

Labour Market Reforms in the EU member countries through the European
Employment Strategy

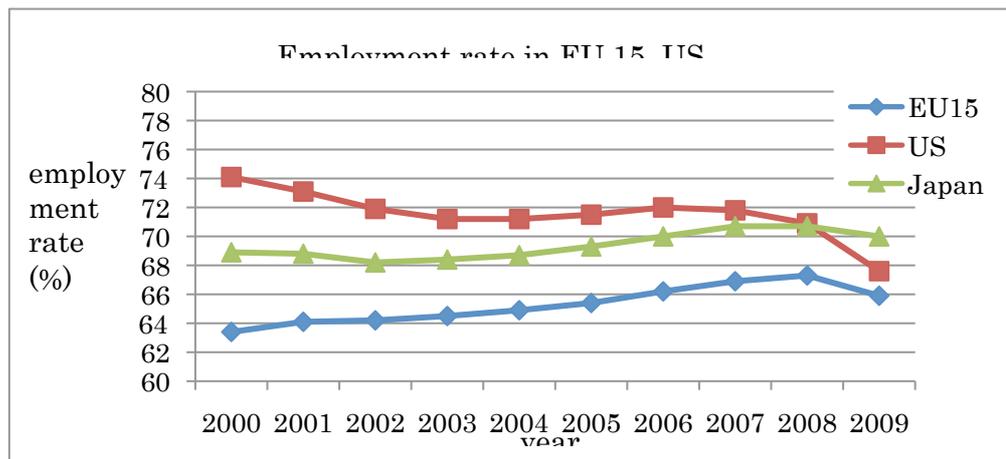
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Introduction

The need for labour market reform in the EU countries

The following graph shows that the countries belonging to the European Union (EU) on average reach low employment rates, compared with that of the United State and of Japan.



Data: Eurostat, employment rate by gender (total), age group 15-64,

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tsiem010&tableSelection=1&footnotes=yes&labeling=labels&plugin=1>

The EU member countries¹ are required to improve their relatively low employment rate for the following reasons. First of all, low employment rate strains government budgets, which is becoming more serious in the context of population aging. In addition, in the face of globalization and technological changes in the twenty first century, low employment is undesirable because it is accompanied by sub-par productivity. According to Sapir (2006), the main reason for Europe's economic poor performance is that outdated labour market and social policy do not allow the single market, public spending on R&D and the currency union to unleash their full potential in meeting the challenges of globalization and technological change².

¹ In this paper, the EU member countries are limited within the EU 15 countries in consideration for the difference of economic situation. The 15 countries are Belgium (BE), Denmark (DK), Germany (DE), Greece (EL), Spain (ES), France (FR), Ireland (IE), Italy (IT), Luxembourg (LU), Netherland (NL), Austria (AT), Finland (FI), Sweden (SE), the United Kingdom (UK)

² Sapir (2006), p. 373

The EU member countries, therefore, need to undertake reforms of their welfare and employment systems in order to make their employment rate higher and to make their economic performance better. From an institutionalist perspective, growth and productivity are not hindered by employment systems that involve both relatively strong employee protection and welfare provision³. Focusing on the countries which belong to the euro area, Duval and Elmeskov (2009) also mention that low employment in many euro area countries reflects distortions created by policies and institutions⁴.

In the EU member countries, however, reforms of welfare and employment system could not be conducted only by themselves because policies closely relating to labour market such as monetary policy and product, service and capital regulation policy are launched at European level. For example, the EU member countries belonging to the euro share not only the single market but also a common currency. They should maintain the interest rate that is set by the European Central Bank (ECB) with respect to the average inflation rate of the euro area. In the euro area, the monetary policy is decided at European level while the member countries have competences to deal with the fiscal policy. In addition, product, service and capital regulation policies, which are important to make and promote the single market in the EU, are also decided at European level. This is also one of the reasons why attempts of reforms of welfare and employment systems at European level are demanded.

Since the Amsterdam Treaty, approved in 1997, first included an Employment Title as one of the main parts of the Treaty, all the EU member countries have been undertaking problems concerning the employment not only at national level but also at European level. About an half year later, at the Luxembourg job Summit in November 1997, the Heads of State and Government decided to launch the European Employment Strategy (EES), through which the EU member countries have been trying to reform their employment system. The EES are well coordinated with the Lisbon strategy, launched in 2000, where achieving an overall employment rate of 70 % by 2010 is one of the targets. Reflecting the Lisbon Strategy, the EES from 2003 has set down full employment as one of three its objectives and mentioned raise employment rate toward the Lisbon target.

