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COMMUNICATION FROM THE COMMISSION

Key messages from the Employment in Europe 2008 Report

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1. INTRODUCTION AND KEY FINDINGS OF THE REPORT

This Communication presents the main findings of the *Employment in Europe 2008* report. It is the 20th edition of the report, which has become one of the European Commission's main tools in helping Member States to analyse, formulate and implement their employment policies.

Employment in Europe traditionally provides an overview of the employment situation in the EU and focuses on a limited number of topics that are high on the EU's employment policy agenda.

The key findings of the 2008 report include:

- A generally solid employment performance in the EU, with net employment growth of 3.5 million people in 2007 and continuing employment creation, albeit at a reduced pace, in the first half of 2008. However, there are significant downside risks to the near-term outlook due to the ongoing turbulence in financial markets, increasing housing market corrections and weakening global trade growth.
- Although a trade-off between employment and productivity growth may exist in the short to medium run, the implementation of an adequate policy mix has the potential to mitigate it.
- Recent immigrants¹ have made a significant contribution to overall economic and employment growth in the EU since 2000, addressing labour and skill shortages and increasing labour market flexibility. There are contrasting situations between Southern and Northern Member States with regard to the labour market integration of migrants, to the way their skills are utilised, and the quality of their jobs.
- The evidence accumulated since the 2004 enlargement suggests a generally positive economic impact of recent EU mobility and no serious labour market disturbances.
- A review of available evidence and research suggests room for improvement in the current EU concept of job quality by extending it to wages and work intensity. Synergies, rather than trade-offs, exist between overall labour market performance, labour productivity, and job quality. Member States with more favourable job quality outcomes are also those which rank high in terms of employment rates and productivity levels.
- Different ways for workers to accumulate skills (e.g. formal education, vocational training, and work-related experience) combine with different forms of gaining access to employment. In order to improve the quality of job matching, facilitate transitions, and

¹ The analysis in the report is focused on recent immigrants, i.e. immigration post-2000

anticipate the process of change, it is necessary to improve both the scope and accuracy of the available information on present and future occupational demand and the corresponding skill requirements.

2. COOLING OFF OF THE EU LABOUR MARKET AFTER STRONG PERFORMANCE IN 2007

Towards the end of 2007 economic growth started to slow down, following the world-wide turmoil in financial markets and soaring commodity and energy prices. Although EU GDP growth fell gradually from levels of around 3% in 2006 and 2007 to an estimated 1.4% in 2008, the **impact of the slowdown on the labour market** appeared modest until mid-2008 (on the basis of data available until early autumn 2008). However, the outlook for employment is expected to be less favourable in the months to come.

Employment growth in the EU slowed from a strong 1.6% in 2006 and 2007, to a more moderate 1.3% year-on-year in the second quarter of 2008. The strong performance in 2007 alone boosted employment levels by 3.5 million people. However, marked **differences are starting to emerge between Member States**. Whereas in 2007 employment growth was positive in all EU Member States except Hungary, year-on-year employment growth had weakened markedly in several by mid-2008, and notably in Denmark, France, Germany, Italy, Lithuania, Spain, Sweden and the UK.

Until mid-2008 the **unemployment** rate remained stable at the levels reached in 2007, despite the first signs of a slowdown of the EU economy in the second half of 2007, suggesting a resilience of the labour market to economic shocks. In 2007, the unemployment rate stood at single-digit levels in all Member States except Slovakia. The lowest rate was in the Netherlands, where it was 3.2%, while it reached 11.1% in Slovakia. However, a reversal of the favourable unemployment trends was noted in a number of Member States including Spain, Italy, Ireland and the United Kingdom.

Thanks to good growth performance in 2007, the overall EU **employment rate** increased by nearly 1 percentage point to 65.4% in 2007, though still 4.6 percentage points below the Lisbon target. The employment rate for female workers stood at 58.3% and for older workers at 44.7%, compared with the targets for 2010 of 60% and 50% respectively. In view of weakened employment growth performance, it is thus unlikely that the Lisbon targets for employment, other than for women, will be achieved by 2010.

