



**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 9 November 2009

15530/09

**SOC 665
ECOFIN 709**

COVER NOTE

from : The Employment Committee
to : Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject : EMCO Analytical Paper: "Bringing more people into labour markets"

Delegations will find attached an Analytical Paper by the Employment Committee, presented with a view to the session of the Council (EPSCO) of 30 November/1 December 2009.



The Employment Committee

Bringing more people into labour markets

EMCO ANALYTICAL PAPER

Main Trends and Challenges

Approximately 30% of the European working-age population is currently outside the labour market. While concrete figures vary markedly between EU countries (from 23% inactive women and 16% inactive men in Denmark to 60% inactive women and 23% inactive men in Malta), and equally the concrete reasons (for example studies) for inactivity might be different, it appears clear that the inclusiveness of the labour market has been challenged further by the recent economic developments.

The economic crisis has halted a period of employment growth and rising job opportunities; it has resulted in a rise in unemployment which may not yet have peaked. The effects of the crisis in the real economy can be seen in lower levels of labour demand resulting, for example, in a decreasing number of vacancies. EU employment tends to show continuous decline from the beginning of 2008, with the strongest (negative) effects in manufacturing, construction, and financial services and business. Between the 2nd quarter of 2008 and the 2nd quarter of 2009 employment contracted by 1.2 pp. It should be noted, however, that labour market outcomes differ substantially between countries: in August 2009, the unemployment rate in the EU reached 9.1%, ranging from 18.9% in ES and 18.3% in LV, to 3.5% and 4.7% in the Netherlands and Austria respectively. In general, unemployment rates have increased more for men than for women, since sectors dominated by men have been harder hit by the crisis.

The economic downturn may have long-lasting effects on the growth potential of European economies and thus labour demand. If the crisis lasts, it may even result in substantially higher structural unemployment. It is expected that unemployment may climb to 11% in the EU by 2010, hitting in the first place weaker groups of workers (people on temporary labour contracts, older workers, youth, the low-skilled and migrants) – as already recorded in a number of Member States (eg. ES, IE, HU, LV).

Past experience has shown that, unless tackled well and early enough, the greatest threat from the rise in unemployment lies in the prospect of permanent exclusion, making it harder for those already at the margins to (re-)enter the labour market. The longer a person is unemployed, the greater the difficulty to return to employment. Empirical evidence indicates that there tends to be a clear pathway from unemployment, through discouragement, to inactivity.

It must be noted that, unlike in former crises, the promotion of early exit from the labour market (such as early-retirement schemes) has largely been avoided, which is positive. In deep economic downturns labour market and social security policies are put to the test. Persistently high unemployment, with potentially long-lasting effects on labour markets and potential growth, could threaten the European social welfare systems which are already strained by population ageing.

In the near future, the key issue will be to manage the most urgent effects of the economic crisis, while maintaining the commitment to address the structural reforms linked to long-term challenges. Globalisation, continued growth of the knowledge economy and associated technological changes, and policies to mitigate climate change will all continue to transform the EU economy and European labour markets in particular.

Most importantly, notwithstanding the current economic developments, the EU is facing demographic changes, which will soon result in a shrinking labour supply. Indeed, in the coming decades, the age-structure in Europe will undergo substantial changes, characterized by low fertility rates and the ageing of the population. These changes, combined with outcomes caused by the economic crisis, are likely to have substantial economic, social and budgetary consequences bearing on the labour market. The working-age population will start shrinking from 2012 onwards and the labour force from 2018 onwards. Age-related expenditure in GDP¹ (particularly pensions and health care) is projected to increase by 0.5 pp by 2020 and by 4.7 pp by 2060 and the old-age dependency ratio² will rise from 0.25 today to 0.5 in 2060, and without substantial policy reform will put a substantial strain on national budgets.

Until now, Member States have been acting on the labour supply by reinforcing efforts to increase the labour market participation of women, to maintain older workers in active life, and to integrate the young and other vulnerable groups into the labour market (migrants, disabled, for example). Between 2000 and 2008, the employment rates of women and older workers increased by about 5.5 pp and 8.8 pp respectively. Under current conditions, it remains important to analyse and address the different aspects of inactivity and unemployment, taking into account the changing composition of unemployment arising from the crisis, as well as tackling the needs of different disadvantaged groups. The continued effort to promote the work-life balance is critical to increasing the labour supply, as is the labour market integration of migrants. While migration can only be expected to offset part of the labour-supply issue, the potential of well-managed migration should be fully recognised.