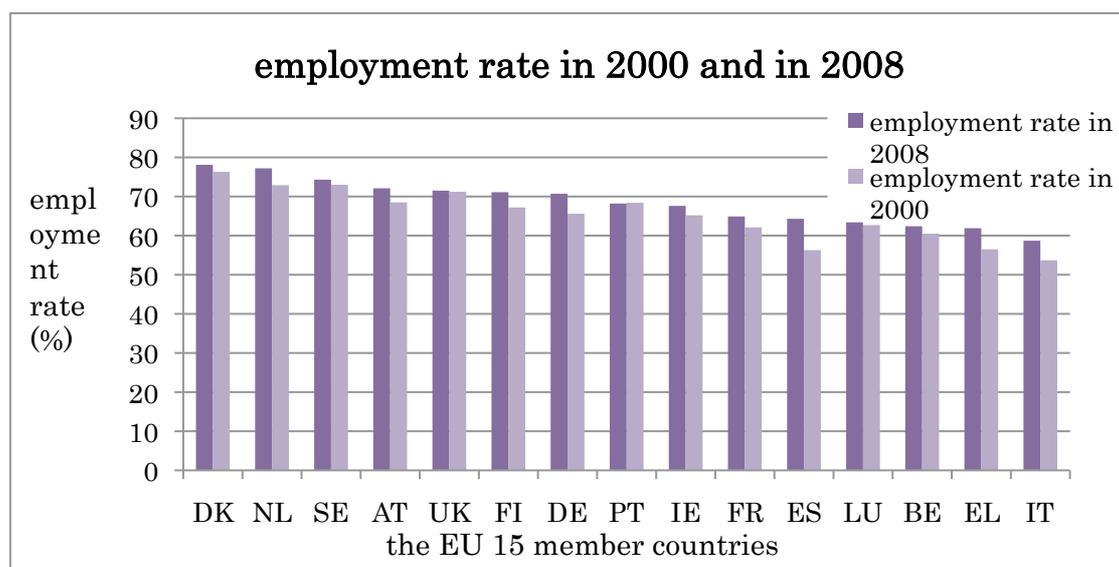
As mentioned above, the EU member countries have made efforts to improve their

³ Bosch, Rubery and Lehndorff (2009), pp.254-255

⁴ Duval and Elmeskov (2009), p.7

employment rate through the EES in order to achieve “on average for the EU an overall 70% of employment rate by 2010” put by the Lisbon strategy. The employment rate on average in the EU member countries rises to 68.4% in 2008 from 65.3% in 2000. The employment rate of each member country is, however, still different between the countries as the graph below shows. Generally speaking, the countries which reacted higher employment rate in 2000 also marked higher employment rate in 2008, and employment rate of lower countries in 2000 are still lower in 2008. Moreover, the degree of change from 2000 to 2008 also differs between the countries. Why do these differences exist? In order to respond to this question, this paper researches whether and how does the EES, which demands the member countries to reform their welfare and employment system, affect employment rate of the countries by examining the interrelation between the employment rate in the EU member countries and effects of the EES.

Even though the Lisbon target of 70% of employment rate should have been achieved by 2010, this paper use employment rate in 2000 and in 2008 as criteria to compare in order to exclude from the influence of financial crisis occurred in 2008.



Data: Eurostat, employment rate by gender (total), age group 15-64,

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tsiem010&tableSelection=1&footnotes=yes&labeling=labels&plugin=1>

The reform of welfare and employment system at European level

Since 1997 the EU member countries have been making efforts to reform their employment and welfare system through the EES in order to improve their employment

rate. Especially since 2003, the EES has been used in order to achieve targets set down by the Lisbon strategy such as an overall employment rate of 70%.