The **overall employment rate** stood at above 70% in seven Member States, while in six others it lay within three percentage points of the target. However, in Romania, Italy, Hungary, Poland and Malta, it remained more than 10 percentage points below the 70% target. The 60% target for **female workers** was met in 15 Member States, while two others were within 3 percentage points of the target. In Greece, Italy and Malta, the rate was still more than 10 percentage points below the target. The 50% target for **older workers** was met in 12 Member States, but for 10 others, including the large Member States of France, Italy and Poland, the shortfall was more than 10 percentage points.

Labour productivity growth (in terms of real GDP per employed person) remains a concern and could weaken further if the slowdown observed in the first half of 2008 persists or deteriorates.

In 2007, labour productivity growth was no more than 0.5% in Denmark, Italy, Luxembourg and Sweden, while strong growth was recorded in most of the new Member States, with the highest rates (above 6.5%) in Estonia, Latvia, Lithuania and, especially, Slovakia. Among the larger old Member States, labour productivity growth weakened significantly in Germany and France, and remained weak in Spain and Italy.

The EU should focus on simultaneously increasing its employment and labour productivity if it is to achieve its social and economic objectives.

Although no inverse relation is to be expected between employment and labour productivity growth in the long run, various factors (including changes in multi-factor productivity, the capital intensity of production, the stock of human capital and aggregate demand) may cause a trade-off between employment and productivity growth in the short to medium term, but well-run policies can have a mitigating effect. Such policies require structural reforms not only in the labour market but also in the services, product and financial markets and a stable macroeconomic environment.

3. THIRD-COUNTRY IMMIGRATION AND INTRA-EU MOBILITY

Third-country immigrants in the EU labour markets: a major contribution to growth and an important policy challenge

Against a background of ageing European societies and growing labour market needs, immigration is set to increase in the coming decades. While immigration provides opportunities — in particular to alleviate the effects of population ageing, help deal with labour and skill shortages, and more generally to fuel economic growth — it also brings challenges.

Member States are characterised by diverse immigration histories and recent immigration patterns, with varied immigrant population compositions in terms of region of origin, cultural background, skill level, socio-economic characteristics and channels of entry into the EU. All this, together with the existing heterogeneity in the Member States in terms of institutional frameworks and immigration rules, has an impact on labour market integration of immigrants from country to country.

A much more significant phenomenon than intra-EU mobility of EU citizens, immigration from third countries has seen a substantial increase in recent years, rising threefold between the mid-1990s and early 2000s. Indeed, non-EU immigrants who arrived within the last seven years account for almost one third of all non-EU immigrants of working age. At the same time, inflows have become more diversified, with a greater influx of people from Central and South America and much greater migration to countries in Southern Europe than before.

Recently arrived immigrants have made a significant contribution to overall economic growth and employment expansion (around a quarter) in the EU since 2000, with only limited impacts on domestic wages and employment. They have clearly helped to alleviate labour and skill shortages, tending to be employed in those sectors where demand has been greatest, in particular at the low-skill end of the jobs spectrum. Evidence suggests they have generally been complementary to EU-born workers rather than substitutes and have contributed to greater labour market flexibility.

However, the EU still tends to attract mainly less-skilled immigrants: 48% of recent working-age migrants are low-skilled and only one in five is high-skilled.

Access to employment is a key element for successful integration into host societies; yet in many Member States the labour market situation for immigrants is substantially worse than for people born in the EU — they tend to have lower employment rates and are often more likely to be unemployed, or are employed in jobs of lower quality or for which they are over-qualified.

In the new immigration countries of Southern Europe that have received high flows of labour immigration over recent years, immigrants perform better than the EU-born on the labour market. In the remaining old Member States, where other immigration channels have been relatively more important, immigrants tend to have poorer overall labour market outcomes (in terms of employment rates) compared to the EU-born.

