment rate in Europe above its present levels. The four pillars of the Guidelines provide the framework for the necessary actions.

### Promoting employability

Tackling the skills gap requires a three-pronged approach to deal with the three dimensions of employability:

- young people must be given the necessary skills and competences which are relevant to labour market needs and adaptable to change;

- the unemployed and particularly the long-term unemployed must have access to the means to upgrade and/or update their skills to compete effectively in the labour market;
- governments, social partners and individuals must combine their efforts to create a society where life long learning is an integral part of an active employment policy.

The preventive approach of the first pillar, based on early identification of those most at risk and early action to deal with their problems, is designed to tackle these problems head-on. The first three guidelines in particular are fundamental to addressing the problem of the skills gap of the unemployed and young people, defined in a broad sense to include not just formal qualifications but work skills and work experience.

### Promoting entrepreneurship

The culture of entrepreneurship is not as well developed in the EU as in the United States. Entrepreneurship as a profession must be promoted and entrepreneurial skills integrated in curricula throughout the educational system. Providing a stable macroeconomic environment is a critical element in reducing uncertainty and creating the conditions for enterprises to flourish.

Self-employment and successful small businesses are crucial to the future development of employment in the European Union. Employers and the self-employed account for 13% of total non-agricultural employment and SMEs account for around half of all the jobs in the economy, with a further 19% in the public sector, 25% in large firms and the rest in agriculture.

### Promoting adaptability in businesses and their employees

The modernisation of the organisation of work is essential in order to improve the productivity of European firms, the quality of working life and the employability of the workforce. Instead of the low road of social dumping, Europe needs to follow the high road of high skill, high trust and high quality in order to improve productivity and the creation of a widely shared prosperity. Training is a key element. People need to be equipped with the skills and competences necessary for them to adjust effectively to changes in the way they carry out their work.

The modernisation of work must be based on a partnership approach between the social partners in enterprises, and between the social partners and governments in creating the appropriate framework. Greater adaptability in enterprises should be accompanied by more progress in deregulating product and services markets to give rise to greater productivity and job creation.

### Promoting equal opportunities between women and men

Reducing the gender gap in unemployment by actively supporting increased employment rates for women is an essential element in raising the overall employment rate in the Union. While raising educational attainment promotes participation of women, it is clear that family circumstances still affect participation markedly. On the demand side, flexible working arrangements are important, but the development of support facilities and certain service activities has been the major factor in facilitating women's access to the labour market in Northern Europe.

The European employment strategy is calling on Member States to reduce the gender gap, taking account of the shifts in the sectoral structure of the labour market, raising levels of access to care services and enable women and men to return to the labour market after an absence. Bringing about a better integration of the gender perspective into labour market policy is one way to allow these underlying trends to develop.

### Supporting employment in other Community policies

The Amsterdam Treaty explicitly recognised the impact of other Community policies on employment. This report examines two areas in which this impact is particularly important.

- The activation of labour market policies, — an essential element in the employment strategy — through the restructuring of public expenditure was specifically noted by the Florence European Council. Best practice in some Member States demonstrates that it is both necessary and possible to restructure public expenditure without prejudice to the objectives of fiscal consolidation.

- As in other areas, the overall employment effects of changing environmental policies and priorities will be the outcome of the positive and negative employment impact of new activities and new technologies. Governments have a critical role to play in creating the appropriate framework in which the prices reflect the cost of environmental damage, and in which investment decisions — and hence job creation — are made in a long-term sustainable perspective.

## **Enlarging the Union**

Enlargement of the Union will have an impact on the employment situation in both the existing Member States and in the candidate countries. At the time of accession, the Amsterdam Treaty and the employment strategy will be part of the *acquis communautaire*. Accession to the Union will require an adjustment in labour markets and labour market policies, and in particular the capacity to adapt labour market institutions and policy delivery systems to permit the implementation of the employment guidelines. The Union is actively supporting this adjustment.

## **The way ahead**

The European employment strategy is a medium-term process, which will require the vigorous implementation of the Employment Guidelines over a number of years. It is therefore not necessary to change the basic structure of the employment strategy and the guidelines but rather consolidate the strategy providing for minor adjustments which cover the gaps and take account of the ever-changing nature of labour markets. The four pillar structure of the Guidelines represent a framework in which Member States can focus their efforts on those areas which have been identified as likely to tackle the most pressing obstacles to an employment-friendly labour market in Europe, and hence to raising the employment rate.

The size of the employment challenge, and the roles of macroeconomic and structural policies are clear: raising the employment rate to 65% in the medium term would imply an increase in employment growth of 1.6% a year, meaning that either the average annual rate of growth would be 0.6% or higher or that the effect of complementary measures for improving the employment impact of the structural measures would have the same effect.

The Commission has submitted a number of reports on the Employment strategy for the Vienna European Council to carry this process forward. The Joint Em-

ployment Report presents an assessment of progress in implementing the strategy. The report on Employment Performance (Employment rates report) analyses the trends in employment rates in Europe and compares this with the United States. These reports underpin the Commission's proposal for the Employment Guidelines 1999.

## Jobs for people — people for jobs: turning policy guidelines into action

The adoption of the Employment Guidelines at the end of 1997 confirmed the recognition of employment as an explicit objective for the European Union and the beginning of the real implementation of the employment provisions of the Amsterdam Treaty.

The Treaty now states that 'Member States "... shall regard promoting employment as a matter of common concern and shall co-ordinate their action". Further, it requires that "The objective of a high level of employment shall be taken into consideration in the formulation and implementation of Community policies and activities".

The four pillars of the Employment Guidelines reflect the broader objectives for employment and working conditions set out in the Treaty. This includes the existence and promotion of 'a skilled, trained, motivated and adaptable work force and labour markets responsive to economic change' as key objectives of a co-ordinated employment strategy, the task of promoting equal opportunities for men and women, as well as the fundamental objective of promoting job creating entrepreneurship in Europe.

The strategy, and the Guidelines, reflect the underlying analysis which the Commission has presented in the Employment in Europe report over a number of years, and in particular, the need to raise the employment rate in Eu-

rope to a level closer to that of our major trading partners and other equivalent developed economies. The Employment Guidelines are designed to address the perceived causes of the low employment rate in Europe: the inability of the European economy to deal with major shocks, and the incapacity of the European labour market to respond with the necessary structural changes to re-absorb those who have lost jobs in declining sectors and activities.