¹ *Source:* '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, (forthcoming).

² Old-age dependency ratio is the number of people aged 65 and over divided by the number of people aged 15-64.

In a post-crisis world, EU economies will face the challenge of finding efficient solutions to avoid labour-market discouragement and the loss of human capital. Supporting jobseekers to take up entry-level jobs will remain a challenge, as well as keeping the issue of making work pay on the policy agenda. The current priority should be to ensure that as many people as possible return to work, while also having recourse to appropriate training. In the medium term, the challenge is to stimulate the creation of better quality and higher value-adding jobs.

Finally, in addressing the above, Member States must manage the challenge of reconciling labour market interventions with efforts to contain the budgetary impact of the crisis and its recovery packages, as a sound macroeconomic framework is a crucial element of well-functioning labour markets. As the deterioration in economic growth bottoms out and the room for fiscal stimulus diminishes, the emphasis of employment policies will need to gradually shift from short-term anti-crisis measures to structural labour market reforms aimed at stimulating potential growth and competitiveness by boosting the labour supply and improving the functioning of the labour markets.

Policy Focus

A set of policies is being put forward for consideration as having relevance to meeting the trends and challenges outlined above. Considering the consequences of the crisis, particular attention should be paid to coherence and complementarity between short- and long-term measures. Flexicurity is a useful framework that allows Member States to take up an adequate mix of priorities in line with their labour market situations and challenges. In the current context, flexicurity strategies that ease transitions into work and that enable upward transitions within the labour market are particularly relevant.

Two objectives emerge as important: ***maintaining and raising the labour supply as well as job creation across the skills spectrum***. In the light of the three priority areas pinpointed by the June European Council within the recovery packages, namely: (i) maintaining employment, creating new jobs and promoting mobility; (ii) upgrading skills and matching labour market needs; (iii) increasing access to employment, Member States are encouraged to consider the following directions for employment policies:

- The impact of taxation and benefit systems upon the **incentive to work** should continue to be examined. Complementarities between active labour market policies and income support policies must be strengthened. It is also important to maintain the labour-market attachment of older workers, avoiding opportunities for early labour-market exit.
- Continued attention should be paid to **closing gender gaps** in employment. In this respect, the ability to reconcile work and private life is important, especially the availability of affordable, quality childcare and elder-care services, and flexible working time arrangements.
- ALMPs should be reinforced to **prevent long periods without employment**. Engagement with jobseekers should be early and targeted, and the capacity of the PES should be strengthened in this respect. Early intervention in cases of redundancy is essential. Outcomes of ALMPs including recruitment subsidies and (re-)training of the unemployed should be subject to systematic monitoring and evaluation.
- **Strengthening the skills profile** of the labour supply is important. Quality basic education and training are an essential prerequisite for labour market inclusion. Training programmes should reflect labour-market needs and should be accessible to those who need them most. **The social partners have an important role** in defining and anticipating skills needs and in providing training programmes. The recognition of informal and non-formal learning also assists in labour-market reintegration, especially of low-skilled persons. **Youth** transitions into work and further education and training must be strengthened, particularly for early school-leavers and new graduates. The value of dual-training such as the apprenticeship system has become more widely recognized, and quality placements should be encouraged.
- **Promoting the quality of work** remains an important part of labour market inclusion and should be strengthened. The transformation of undeclared work into regular employment is important in this respect. The environment for self-employment should also be improved, and appropriate incentives developed. The potential of personal services for job creation should be fully explored.

Statistical annex

Table 1 Employment rate

Persons in employment in age groups 15-64 as a proportion of total population in the same age group. Breakdown by sex.