In most Member States, recent immigrants, in particular women and people from certain regions of origin, face significant delays in gaining a foothold in the labour market, which can have longer-term impacts on their labour market outcomes.

In general, countries of Southern Europe seem to be more successful at getting immigrants into employment, but with a greater risk of their being over-qualified and exposed to lower quality and precarious employment. In contrast, Northern Member States show a lower rate of immigrant over-qualification but have greater gaps in participation and employment rates, and higher unemployment rates, for immigrants compared with those born in the EU.

The main factors underlying the differences across Member States in immigrants' labour market integration include the immigration channel for entry, country of origin, host-country language proficiency, availability of support and integration measures on entry, labour market rigidities and access restrictions in the host country, incomplete recognition of qualifications acquired outside the EU, lack of information on the labour market and discrimination. These suggest where policy measures to raise immigrants' labour market integration and outcomes should focus.

Labour mobility since the recent enlargements: a generally positive experience²

Four years after the EU 2004 enlargement and over a year after the accession of Bulgaria and Romania, practically all of the available evidence suggests that the economic impact of recent intra-EU mobility has been on balance positive, and that it has not led to serious disturbances on the labour market, even in Member States that have seen a relatively large inflow of migrants from new Member States.

Available data suggests that the number of EU-10 residents in the EU-15 may have increased by over a million and of Romanians and Bulgarians by over 850 000 since 2003. These are significant numbers, particularly given the relatively short time span.

In terms of recent mobility from the EU-10, Ireland and the UK have been the main 'receiving countries', and to a lesser extent Austria and Germany.

² A more detailed account of the key findings on this subject is contained in the Commission report on *The impact of free movement of workers in the context of EU enlargement*, adopted together with this Communication (COM(2008) 765 final)

Flows from Bulgaria and Romania have been directed mainly towards Spain and Italy, involving mostly Romanian nationals — a process which started well before the EU accession of Romania and Bulgaria in 2007.

Relative to their population size, Romania and Bulgaria have also been the main ‘sending countries’, together with Lithuania, Cyprus, Poland, Latvia, Slovakia, Estonia, and Portugal, while the outflow from the other new Member States has been much less significant.

Despite their significant size, intra-EU mobility flows since enlargement never acquired the ‘tidal wave’ dimensions initially feared by some observers. Between 2003 and 2007, the average population share of EU-10 foreigners resident in the EU-15 increased from around 0.2% to 0.5%.

In the same period, the population share of Romanian and Bulgarian nationals resident in the EU-15 rose from 0.1% to 0.4% — a process that started well before 2007. By comparison, the population share of EU-15 nationals resident in another EU-15 country grew from 1.5% to about 1.7% and of non-EU-27 nationals from 3.6% to 4.3%.

Moreover, there is no indication that recent intra-EU mobility flows have exceeded the absorption capacities of labour markets. In both the main receiving and sending countries, local workers’ wages have continued to rise and unemployment has declined since enlargement.

Even when analysing the isolated effects of migration and mobility on wages and unemployment, empirical studies have consistently found very small impacts on local workers’ wages and employment.

A further surge of labour mobility from the new Member States seems unlikely. Evidence suggests that increasing convergence in income and employment between old and new Member States is already lowering the economic incentive to move and is likely to contribute to a further decline in labour supply from the new Member States. In addition, due to a substantial shrinkage of young cohorts, the pool of potential mobile workers from central and eastern Member States is declining, which is likely to reduce geographical mobility flows within the EU in the future.

In fact, mobility flows to the UK and Ireland, which appear to have peaked in 2006, declined significantly in 2007 and the first quarter of 2008. Indeed, there are indications of increasing return flows, particularly from the UK. Furthermore, the opening of labour markets for EU-8 workers in most other EU-15 countries since 2006 may have led to a limited diversion of migration flows to other Member States. Many people from Bulgaria and Romania have already moved and have been working elsewhere in the EU over recent years. This suggests that many of those who wanted to move have already done so and that the potential of additional migration from Bulgaria and Romania is limited.