Three issues have to be addressed by the Commission and the Union over the coming months and years.

First, the Commission has presented its proposals for revising the Employment Guidelines for 1999. The employment strategy that the guidelines represent is a medium-term one for bringing about the fundamental structural changes needed in the European labour market to generate lasting jobs. The Commission's proposal is characterised by consolidation: a deepening and a sharpening of the focus of the guidelines in the light of the first year's experience rather than a fundamental revision, which is neither required, nor appropriate.

Secondly, the Commission will be carrying forward its work on the support for employment in other Community policies as provided for in Article 127 of the Amsterdam Treaty. In 1998 and 1999, the focus

of this analysis will be on a limited number of priority issues. They include the restructuring of public expenditure to promote active labour market policies, the role of taxation in creating employment and employment and the environment.

Thirdly, the European Union has opened negotiations with the candidate countries with a view to their accession. The enlargement of the Union to these countries will have important implications for employment, both in terms of the impact on the existing Member States, but more importantly, on the capacity of the candidate countries to adopt and implement the employment guidelines themselves. The Commission has begun to carry out a series of employment policy reviews with these countries in order to assess this capacity and identify the action required.

This year's *Employment in Europe* report addresses each of these issues. In the first section it reviews the major trends and developments in the economic and employment situation in the Union. The second section reviews each of the pillars of the employment guidelines and presents the underlying analysis that drives them. The third section presents some of the main messages in relation to the 'mainstreaming' of employment in the three areas chosen for priority analysis. The final section presents for the first time an analysis of employment developments in the candi-

date countries, and the objectives of the employment policy reviews.

## Major Trends in 1997

More detailed analysis of the trends highlighted below is set out in the background analysis in the main report, and a special report on employment performance in Member States which will be submitted to the European Council at Vienna.

## The European economy maintains its strength

Growth regained strength in 1997 with a rise in GDP of 2.7% against 1.8% in 1996. Despite an international environment that turned out to be sharply less favourable than expected, prospects for economic recovery are confirmed as the driving force for growth shifts gradually from exports to domestic demand. According to the Autumn 1998 forecasts, GDP in the EU was expected to grow by 2.9% in 1998 and 2.4% in 1999.

With an underlying trend growth of labour productivity of just under 2% per year, employment rose again in 1997 and is expected to increase by 1.2% in 1998 and 0.9% in 1999, equivalent to about 2.8 million net new jobs in these two years. Since participation, predominantly among women, will rise, the employment rate could rise slightly from 60.5% in 1997 to 61.1% in 1999. (The figures used for employment and unemployment correspond to the benchmark series published by Eurostat for the purposes of analysing employment over time. For a detailed description of this series, see the Statistical Annex to the main *Employment in Europe* report.) The unemployment rate, which fell by 0.2% in 1997 from 10.8% in 1996, is forecast to fall further to average 10.0% in 1998 and 9.5% in 1999

These developments are a modest step in the direction of the objective of a high level of employment specified in Article 2 of the Treaty and further confirmed by the Luxembourg jobs summit (November 1997). Net job creation can only come from that part of GDP growth which is in excess of the increase in labour productivity, which itself is a key to maintaining competitiveness. Such a high employment level relies directly upon the sustainability of a high rate of output growth (Graph 1).

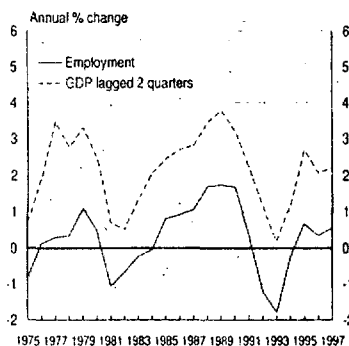
The present recovery, which has now lasted a number of years, has produced positive effects, with growing investment increasing both capacity and employment. The sustained efforts towards convergence in the framework of EMU and appropriate wage developments have improved the fundamentals of the European economy: inflation is low, public finances are on a sound footing, and

profitability, competitiveness and business confidence are high and rising. The prospect of moving to EMU warrants a macro-economic policy mix favourable to relatively high growth for an extended period. In such a context, all the determinants, and notably monetary conditions (including long-term interest rates and exchange rates), are favourable to a healthy expansion of demand. The efforts of the past are now delivering their expected positive results, especially for capital formation (business surveys show a planned increase of 9% in investment in real terms in the EU for 1998 in the manufacturing sector).

The prospect for sustained growth is based on the positive impact on domestic demand of low interest rates such that the EU economy — which is becoming more and more of a single integrated economic entity — is less vulnerable to external shocks. However, it must be recognised that some external threat to growth from the Asian and Russian crises will dampen economic activity. Given the impact of the external financial crisis, the employment prospects might be tarnished if a deteriorating climate of confidence settles in and curtails the dynamism of EU domestic demand, failing to make up for faltering extra-EU demand.

Coupled with the improvement in the macroeconomic policy-setting brought about by EMU, a high favourable medium-term growth path is a realistic opportunity which now needs to be grasped in order to generate the jobs the EU badly needs. Although the introduction of the euro itself will not solve the unemployment problem, its advantages are not limited to better price transparency and the elimination of the exchange rate costs and risks. The policy framework of

1 Growth of employment and GDP in the Union, 1975-97



EMU is likely to help overcome the obstacles to sustained growth and job creation that in the past contributed to the unsatisfactory growth and employment performance of the Union.

Even so, unemployment is unlikely to fall rapidly. Structural policies, which are much easier to implement and more likely to be effective in a high growth context, have a key role to play in improving competitiveness, reducing tensions which might impede growth, ensuring that development is environmentally sustainable and turning growth into jobs. To be fully effective, however, they must be coherent with the pursuit of sound macroeconomic policies. In this respect, it is essential that the budgetary costs of structural reform are kept under control and do not lead to excessive borrowing. With growth providing the resources required, labour market and fiscal policies (larger wage differentiation in collective agreements, reorganisation of working arrangements, reducing the non-wage labour costs of employing low-skilled workers) could possibly increase the employment-content of growth, significantly raising the employment rate.