Total	2000	2008	2008Q02	2009Q02	Men	2000	2008	2008Q02	2009Q02	Women	2000	2008	2008Q02	2009Q02
EU27	62.1	65.4	66.0	64.8	EU27	70.7	72.5	73.0	70.9	EU27	53.6	57.3	59.1	58.8
BE	60.9	62.0	62.0	61.5	BE	69.8	68.7	68.3	66.8	BE	51.9	54.0	55.7	56.0
BG	51.5	61.7	63.9	63.3	BG	56.1	66.0	68.4	67.7	BG	47.2	54.6	59.5	59.0
CZ	64.9	66.1	66.6	65.4	CZ	73.1	74.8	75.3	73.9	CZ	56.8	56.8	57.8	56.7
DK	76.4	77.1	78.4	76.2	DK	80.7	81.0	82.4	78.5	DK	72.1	73.4	74.4	73.8
DE	65.3	69.4	70.3	70.8	DE	72.7	74.7	75.6	75.2	DE	57.8	62.2	65.0	66.2
EE	60.3	69.4	69.8	63.8	EE	63.7	73.2	73.8	64.4	EE	57.2	65.3	66.1	63.3
IE	64.5	69.1	68.1	62.2	IE	75.7	77.4	75.6	66.8	IE	53.2	59.3	60.5	57.6
EL	56.6	61.4	62.2	61.6	EL	71.7	74.9	75.4	73.9	EL	41.8	47.4	49.0	49.2
ES	56.1	65.6	65.0	59.9	ES	71.0	76.2	74.4	66.9	ES	41.2	53.2	55.2	52.8
FR	61.7	64.6	65.1	64.7	FR	68.8	69.3	69.7	68.9	FR	54.8	58.8	60.6	60.6
IT	53.4	58.7	59.2	57.9	IT	67.6	70.7	70.8	69	IT	39.3	46.3	47.5	46.9
CY	65.4	71.0	71.1	70.2	CY	78.6	80.0	79.3	78.1	CY	53.0	60.3	63.3	62.7
LV	57.4	68.3	69.5	61.4	LV	61.9	72.5	72.9	61.6	LV	53.3	62.4	66.2	61.2
LT	59.6	64.9	64.6	60.3	LT	61.1	67.9	68.0	60.3	LT	58.2	61.0	61.3	60.4
LU	62.7	64.2	64.4	65.7	LU	75.0	72.3	72.8	74.6	LU	50.0	54.6	55.8	56.6
HU	55.9	57.3	56.5	55.6	HU	62.7	64.0	63.1	61.5	HU	49.4	51.1	50.1	49.9
MT	54.5	54.6	55.2	54.9	MT	75.3	72.9	71.6	71.5	MT	33.4	33.4	38.5	37.6
NL	72.9	76.0	77.2	77	NL	82.1	82.2	83.3	82.7	NL	63.4	67.7	70.9	71.4
AT	67.9	71.4	72.3	71.7	AT	76.2	78.4	79.0	76.9	AT	59.7	63.5	65.7	66.6
PL	55.1	57.0	58.9	59.3	PL	61.2	63.6	66.0	66	PL	49.3	48.2	52.1	52.7
PT	68.2	67.8	68.6	66.7	PT	76.2	73.8	74.3	71.6	PT	60.5	62.0	63.1	61.9
RO	64.2	58.8	59.7	59.2	RO	69.5	64.8	66.4	65.6	RO	59.0	53.0	53.1	52.9
SI	62.7	67.8	68.3	67.6	SI	66.7	72.7	72.6	71.4	SI	58.5	61.8	63.7	63.7
SK	56.3	60.7	61.7	60.4	SK	61.6	68.4	69.2	68	SK	51.1	51.9	54.2	52.8
FI	68.1	70.3	72.3	69.8	FI	71.1	72.1	74.7	70.5	FI	65.2	67.3	70.0	69.0
SE	71.1	74.2	74.8	72.7	SE	72.6	76.5	77.2	74.5	SE	69.7	70.7	72.3	70.9
UK	71.0	71.5	71.6	69.6	UK	77.7	77.5	77.4	74.6	UK	64.5	65.8	65.9	64.7

Source: EU Labour Force Survey, annual average (spring data until 2004) and detailed quarterly results

Table 2 Unemployment rate

Unemployed persons in age groups 15+ as a share of the active population in the same age group. Breakdown by sex.