At the EU level, employment policy and macroeconomic and microeconomic policies are well related under the Lisbon Strategy, which was launched at the Lisbon European Council in 2000 as a response to globalization. Eight years after the EES was established, when the European Council of March decided to relaunch the Lisbon strategy in 2005, the Luxembourg process was put into the Integrated Guidelines for Growth and Jobs, which is a guideline for the Lisbon Strategy. That is, the EES came to be a part of the Lisbon Strategy. The Integrated Guidelines for Growth and Jobs consists of two parts; the first part is the Broad Economic Policy Guidelines (BEPGs) which deal with macroeconomic and microeconomic policy, and the second part is the guideline for the employment policies. In the employment guideline part, there are eight guidelines⁵ which are decided by coordinating with guidelines in the BEPGs⁶. Thus, at the EU level, an employment policy is intended to be well coordinated with the macroeconomic and microeconomic policies in the form of the Lisbon strategy.

On the contrary, it is each EU member country that has responsibility to launch its employment policy because the EES is taken place with the Luxembourg Process which uses the way named the Open Method of Co-ordination (OMC). The OMC is a policy making and implementing method which does not have a legal binding force. Thus, the member countries are not forced to converge on one welfare and employment system the EES promotes with legal constraints. In the Luxembourg Process, the EU member countries share the common concepts concerning an employment policy and softly coordinate with the Employment Guideline indicated in the EES. The main procedures of the OMC are as the followings: common guidelines to be translated into national policy, combined with periodic monitoring, evaluation and peer review organized as mutual learning processes and accompanied by indicators and benchmarks as means of comparing best practice⁷.

Research Methodology

⁵ implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social territorial cohesion, promote a life-cycle approach to work, Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive, improve matching of labour market needs etc. (The Commission of European Community (2005) pp.26-35.)

⁶ 中村(2005), p.310-312

⁷ Susana Borrás and Kerstin Jacobsso (2004), p.188

The paper proceeds by case study using data by Eurostat and European Commission (2010), "Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis: 2010 compendium". In the case study, the paper put employment rate of the EU member countries as dependent variable. Following the benchmarks set in the framework of the European Employment Strategy since 2005 (Appendix), explanatory variable are decided as the followings: Long term unemployment rate, Childcare, Average exit age from labour force, Public expenditure on LMP Activation, Public expenditure on LMP Support, Youth education attainment level, Early school leavers and Lifelong Learning. The paper also put as control variables Real GDP growth and kinds of a currency to classify the countries into the euro area countries or non euro area countries.

The research proceeds by literature review first and then the paper explains the descriptive evidences with the data for dependent variable, explanatory variable and controle variable are analysed. Using the data for dependent variable, the member countries are classified into four groups. The paper utilizes this classification in order to examine the effect of the EES on rise of employment rate in the member countries. As result of analysises of the data, implimentation are put in the paper after the descriptive evidence. Finally, the paper estimates the effects of the EES, which foster reforms of welfare and employment system, on employment rate in the EU member countries in the conclusion.

Literature Review

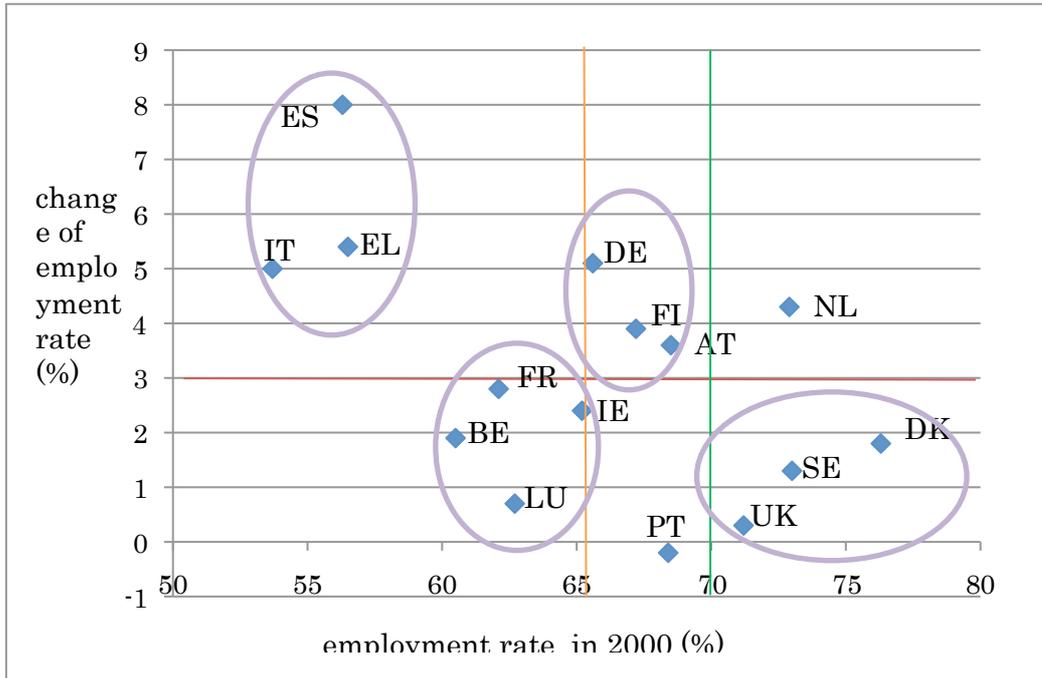
From a vriety of perspectives, literarures argue the labour market reforms in the EU member countries. Here, the paper refers to two lierearures as a review. Bosch, Rubery and Lehndorff (2009) focus on the countries belonging to the euro, and examined the marginal impact of EMU on the political economy of structural reform in labour and, to a less extent, in product markets with descriptive evedence (data) and regression analysis. As implimentatiton, the authors mention that with the descriptive evidence, they could not make sure whether EMU has facilitated structural reform in labour market. On the contrary, regression analysis shows that going through an economic crisis and experiencing high unemployment seem to determine the pace of structural reform, and that a sound fiscal balance may help structural reform. As the second review, Sapir (2006) suggests that mentioning an existent of the different European social models in the EU member countries, the question about the potential role of Europe in the process of reforming national labour market and social policies raises