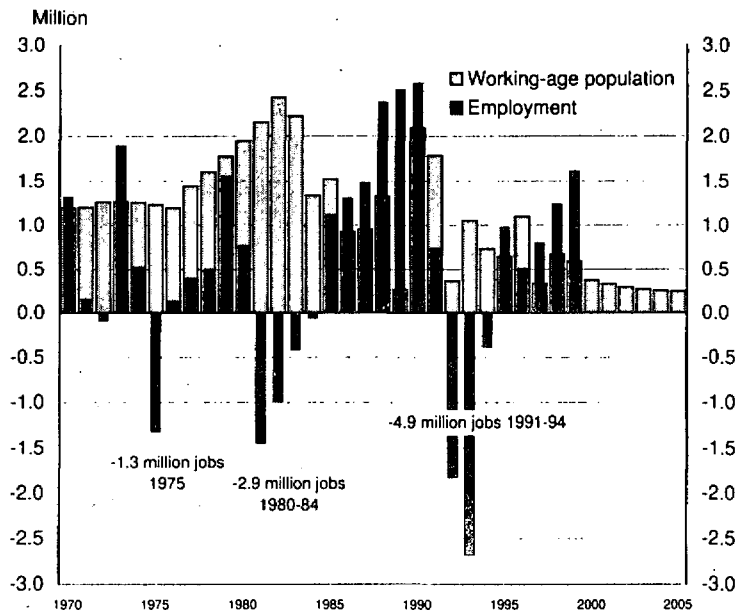
### Employment rising modestly

Employment rose again in 1997, increasing by 800 000, higher than the rise of 600 000 in 1996, but below the increase of 1 million in 1995. The total number of employed in the Union is now 149 million, the highest since 1992, and some 2 million above the low point of 1994, though still short of the peak of 151 million in 1991. Although the recovery is weaker than in the 1980s, it is stronger than in the 1970s and, in the last three years the Union

Key data 1997					
	EU	Lowest	Highest	US	J
Participation rate	67.8	58.4	82.3	77.2	77.2
Employment rate	60.5	48.6	77.5	73.4	74.6
Unemployment rate	10.6	3.7	20.8	4.9	3.4
Youth unemployment rate	21.0	6.7	38.8	11.3	6.7
Long term unemployment rate	5.2	0.6	10.8	0.4	0.7
Share of wages in GDP	60.5	54.4	66.3	65.9	67.1
% part-time	16.9	4.6	37.9	n.a.	n.a.
% temporary employees	12.2	2.1	33.6	n.a.	n.a.
% working 45 hours a week or more*	12.5	1.3	28.3	n.a.	n.a.

n.a.: comparable data not available  
\* Employees in industry and services

2 Change in employment and working-age population in the Union, 1970-2005



has made up half the job losses of the early 1990s. At present, it is still short of achieving the rate of growth of employment necessary to absorb the high levels of unemployment and to provide employment for all those who want to work, but the demographic prospects are somewhat different than in the past (Graph 2).

The employment rate in the Union rose only marginally in 1997 by just 1/2% to 60.5% of working age population, still a full 2% points below the rate in 1991 (Graph 3). In both historical and international terms, the Union's employment performance remains unsatisfactory. The current employment rate is a little higher than in the early 1980s, but falls short of the rates of 64% achieved in the mid-1970s. Both the US and Japan, by contrast, continued to record ever higher employment rates (of around 74%) in 1997. This disparity in performance is a reflection of both differences in unemployment (Graph 4) and labour force participation (Table).

The potential employment reserve is highest among women, older workers and young people. The main differences in employment

rates in the first two groups come from lower participation in the labour market, depressed by a lack of jobs, rather than from high unemployment. In a period of high growth it should be possible to mobilise some of this employment potential and provide jobs for those who want to work but who have little prospect of finding employment.

The gap in employment between the EU and US is not in agriculture, manufacturing, or the public sector, but in the services sector. The difference in employment rates is particularly marked in three sectors: communal services, business services and distribution, hotels and restaurants. The differences between the Member States with high and low employment rates is essentially in these same sectors.

Employment in Europe is significantly lower than in the US in *all* services sectors. The evidence shows that this applies not only to low skilled jobs but also for highly skilled ones: there is a difference of around 3 percentage points for hotels and restaurants and distribution, but also for communal services and business services. Within 'com-

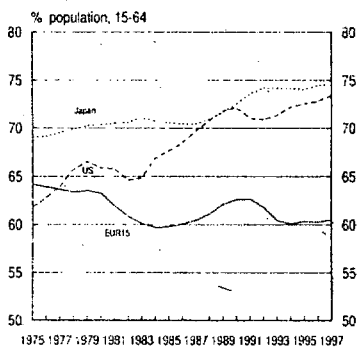
munal services', the US employs relatively less people in public administration, but this is more than offset by employment in education, health and social work and even in recreational activities.

Performance in the Member States in creating jobs in the services sector generally, and these sectors in particular, varies widely. In 3 Member States — Germany, France, Italy — which together account for 50% of total EU employment, growth in these sectors has been below average.

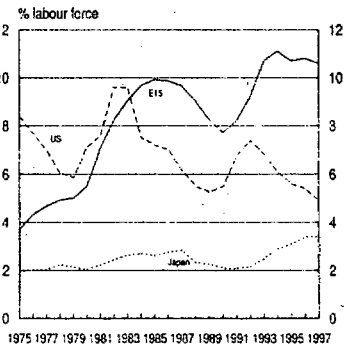
### Part-time work continues to rise

For the fifth year in the last six, there was no net addition to full-time jobs in the Union in 1997. Indeed, there was a decline in the number employed full-time and part-time jobs accounted for more than all of the increase in employment that occurred (Graph 5). The growth of part-time working means that there has been some reduction in average hours worked by all those in employment over the past three years. This would have been larger, however, had the growth of

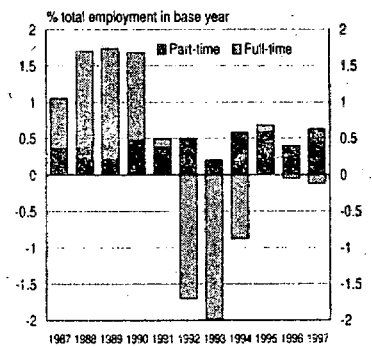
3 Employment rates in the Union, US and Japan, 1975-97



4 Unemployment rates in the Union, US and Japan, 1975-97



5 Change in part-time and full-time employment, 1987-97





part-time jobs not been accompanied by an increase in the average hours worked by those working full-time.