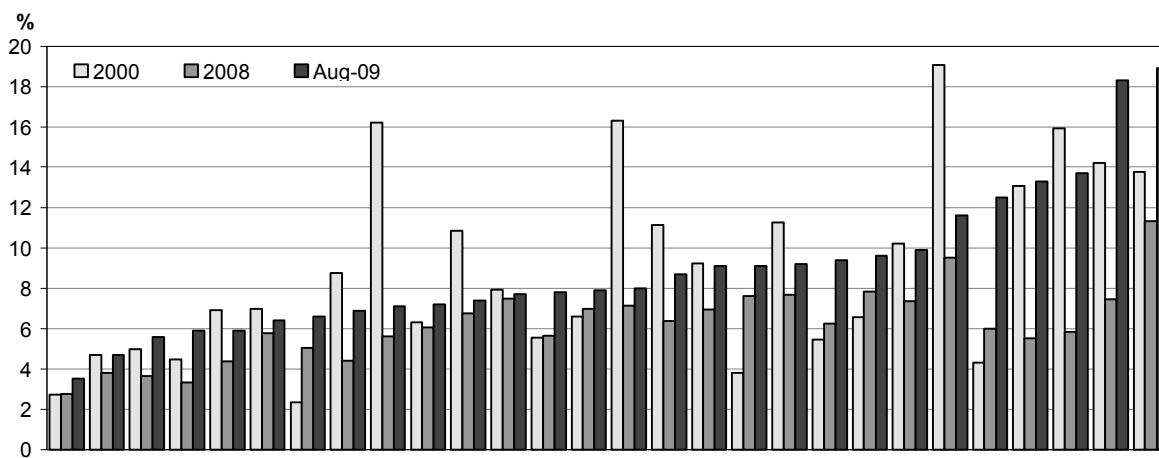
Total	2000	2007	2008	2009 Aug	Men	2000	2007	2008	2009 Aug	Women	2000	2007	2008	2009 Aug
EU27	9.2	7.1	7.0	9.1	EU27	8.2	6.5	6.6	9.1	EU27	10.6	7.8	7.5	9
BE	6.6	7.5	7.0	7.9	BE	5.3	6.7	6.5	7.7	BE	8.3	8.4	7.6	8
BG	16.2	6.9	5.6	7.1	BG	16.6	6.5	5.5	7.2	BG	15.8	7.3	5.8	7.1
CZ	8.8	5.3	4.4	6.9	CZ	7.3	4.2	3.5	5.9	CZ	10.5	6.7	5.6	8.1
DK	4.5	3.8	3.3	5.9	DK	4.0	3.5	3.0	6.3	DK	5.0	4.2	3.7	5.6
DE	7.9	8.6	7.5	7.7	DE	7.6	8.5	7.4	8.3	DE	8.3	8.7	7.5	7
EE	13.1	4.7	5.5	13.3	EE	14.6	5.4	5.8	16.5	EE	11.5	3.9	5.3	10.1
IE	4.3	4.6	6.0	12.5	IE	4.4	4.9	7.0	15.7	IE	4.3	4.2	4.6	8.4
EL	11.2	8.3	7.7	9.2	EL	7.4	5.2	5.1	6.6	EL	17.0	12.8	11.4	12.8
ES	13.8	8.3	11.3	18.9	ES	9.5	6.4	10.1	18.5	ES	20.3	10.9	13.0	19.4
FR	10.2	7.9	7.4	9.9	FR	8.5	7.4	6.9	9.3	FR	12.2	8.5	7.9	10.5
IT	10.8	6.1	6.7	7.4	IT	8.3	4.9	5.5	6.3	IT	14.9	7.9	8.5	8.8
CY	5.0	3.9	3.7	5.6	CY	3.2	3.4	3.2	5.4	CY	7.3	4.6	4.2	5.8
LV	14.2	6.0	7.5	18.3	LV	15.0	6.4	8.0	21.3	LV	13.4	5.6	6.9	15.4
LT	15.9	4.3	5.8	13.7	LT	18.2	4.3	6.0	16.6	LT	13.6	4.3	5.6	10.7
LU	2.3	4.1	5.1	6.6	LU	1.8	3.6	4.3	6.3	LU	3.1	4.7	6.0	6.9
HU	6.6	7.4	7.8	9.6	HU	7.2	7.1	7.6	9.9	HU	5.8	7.7	8.1	9.3
MT	6.3	6.5	6.0	7.2	MT	6.2	6.0	5.6	6.8	MT	6.5	7.6	6.8	8
NL	2.7	3.2	2.8	3.5	NL	2.2	2.8	2.5	3.3	NL	3.5	3.6	3.0	3.7
AT	4.7	4.4	3.8	4.7	AT	4.8	3.9	3.6	5	AT	4.6	5.0	4.1	4.4
PL	16.3	9.6	7.1	8	PL	14.6	9.0	6.4	7.6	PL	18.3	10.3	8.0	8.4
PT	3.8	8.0	7.6	9.1	PT	3.1	6.6	6.5	8.6	PT	4.7	9.6	8.8	9.6
RO	7.0	6.4	5.8	6.4	RO	7.5	7.2	6.7	7.2	RO	6.4	5.4	4.7	5.3
SI	6.9	4.8	4.4	5.9	SI	6.8	4.0	4.0	5.9	SI	7.1	5.8	4.8	5.8
SK	19.1	11.1	9.5	11.6	SK	19.4	9.9	8.4	10.9	SK	18.6	12.7	10.9	12.4
FI	11.1	6.9	6.4	8.7	FI	10.3	6.5	6.1	9.3	FI	12.0	7.2	6.7	7.7
SE	5.5	6.2	6.2	9.4	SE	5.9	5.9	5.9	9.7	SE	5.0	6.5	6.6	9.1
UK	5.6	5.3	5.6	7.8	UK	6.1	5.6	6.1	9	UK	4.9	4.9	5.1	6.5