several questions about the coordination of the member countries and other policies in the macroeconomics and microeconomics sphere. In the microeconomic sphere, product and capital market reforms are conducted at the EU level and labour market reforms are at the national level. This prevents from achieving the objectives of the Lisbon strategy: to speed up productivity growth by removing barriers in product and markets and to ensure that labour is used more efficiently by reforming labour markets and social policy. In macroeconomics sphere, the author explains the reason why structural reform in the euro area countries become difficult because monetary policies are taken at European level while fiscal policies at national level. Implementing reforms are costly in the short term, and the ECB is unwilling to cut interest rate ahead of structural reforms.

Descriptive evidence

Dependent Variable: Employment rate in the member countries

The graph below shows the interrelation between total employment rate (aged from 15 to 64) in 2000 and change value of employment rate from 2000 to 2008 in the EU member countries. Red line indicates the average value of change of employment rate, Green line means 70% employment rate which is a target of the Lisbon Strategy and Orange line signifies the average employment rate in the EU member countries.



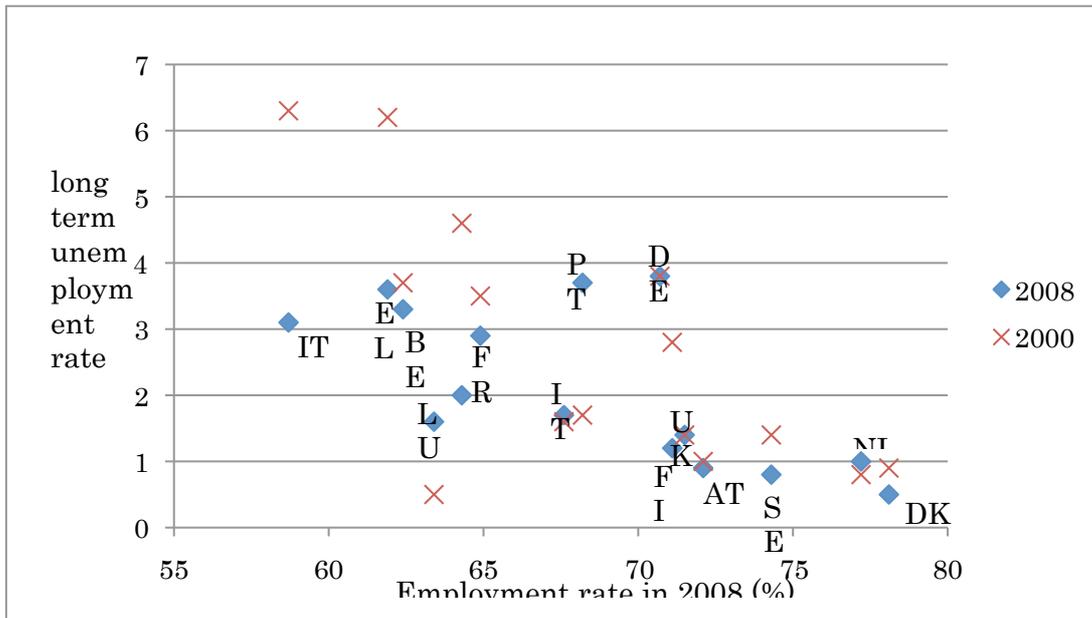
Data: Eurostat, employment rate by gender (total), age group 15-64,