In full-time equivalent terms, therefore, (i.e. weighting each person employed by the hours worked relative to full-time hours), employment increased by only  $\frac{1}{2}\%$  in the Union over the three years 1994–97, whereas the number of people in work went up by 1%. Since working-age population increased slightly over the period, the FTE employment rate remained unchanged. Not only was the FTE employment rate below the level in 1990 at the end of the period of high net job creation, but also below that in 1986 at the end of the recession of the early 1980s.

## **Unemployment remains high**

The effect of the poor rate of job creation in the Union in recent years is reflected in the persistently high rate of unemployment which was still 10.2% in May 1998. Though this is the lowest it has been since January 1993, it has fallen by only 1.1% point since the peak in 1994. Only one Member State (Austria) has unemployment higher than a year ago, although in some it remains considerably higher than before the recession of the early 1990s (in Germany, it is twice as high, in Finland and Sweden, four times higher). Unemployment in Japan is also rising, to 4.1% in April. In the US, continued economic growth has led to further reductions in unemployment and the rate of 4.5% in August 1998 (which apart from April) was the lowest for 30 years.

Unemployment of men has fallen more than for women. Since the

## **Features of the labour market in Member States**

### **Fewer young unemployed**

In the early 1980s, when unemployment increased to the high levels that persist today, by far the largest group affected were young people under 25. As a result partly of the focus of policy on the young unemployed, partly of a decline in the share of young people in the population and partly of more people staying longer in education, the proportion of the unemployed who are under 25 has fallen from 45% in the mid-1980s to around 25% now. The most pronounced fall has been among those under 20, who in 1986 accounted for over 22% of the total unemployed but for only 7% in 1997. By contrast, the share of 20 to 24 year olds in total unemployment has remained high at 18% in 1997 as against 22% in 1986, double their share in the working-age population. The highest rates are in Spain and Finland, where it is still over 30%, with the lowest in Luxembourg and Austria, both under 7%.

### **More prime-aged unemployed**

Unemployment has become a more widespread problem among other age groups over the past decade. Prime-age workers, between 25 and 49, now account for almost 60% of the unemployed in the Union (more than their share in working-age population) as opposed to 45% 11 years ago.

### **More older unemployed: the case of Germany**

The relative number of those of 50 and over who are unemployed has also increased, from 10% to over 15%. This predominantly reflects the rise in one country, Germany, where the relative proportions of old and young unemployed are the precise opposite to those elsewhere — 30% are 50 or over and only 12% under 25 and these trends have accelerated over the past decade. Although the relative number of the unemployed who are 50 or over in the new Länder is higher than in the West, the difference is relatively small (33% as against 29%). Nevertheless, the proportion has risen considerably since 1991 and the increase shows no sign of abating.

### **Long-term unemployment unchanged**

The rate of long-term unemployment remained unchanged in 1997 at just over 5% in the Union, with 49% of the unemployed being out of work for a year or more. The proportion of those unemployed for more than two years also remained unchanged at 30%. Although long term unemployment is highest in Spain, it is rising fastest in Sweden (where it doubled between 1996 and 1997 to 3%) and Italy where it was up to 8% (over two-thirds of the unemployed) from 5% in 1992.

peak of 10.2% in March 1994, male unemployment has fallen to 8.8% in May 1998, while that of women has declined by less than 1% from 12.8% in March 1994 to 12.0% in May 1998. The gender gap has, therefore, widened slightly.

Unemployment rates for young people under 25 are still over twice those of adults, as has been the case for many years, with overall youth unemployment at 19.8% in May 1998 as against a rate of 8.7% for those aged 25 and over (see Box). Nevertheless, much of the fall in male unemployment is due to lower unemployment among young men, for whom the rate has fallen by 3% points since 1994 in contrast to a decline of only 1% point for young women.

### New jobs for women

Women accounted for 62% of the net additional jobs created in the Union between 1996 and 1997, a slight decline compared to previous years. Male employment rose by 0.3%, the first positive growth since 1995, while female employment growth slowed to 0.8% compared with 1% in each of the previous two years. Overall, female employment has grown 4 times faster than male employment since 1994. By 1997, the employment rate for women had risen to almost 51%, and the gender gap was down to 20 percentage points from 26 percentage points in 1990.

### Wages and labour costs

Pay rises in excess of the growth in labour productivity are liable to lead to increased inflation or to depress employment growth or both. With economic policy across the

Union aimed at keeping inflation low and with monetary authorities refusing to validate excessive wage increases, pay rises above productivity growth are likely to hit jobs and give rise to higher levels of unemployment.

It is difficult, however, to blame present low rates of net job creation in the Union on excessive wage rises in general. Since the 1980s real labour costs per employee in the Union have increased by much less than the growth of GDP per person employed (1.8% a year) and only slightly more than in the US. Between 1994 and 1997, real labour costs per employee in the Union rose by half the rate of growth in labour productivity. The wage share in most Member States has, therefore, fallen to an average of only just over 60% in the Union, well below the level in the US (66%) and Japan (67%).

This reduction in the share of wages in GDP, the relative increase in profitability does not yet seem to have had a major effect on employment. 1998 is expected to be a turning point, however, as there seems to have been a shift towards investment and stock-building, contributing an estimated 1% to GDP growth. This seems to confirm that investment may finally be responding to the increase in levels of profitability.

### Globalisation and employment

Imports of goods from the rest of the world represented around 8% of GDP in the Union in 1995, only half the level of internal trade between Member States, but they have been growing in recent years in relation to both GDP and internal trade. This has been ac-

companied by an even larger expansion of exports of goods to the rest of the world (from 7% of Union GDP in 1991 to 10% in 1997) which, in practice, has led to a growing trade surplus and has served to offset the implications for employment of increasing imports.

At the same time, imports of services from the rest of the world have changed very little over the past 10 years (at just over 2% of Union GDP, meaning that imports of goods and services amount to some 11% of Union GDP) while trade in services between Member States has expanded (from 3% of GDP in 1985 to 3.7% in 1995). This may reflect the later liberalisation of trade in services than trade in goods inside the Community and the continuing barriers to service trade which exist in the global market, although these are gradually being reduced.