Source: EU Labour Force Survey, annual average (spring data until 2004) and harmonised monthly unemployment rates (seasonally adjusted)

Note: EE, EL, IT, LT, RO, UK: Data for August 2009 are not available, July 2009 is shown for UK and June for EE, EL, IT, LT and RO

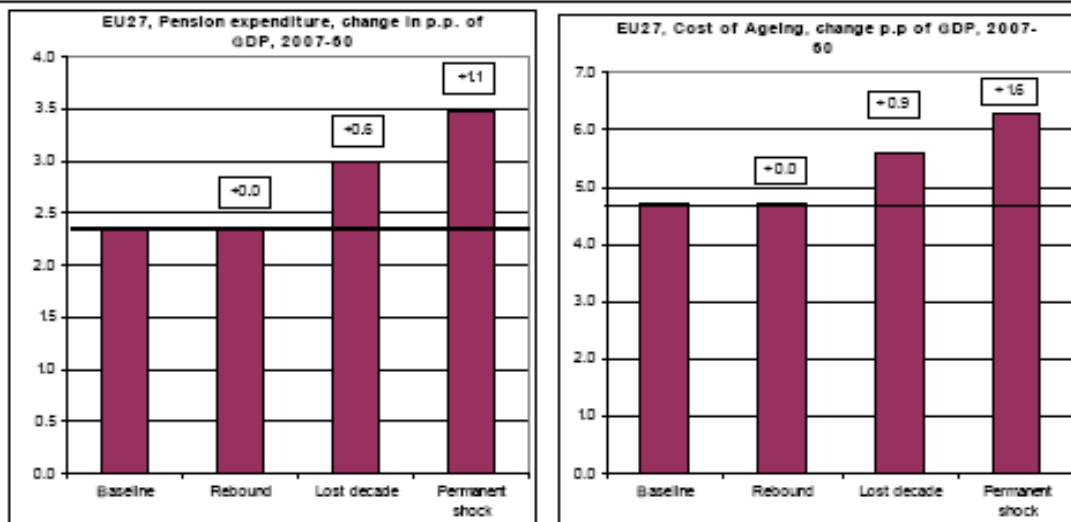
Unemployment rates 2000, 2008 and August 2009 (seasonally adjusted)

Unemployed persons as a share of total active population.



Source: Eurostat - European Union Labour Force Survey
 Note: EE, EL, IT, LT, RO, UK: Data for August 2009 are not available, July 2009 is shown for UK and June for EE, EL, IT, LT and RO

Graph 92 – The potential budgetary impact of the crisis



Source: Commission services, EPC.