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tsiem010&tableSelection=1&footnotes=yes&labeling=labels&plugin=1>

According to the graph above, it is possible to categorize the member countries into four groups. Group 1 is DK, SE and UK who reached more than 70% employment rate in 2000 and achieved low improvement by 2008. Group 2 is DE, FI and AT who had relatively high employment rate (more than the average less than 70%) in 2000 and gained high improvement by 2008. Group 3 is IE, LU, FR and BE who reached relatively low employment rate (more than 60% less than the average) and achieved low improvement by 2008. Group 4 is EL, ES and IT who were the lowest group of employment rate in 2000 and achieved high improvement by 2008.

Explanatory variable 1: Longterm unemployment rate

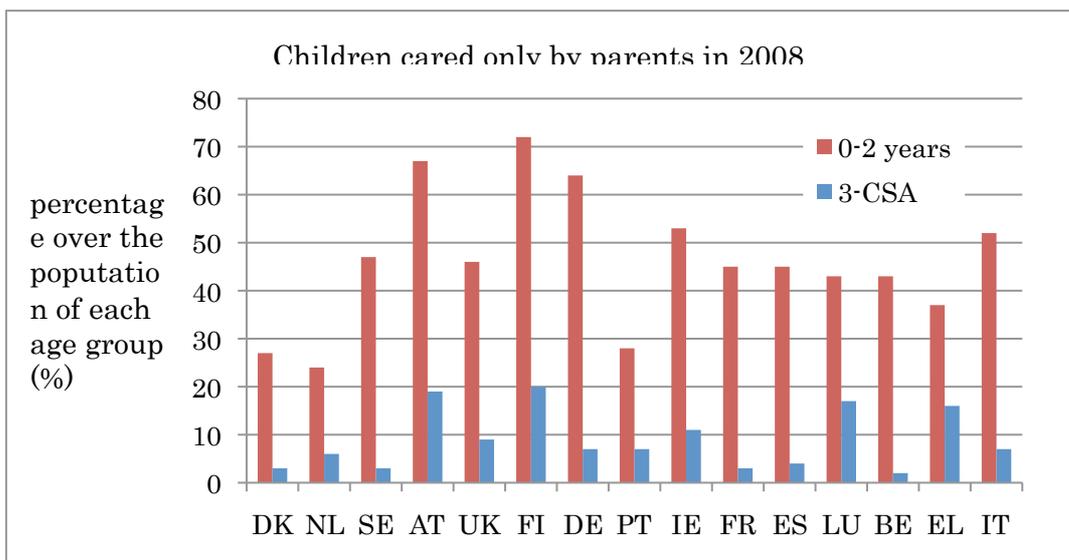
Longterm unemployment rate shows total long-term population (12 month or more) as a proportion of total active population.



Data: European Commission (2010), "Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis: 2010 compendium"