While the Union share of world markets (excluding the EU) has tended to decline (from 36% in 1990 to 31% in 1996), the effect of this on exports has been compensated by the growth of these markets. This is particularly true of the East Asian economies, including China, which have become an increasingly important market for European producers (accounting for 13% of Union exports of goods to the rest of the world in 1996 as against only 9% in 1990). Although the prospects are for a continuing decline in the Union share of world trade in future years as developing countries industrialise and close the gap in income per head with developed countries, there is no reason why this should be detrimental to income and employment in Europe. What matters for European producers and jobs is that export growth is maintained in relation to

the growth in demand for imports from outside the Union, as it has been in the past.

This is not to say that there are no employment implications of the growth in import penetration of the European market over recent years. The specific industries in which it has occurred have suffered job losses and the increasing demand for exports has not always led directly to compensating job growth elsewhere because of gains in labour productivity (partly stimulated by increased competition from outside). Nevertheless, indirectly, export growth has been important in generating income to support job creation in other sectors of the economy, especially services.

In practice, the broad industries affected by rising imports, on the one hand, and expanding exports, on the other, have been much the same. The composition of EU exports to third countries is not significantly different from the composition of imports from them and has not tended to change a great deal in the recent past. In 1996, some 30% of Union exports of goods to the rest of the world consisted of basic manufactured products, only slightly lower than in 1990, and much the same as the share of basic products in Union imports. Similarly, engineering and hi-tech products accounted for around 50% of Union exports of manufactures to third countries, only a little higher than the share of these products in imports from outside (47%).

These figures lead to a number of conclusions: first, that exports of basic products, like manufactured food, clothing or furniture, are still an important source of foreign exchange earnings of most highly developed economies like

Union Member States; and, secondly, that developed countries tend to export and import similar types of product. Equally, however, they tend to conceal a third general point, that the nature of the goods exported and imported in terms of their unit value and design could well differ considerably, even though they might be classified to the same industry, designer clothing (exported) and mass-produced, low priced garments (imported) being examples.

Fourthly, trade in services, unlike output and employment in services, has shown little tendency to expand relative to trade in goods. This reflects the inherent nature of services which itself poses an obstacle to trade, though one which stands to be diminished in importance by information technology and advances in telecommunications. Competition in the service sector, however, has taken the form not so much of trade flows but of direct investment, in facilities to deliver services to consumers in markets around the world, but especially in developed economies, in part to provide support for exports of manufactures.

Fifth, because of globalisation, there is a potential threat to growth in Europe from the Asian crisis. Although the East Asian region accounts for only 19% of total Union exports to third countries, the spread of recession to other parts of the world, partly caused in developing countries by large falls in energy and primary product prices, could reduce global demand for Union products significantly. Europe, however, has the potential to offset the depressing effects of the crisis by internal expansion, benefiting not only Member States but also the world economy as a whole.

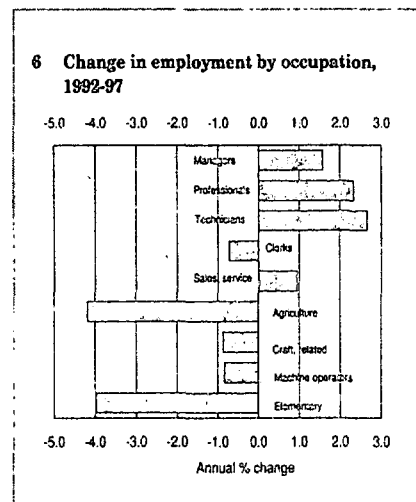
## Employment Guidelines 1999 — deepening the strategy

The Employment Guidelines are based on four pillars that represent the main lines of action of the employment strategy:

- improving employability
- promoting entrepreneurship
- promoting adaptability
- equal opportunities for women and men

The fundamental objective of the strategy is to raise the employment rate of the Union to a level closer to that of our main trading partners, thus exploiting the employment potential of Europe's under-used work force. Estimates prepared by the Commission show that raising the employment rate is feasible under the right conditions and if the right policies are pursued:

Each of the four pillars is designed to contribute to this outcome, but



## 'Prevention is better than cure'

A person who becomes unemployed today in the European Union stands a significant chance of remaining so and becoming long-term unemployed. There is considerable evidence, however, that tackling the problem of the unemployed at an early stage has the greatest outcome in terms of preventing the drift into long-term unemployment.

Experience over the past years or more, supported by a model-based analysis of flows into and out of long-term unemployment, demonstrates that preventing inflows into long-term unemployment is the most effective way of alleviating the problem. In several Member States, the decline in employability over the 6–12 month period of unemployment is striking and has not improved in recent years. In 1997, over two-thirds (69%) of men and almost three-quarters of women (74%) unemployed a year before had not found a job in the intervening 12 months.

The preventive approach as encapsulated in the first two guidelines is a combination of two things: early identification and early action. Early identification to target those unemployed most likely to become long-term unemployed, and early action to combat the characteristics which make them so.

The new start referred to in the guidelines is not a job guarantee. It means providing the individual with capabilities and opportunities to give them real chances to gain access to jobs in the open labour market. This must be done before skills start to deteriorate and the drifting into exclusion sets in. A new start covers a wide range of measures tailored to individual needs. They may include job offers, training opportunities, work practice, voluntary service, individual action plans coupled with guidance, job search assistance or rehabilitation. This requires a new approach from public services not to let individuals "qualify" for long-term unemployment, but early identification and early action.

LTU is a major risk for those young people who have left education and training without reaching a minimum level of qualification. Without specific measures to correct this there will still be a significant share of young people who have difficulty in entering the labour market. Access to a first work experience is a crucial first step.

The chance of returning to the labour market declines significantly as unemployment lengthens. By adopting active measures and breaking very long unemployment spells the employability of the unemployed can be maintained, enabling them to qualify for newly created jobs and filling vacancies swiftly. There is evidence from several Member States which shows that, to be effective, activation should take place at an early stage.

*Conclusion: By adopting early action through early identification the employability of the whole labour force will be secured and the overall functioning of the labour market improved. Just matching the performance of the three best Member States would reduce long-term unemployment from 5% to 2%. A zero-tolerance strategy would eliminate it all together.*

none of them is sufficient. They provide the framework of an integrated strategy which requires sustained action. The analysis underlying the four parts of the strategy are set out below.