From the perspective of the new Member States, in particular the ‘high-mobility’ ones, substantial outflows of workers are often perceived as a mixed blessing. On the one hand, outflows have helped to reduce unemployment. On the other, outflows of predominately young and high-skilled people have raised concerns about ‘brain drain’ and labour shortages in the sending countries. But there are a number of factors that may help to alleviate these problems, such as the significant recent rise in higher enrolment rates for university education in most new Member States, the temporary nature of much of the mobility, and the fact that

many of those who do come back often do so with improved working skills and international contacts which can be of benefit to the home country.

4. MEASURING JOB QUALITY IN THE EU

Job quality is fully enshrined in the European Employment Strategy, reflected in the call for more and better jobs. However, significant employment growth in the EU over the last decade has coincided with widespread concerns about the quality of many European jobs, related to the rising incidence of temporary work, the increased exposure to competitive pressures, and perceptions of deteriorating working conditions and higher work intensity. This calls for job quality outcomes and trends in the EU to be re-assessed.

The quality of jobs cannot be fully captured by wages; due to market failures such as incomplete information concerning, for instance, the level of human capital. Moreover, job satisfaction appears to depend not only on a job's outcome, such as wages, but also on the conditions and processes leading to them, including work organisation, autonomy, work intensity and health and safety at work.

Taking a lifelong perspective, the possibility of reconciling work with private and family responsibilities, together with the probability of positive labour market transitions and career advancement, are also key dimensions of job quality.

Recent theoretical developments, as well as ongoing work on job quality frameworks in various international institutions, provide an opportunity for reviewing the current EU concept of job quality. While the EU concept acknowledges the multi-dimensionality of job quality, incorporating both objective and subjective variables (such as job satisfaction), there is room for improvement. The current concept does not include important variables such as wages and work intensity, and only partially covers such dimensions as training and education. On the other hand, it includes aggregate economic variables not directly related to specific job and worker characteristics.

With these considerations in mind, a dataset covering the EU-27 in 2005-2006 was analysed, with a view to identifying the dimensions which capture the essence of job quality across the EU. The following four key dimensions were identified:

- i) socio-economic security (including levels and distribution of wages);
- ii) education and training;
- iii) working conditions (including work intensity);
- iv) reconciliation of working and non-working life/gender balance.

An analysis of the performance of Member States with respect to these dimensions brings out different types of key challenges for Nordic, Continental, Southern and new Member States. These typical situations are broadly consistent with the four types of country situations and challenges described with respect to flexicurity (see Employment in Europe 2006 and 2007).

The inclusion of wages and work intensity and the exclusion of indicators of macroeconomic performance (not directly pertaining to job quality) are fundamental to improving the characterisation of national job quality outcomes, compared to the original definition of job quality.

A dynamic analysis of job quality on the basis of a synthetic index composed of a narrow set of variables indicates that the typology of countries according to their job quality situations tends to be relatively stable over time.

Characterisation of job quality in terms of economy-wide indicators highlights the synergies, rather than trade-offs, between overall labour market performance, labour productivity and job quality. In fact, Member States with more favourable job quality outcomes are also those which rank high in terms of employment rates and productivity levels.

5. EDUCATION AND EMPLOYMENT: DIFFERENT PATHWAYS ACROSS OCCUPATIONS

A recurrent concern of policy-makers in the fields of education and employment is the perceived mismatch between workers' education and skill levels, and actual job requirements in the labour market. Globalisation, technological change, an ageing population, and wider societal changes have all served to increase uncertainty about the future and contribute to a sense of insecurity. Workers are increasingly more likely to undergo numerous transitions and perform different tasks during their working lives. Consequently, they need to be supported during such frequent transitions by a series of measures, such as unemployment benefits, training subsidies, counselling and career guidance.