## Promoting employability

Previous Employment in Europe reports have stressed the role of the skills gap as an obstacle to the efficient functioning of the labour market in Europe. Employment is increasingly concentrated in the higher skilled occupations, and the biggest declines are in unskilled elementary occupations (Graph 6). Evidence from some Member States suggests that vacancies are increasingly concentrated in these occupations.

This need for more as well as more relevant and flexible qualifications is being met by increased numbers participating in education and vocational training beyond basic schooling. Nevertheless a disproportionate number of the unemployed, and particularly the long-term unemployed, lack the appropriate skills to compete effectively in the labour market and a worryingly large proportion of young people leave school with no formal educational or vocational qualifications. In 1997, around 47% of both unemployed men and women over 25 had no educational qualifications beyond basic schooling.

As a result, the Commission proposed a three pronged approach: 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.

Ensuring that young people are able to make a smooth transition to work depends on a combination of factors. Improving initial education and training systems to provide a solid foundation in basic skills is a key factor. Preventing early school drop-out and support for those with learning difficulties is a priority. Young people also need to acquire skills and competencies relevant to the workplace, and apprenticeships and work-linked training measures can be beneficial in providing this.

The unemployed and especially the long-term unemployed must be able to maintain and maximise their employability by having access to the means to upgrade their skills and competencies. 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. The first pillar of the guidelines takes up this preventive approach (see Box).

The first three guidelines are fundamental to reducing unemployment, and reducing the skills mismatch on the labour market. Under these guidelines, the onus is on the Member States to provide the unemployed, and especially young people and long-term unemployed, with the skills they need to get them back into work. But the unemployed have also a responsibility to respond to the opportunity and incentives provided. In this context, skills refer not just to training, but more broadly, to the aptitude for and experience of work, skills which are essential if the unemployed are to maintain an at-

tachment to the labour market, and the lack of which is a major deterrent to prospective employers. These guidelines address one of the three prongs of the skills-gap strategy, that of improving the employability of the unemployed.

## Promoting entrepreneurship

There is no shortage of potential entrepreneurs in Europe, nor do our new businesses, though many fail, fare any worse on average than those of our competitors. Yet there is a need to improve the climate in which business can be easily created, and in which lessons can be learnt from failure to provide for success in the future. Too often, in Europe, the first business failure is also the last. Such a stigmatisation must be overcome.

Employers and self employed accounted for 15% of total employment in 1997, although around one fifth of these were in agriculture, where the farmer (with perhaps some family members) is usually the only person in paid work. Most of the Member States with the highest shares are also those that still have a high proportion of their employment in agriculture although other factors also affect the nature of self-employment across the Member States, including the tax system and the industrial structure.

Self-employment as such has little to do with entrepreneurship in the sense of creating an enterprise and employing workers. The majority of self-employed are one-man businesses with no employees, and in many cases the entrepreneurs are themselves 'employees' of the (small) companies they have created. The role of SMEs is therefore crucial to an understanding of the

process of entrepreneurship in the Union.

In the Union as a whole, firms with more than the owner but less than 250 employees accounted for 46% of total non-agricultural employment in 1994; over half of those were in firms with less than 10 employees. The importance of SMEs in employment varies widely between sectors, with 77% of employment in catering (hotels and restaurants) in firms of less than 50 employees. There is a similar proportion (78%) in personal services and construction (74%) and a slightly lower proportion (69%) in retailing, but with more variation between Member States. In Italy, for example, firms with less than 50 employees accounted for over 90% of the total in this sector, while in the UK large firms (of 250 or more) accounted for 40%.

Large firms, on the other hand, are the major providers of jobs in transport, financial services, health care and education, water and energy. In the remaining two broad sectors — manufacturing and business services — there is a much more even distribution of employment across the different sizes of enterprises.

The potential contribution of SMEs to employment growth depends to a large extent on the sectors in which they are located. Three of the sectors which have shown the highest growth in the recent past (business services, personal services, hotels and restaurants) are characterised by a large share of employment in SME, and future job growth is likely to be associated with the growth of SMEs.

The guidelines set out under this pillar address a number of the issues relating to the growth and the prosperity of SMEs and the self-

employed, recognising that entrepreneurship leading to job creation is a complex of factors relating to the structure of each Member State as well as the administrative and regulatory framework. The objective must be to remove the obstacles, perceived or genuine, to the creation of enterprises, particularly small and medium-sized ones, which are a major source of new jobs.

### **Promoting adaptability in enterprises and their employees**

Work organisation and working time are increasingly being examined for their potential contribution to increased flexibility in enterprises and to a better functioning of the labour market in order to create more job opportunities.

As noted above, the majority of jobs created in Europe in the 1990s have been part-time jobs. In the three years 1994 and 1997, the number of part-time jobs in the Union went up by almost 2.4 million, a rise of just over 10% (over 3% a year), while the number of full-time jobs fell by 125 000. The shift to part-time working was true for both men and women, especially for men, the number of whom working part-time increased by 20% over these three years. Sweden was the only country in the Union where the number of men and women in part-time jobs declined.

The shift to part-time working among both men and women was particularly marked in the Member States where the recovery of output has been sluggish and unemployment has either continued to rise or has fallen very little (Germany,

France, Italy, Austria and Portugal). This is matched by the fact that a disproportionate number of the jobs found by men and women who were previously unemployed are part-time, 14% in the case of men, over double the proportion of men working part-time in the Union, and 40% in the case of women, almost a third higher than the proportion of women in part-time work.

The net additional jobs created during the present recovery have not only been part-time, they have also been predominantly temporary rather than permanent ones. Although the proportion of people working on fixed-term rather than standard contracts of employment remains relatively low (at only some 12% or 15 million jobs in the Union as a whole), it has been increasing steadily. All of the net additional jobs for men created between 1994 and 1997 were temporary ones and 40% of those for women. For those unemployed looking for a job, it is increasingly likely that the only positions available will be fixed-term ones. In 1997, 56% of both men and women in the Union entering employment after being unemployed moved into a temporary job — up from 50% in 1994. While some of these jobs might have become permanent ones after a probationary period, the high figure and the increase, both of which are common features across in the Union, emphasise the changing nature of labour markets.

Promoting adaptability in labour markets depends heavily on one of the other principles underlying the guidelines: the partnership approach. For all of the guidelines under this pillar, there is a need for a partnership: between social partners, between social partners and governments — all have their role to play.