Policy-makers have responded with a variety of initiatives aimed at better anticipating future labour market needs and at better management of the process of change. Addressing these issues requires an integrated policy strategy that raises the skills levels, including transversal ones, facilitates transitions and modernises labour market institutions. A regular assessment of future skill needs will be critical for designing adequate lifelong learning strategies and efficient labour market policies, and thereby helping to turn flexicurity policies into practice.

The *New Skills for New Jobs* initiative primarily aims to improve the availability and the quality of information on present and future occupational demand and the corresponding skill requirements, in order to enhance the quality of job matching. Despite the usual caveats associated with occupational projections, such exercises constitute an indispensable tool to better inform policy-makers and achieve a better matching between demand and supply of skills.

In addition to occupational demand and skill requirement projections, more qualitative exercises should be carried out, such as foresight analyses, employer surveys, case studies or job competence modelling exercises. These exercises are essential to identifying new trends in competence requirements and changes in the content of occupations. A combination of both quantitative and qualitative methods, covering different time spans and updated at regular intervals, would keep policy-makers informed and assist them in improving job matching in the EU and adapting education and training systems to new needs.

Job matching is particularly affected by market failures due to insufficient information or incorrect expectations. In fact, workers often lack information about the best job opportunities available. One possible way to gather and disseminate such information would be the development of a harmonised EU 'career exploration tool' inspired by best international practices. Such a tool could be used by many individuals and organisations for various purposes (e.g. job counselling and occupational projections).

An empirical analysis of the relationship between education and occupations at EU level carried out in the report allows for a richer characterisation that partly depends on firms' human resources policies. For example, employers differ in the importance given to fields of education versus work-experience; access to some occupations is limited to certain levels of education and fields of studies; a number of occupations are open to workers with distinct profiles; and some occupations offer better opportunities for continuous vocational training, benefiting from complementarities with the initial level of education. The analysis undertaken tentatively identifies eight different ways for workers to accumulate skills over a lifecycle (e.g. formal education, vocational training and work-related experience) that combine with different forms of gaining access to employment. These results, together with information on institutions and policies, could contribute to a better mapping of jobs and training opportunities, eventually improving the matching between the supply and demand for skills.

6. CONCLUSIONS

Despite the increasing signs of slower economic growth, the strong performance of EU labour markets continued in 2007, leading to a net increase of 3.5 million in total employment.

The deteriorating economic environment, particularly in terms the turbulence in financial systems, is exacerbating the risks for employment in the near future. Over recent years most Member States have implemented important structural reforms in the area of employment, and the current cyclical downturn will put the robustness of these reforms to the test.

Increasing uncertainty and rapidly changing conditions are becoming the standard environment for EU labour markets and related policy-making. Growing inflows of migrant workers from outside the EU, together with the rise in intra-EU mobility flows following the two most recent enlargements, have been major factors driving economic growth and employment outcomes in recent years, but are also shaping economic and social conditions in the EU in a broader sense. Looking at these phenomena, this year's report highlights their largely positive contribution and identifies a number of important policy challenges resulting from this new situation.

Flexicurity has been an important recent EU policy response to the vanishing old certainties in European labour markets. Previous issues of *Employment in Europe* have made an analytical contribution to assessing the merits of flexicurity policies. By revisiting the issue of job quality, this year's report puts flexicurity into a broader context and finds not only complementarities between these two concepts, but also important synergies between job quality and overall economic and employment performance.

Finally, improved matching and smoother transitions in the labour market are among the key aims of the flexicurity approach. This report thus stresses the importance of grasping the links between education and occupations in this respect. It highlights the role of public bodies in identifying current and future job opportunities and related skill requirements, as envisaged by the *New Skills for New Jobs* initiative, and the need for further investing in the development of the skills of both young people and adults.

The "Employment in Europe 2008" report is published on the following website:

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