The new kind of adaptability in enterprises should be a parallel process of continuing the structural reforms in both markets for goods and services and labour. Deregulation in goods and services markets can give rise to greater productivity and job creation, responding to the needs of consumers who require more flexible responses from business. At the same time, this needs to be accompanied by more flexible working to match the needs of enterprises and their workers. Such a process is already underway: the only category of less-skilled jobs which have expanded in recent years was that of sales and service workers, many of them in retailing, with around two-thirds of the net addition to these jobs going to women, and a significant number also being part-time, as the opening hours of shops lengthens well beyond the normal working day. Indeed, supermarkets opening 24 hours a day, and 7 days a week (although not necessarily both) are becoming more prevalent in some Member States.

The guidelines respect the principles on which the Commission has always based its proposals in this area. The introduction of new patterns of working should be specific to the individual place of work and should be negotiated between the social partners. Similarly, governments must create the conditions in which the flexible firm can exist and thrive: Member States should reform, where necessary, the rules governing different contractual relationships. This does not mean deregulating labour markets, but permitting the existence of various types of work contract, all on an equal footing, with none offering particular advantages over another. This may go beyond the legal recognition of the existence of such types of contract, and involve a re-

view of tax and social protection regulations, as these may create more of a barrier to the adoption of flexible forms of working than the regulatory framework.

## Promoting equal opportunities

Despite the rapid growth in both female employment and participation of women in the labour market over recent years, as well as the continuing fall in participation of men in all age groups, there is still a significant gender gap in various aspects of employment: in the employment rate, in unemployment, in terms of sectoral and occupational segregation.

Overall the employment rate for women (51%) is some 20% lower than for men in the Union, equivalent to some 24 million people. This gap has fallen sharply from 40 million in 1975 and 32 million in 1985, despite a marked rise in total employment over that period, and if continued, could fall to around 18 million by 2005.

While the gap between the employment rates of young men and women is only 6%, for women over 25 the gap is over 22%. Raising employment rates of women, and reducing this gender gap is a long-term task resulting from raising the employment rate of women in the younger age groups — particularly those of prime working age — and encouraging them to stay in employment for a longer period of their working lives.

A series of factors appear to influence the participation of women in the labour market. High levels of educational attainment are particularly associated with high levels of participation, while family cir-

cumstances — marriage or the birth of the first child exert a strong negative effect. The tax and benefit system may also play a role. On the demand side, the availability of part-time work is significant, but the major factor is the development of certain service sectors. A combination of greater flexibility in certain service sectors (retailing, care services) which make it possible for women to reconcile home and work responsibilities, and the expansion of jobs in others (retailing, health and education, business services) which offer greater opportunities to women are associated with higher employment rates.

As noted above, unemployment for women has barely fallen in recent years despite the growth of women in work. To a large extent this is the result of greater participation of women in the labour market. Nevertheless, the removal of the obstacles that prevent women from accessing as wide a range of jobs as men would help to reduce this gap.

Sectoral and occupational segregation is one of the obstacles which limits the choice of women entering or wishing to enter the labour market. 59% of women are employed in just 6 sectors, all of which are in services (in the US this figure is over 62% and the sectors are identical), as against a figure of 41% for men, the sectors being in both industry and services.

So far as occupations are concerned, the segregation is less clear-cut, but there is some evidence that the so-called 'glass ceiling' exists. The top level occupations — managers and legislators — employ 10% of men compared with only 6% women, which is indicative of the greater difficulty women have in accessing the top jobs.

The guidelines are designed to meet the objective of reducing the gender gap, taking these structural changes into account, while recognising that cultural and historical influences are also a major factor in determining the participation of women in the labour market. But changes can occur rapidly: in 1986, in many Member States, marriage was a major factor determining when women gave up work. In 1997, marriage was still the main factor in four Member States (Belgium, Greece, Spain and Italy), but the average difference in the employment rates of single and married women in their 30s without children had fallen from 18 percentage points to 7 percentage points. The birth of the first child remains the main factor in most Member States, the average difference in employment rates between married women with and without children still being well over 20 percentage points, although this ranges from only 0.4% in Belgium to over 30% in Germany. The focus must be, therefore, on the obstacles that need to be removed in order to allow the underlying trends to develop, by bringing about a better integration of the gender perspective into labour market policies.

## Supporting employment in other Community policies

The Amsterdam Treaty rightly recognises that almost every policy action influences employment in some way or another — and some more than others, directly and indirectly. The full analysis of the impact of all these actions is a long term task and will focus initially on those areas which have already been identified

as being of critical importance, either in the White Paper, Growth Competitiveness, Employment or by the European Council itself.

## Restructuring public expenditure

Public expenditure is one of the main influences on employment, with indirect effects on the level of economic activity, direct effects through those activities which it finances directly, and the effects of the spending on labour market policies, both active and passive.

Over the past 15 years or so, direct government expenditure on goods and services has tended to decline in relation to transfers, largely reflecting the growth of social protection, which, including health care, accounts for almost 60% of total public sector outlays. Indeed, direct expenditure was, on average, some 1% of GDP lower in 1997 than in 1980. All of this reduction occurred after 1990 and all of it was in spending on fixed investment, which declined from 3% of GDP in 1980 to 2% in 1997.

The State's contribution to investment is not limited to infrastructure projects. Investment in education, which is at the basis of a skilled and flexible work force, is one of the most important ways in which governments can contribute to the long-term competitiveness of European economies and, hence, to their future potential for growth and job creation. Education is also a prime direct source of new jobs. Employment in education expanded by almost 2% a year in the Union over the 10 years 1986 to 1996, though the increase has slowed a little during the present upturn, and now accounts for almost 7% of total employment.

While the numbers of young people in the Union are falling, the number of older people is increasing. Moreover, within the population of 65 and over, there is also a strong upward trend in the proportion of those aged 75 and over. As a consequence, the upward pressure on pension payments is being accompanied by a growing demand for health and long-term care. On average, spending on health services per head of population aged 65 and over is over twice as high as the average for people below 65 and for those aged 75 and over, 4–5 times higher. Over the next 10–15 years, the number of people of 65 and over in the Union is forecast to increase by over 1% a year, the number of 75 and over by 2% a year.

Health care and social services, like education, are a prime potential source of net job creation. Between 1986 and 1996 employment in this area rose by over 2% a year in the Union. Further growth depends on the policies followed in Member States and on reconciling the demand for high quality health care with constraints on public spending.

Overall, expenditure on social protection, including health care, amounted to 28% of GDP in the Union in 1995, 70% of this being transfer payments, and around 60% of the total (equivalent to some 17% of Union GDP) probably going to those in retirement. Given the prospective growth in the number of people of 65 and over in the Union over the next 20–25 years, the focus of policy is not only on pension schemes, but also on early retirement which, especially among men, has risen markedly since high levels of unemployment and job scarcity became a major problem in the 1970s.

In 1995, unemployment benefits accounted for only 8% of total spending on social protection in the Union, under 2% of GDP, though a similar amount also goes on disability benefits, which in many cases are effectively paid to support people who cannot find jobs. With social exclusion and housing benefits, transfers to those of working-age but without a job amounted to around 6% of GDP. At the Florence European Council, Member States agreed to give increasing priority to the 'activation' of policy, to move people who are capable of working into employment rather than merely providing income support while they are out of work. The aim is to shift from such passive measures, defined in the broadest sense, to active labour market measures of providing training, or retraining, career guidance and help in finding a job.

So far there is only limited sign of any shift in expenditure in this direction in Member States. Overall, public spending on labour market measures accounted for just over 3% of GDP in the Union in 1997. Of this, some 65% went on paying unemployment compensation and 35% (just over 1% of GDP) on active measures to increase employability or to assist in finding a job. This is slightly higher than in 1994 at the end of the recession, when active measures accounted for 33% of the total, but less than in 1990, when they accounted for 37%.

## Environment and employment

A strengthening of measures to protect the environment is now a necessary condition for sustained economic development. At the same time, environmental and employment policies should be made mu-



tually beneficial. This was the message of the Commission Communication on Environment and Employment adopted in November 1997 (COM(97)592). This involves significant structural changes and shifts of employment between activities, which presents both problems and challenges to the European Union.

EU economies are still characterised by underuse of labour resources and overuse of environmental resources, such that patterns of production and consumption are unsustainable. The way goods and services are produced are based on investment and price relations of the past, when environmental concerns were less important.

Governments in Europe have a vital role to play in creating a legislative and fiscal framework which ensures that prices in the economy fully reflect the social costs of pollution, environmental damage and the depletion of exhaustible resources and which, accordingly, give appropriate signals to producers and consumers alike to adapt their behaviour in line with environmental needs. They also have a responsibility to adopt a long-term perspective to make sure that investment decisions about infrastructure are made with the sustainability of development in mind. Such a strategy depends on a shift from old, polluting technologies and end-of-pipe measures to new clean technologies. This shift can best be done when new investment decisions are being taken, and the new environmental standards can be incorporated right from the beginning.

The benefits of such a strategy will be greatest in those sectors where environmental concerns are most

pressing, and where new investment, accompanied by appropriate labour market policies, can have the greatest impact. Manufacturing industry continues to be responsible for pollution through the use of energy and raw materials and the generation of hazardous waste. In the transport sector, the negative impact on the environment has continued due to traffic growth despite improvements in engines and fuels. In the energy sector, the fossil fuel cycle has a significant negative impact.

The motor car impacts in all of these areas: half of the energy consumption of the motor car during its lifetime takes place during its manufacture, and half during its use.

The need to deal with the environmental effects of the energy sector was recognised by the agreement at Kyoto to reduce CO<sub>2</sub> emissions by 8% by 2010 compared with 1990. Achieving this target will demand a considerable increase in the use of energy efficient and renewable technologies which in turn will create employment.

## Enlarging the Union

The prospect of the enlargement of the Union to the 11 candidate countries has significant implications for employment, both for developments in the candidates and in the existing Member States. The integration of Central and Eastern European states into EU markets for goods, capital and labour, together with the progressive moves toward a market economy, has already provoked structural changes in labour markets and employment in the candidate countries, although much remains to be done.

Labour market conditions and structures, ranging from the mobility and physical movement of work forces, wages, social contributions conditions of employment and distribution of income differ sharply both within the CEECs and between them and the EU labour market. At the same time, the average rate of unemployment, at around 10%, is very similar to that in the Union, though as in the Union, it varies considerably between countries, from around 15% in Bulgaria, Latvia and Lithuania to around 6% in Romania and 5% in the Czech Republic.

As in the Union, the slowdown in population growth in the medium-term will present even greater opportunities for growth of jobs and income, which will reduce unemployment and disparities in income per head between the applicant countries and the Member States. Given that the existing disparity in income has not given rise to massive migration flows, there is even less reason to expect such flows to occur in the future.

At the same time, the expansion of the Union presents opportunities for existing Member States and the candidates. Trade between the applicant countries and the EU has grown substantially since the transition began. In 1996, total EU imports from these countries were 4 times their value in 1985, while EU exports to them were 6 times their 1985 value, and already the EU exports one-third more to them than it imports. Such an expansion in trade is more likely to expand even further than to decline.

One of the major challenges facing these countries is to put in place the appropriate structures for managing this transition to a modern labour market. This includes the

ability to adopt and apply the Employment Guidelines for pursuing the employment strategy. This process is being supported by the Union through a process of employment policy reviews designed to identify the changes in policy design and delivery which will be necessary.

and Monetary Union begins to bear fruit in terms of employment and unemployment.

## **The way ahead**

The European employment strategy has already begun to influence employment policies in Europe. The National Action Plans submitted by Member States in advance of the Cardiff European Council are evidence of their commitment to the strategy.

The Commission has now submitted its proposals for the Employment Guidelines for 1999. Under the circumstances, it sees no justification for any major revision of the Guidelines, maintaining the four pillar approach contained in the 1998 Guidelines. The strategy is designed to be implemented over a number of years, and any revisions each year should be minor ones that build on the experiences of the Member States and on the analyses of the Commission in implementing the Guidelines each year.

The underlying justification both for the initial strategy and the modest revisions envisaged for 1999 are set out above. The outcome of the strategy depends critically on an adequate and sustained implementation in the Member States over the medium term, such that the combination of the macro-economic strategy and the employment strategy, building on the positive economic situation in a context of the Single Market and Economic

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