Explanatory variable 2: Childcare

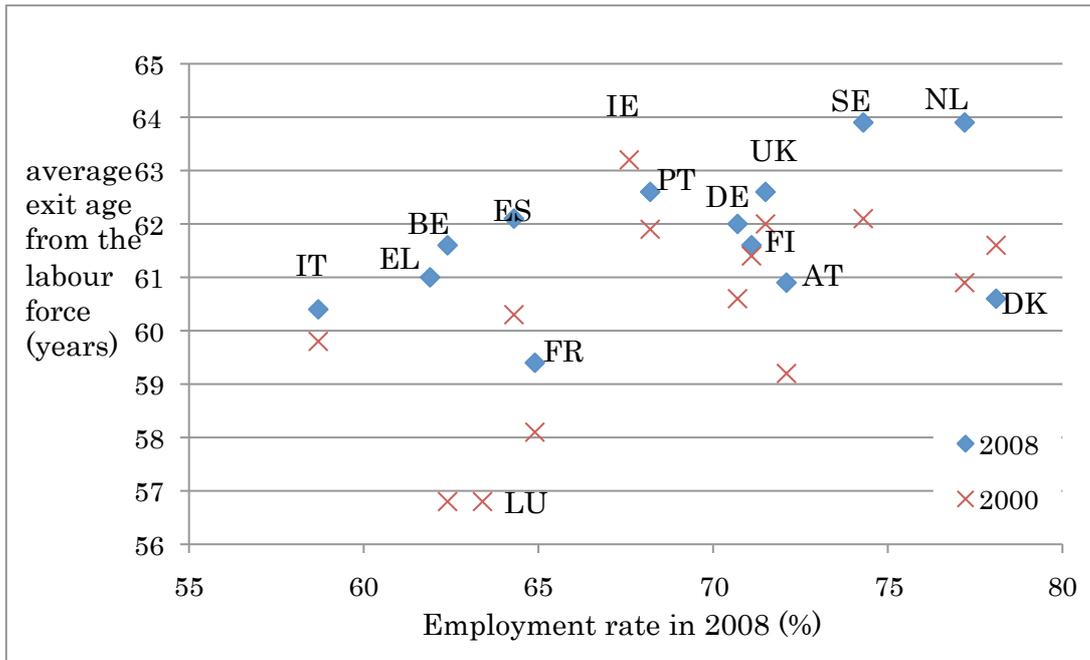
The graph shows percentage of children cared only by parents in 2008 over the population of each age group.



Data: European Commission (2010), "Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis: 2010 compendium"

Explanatory variable 3: average exit age from labour force

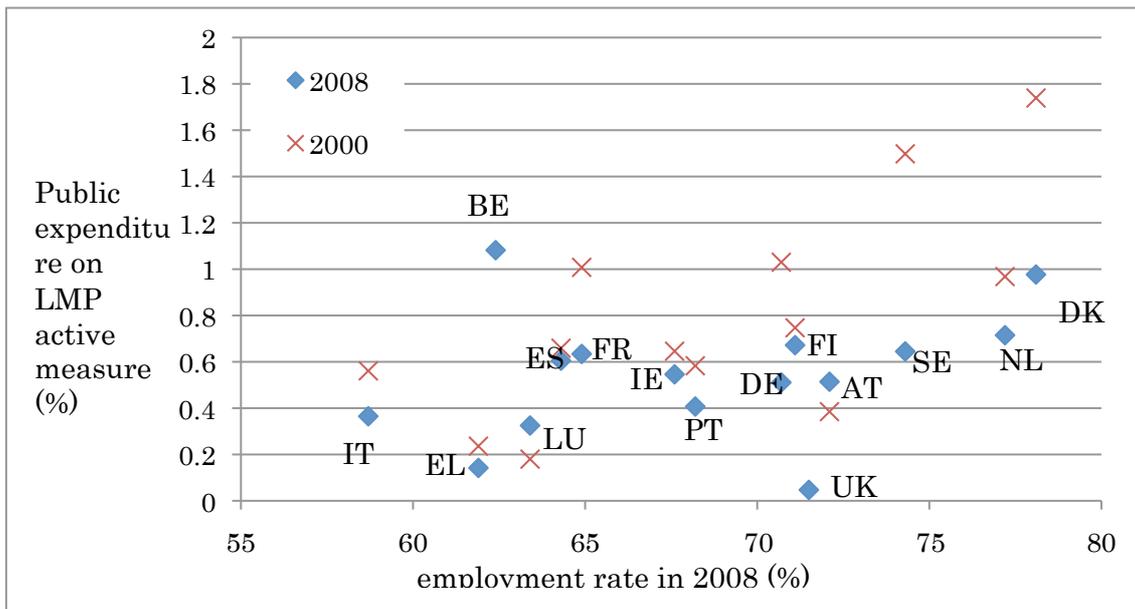
The average exit age from labour force shows that the average age of withdrawal from the labour market, based on a probability model considering the relative changes of activity rates from one year to another at a specific age.



Data: Eurostat, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&ocode=tsiem030&plugin=0>

Explanatory variable 4: Public expenditure on LMP Active measure

Expenditure on labour market policies (LMP) is limited to public interventions which are explicitly targeted at groups of persons with difficulties in the labour market. Labour. Public expenditure on LMP active as % of GDP indicates that used for LMP (categories 2-7), which covers activation measures for the unemployed and other target groups including the categories of training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.

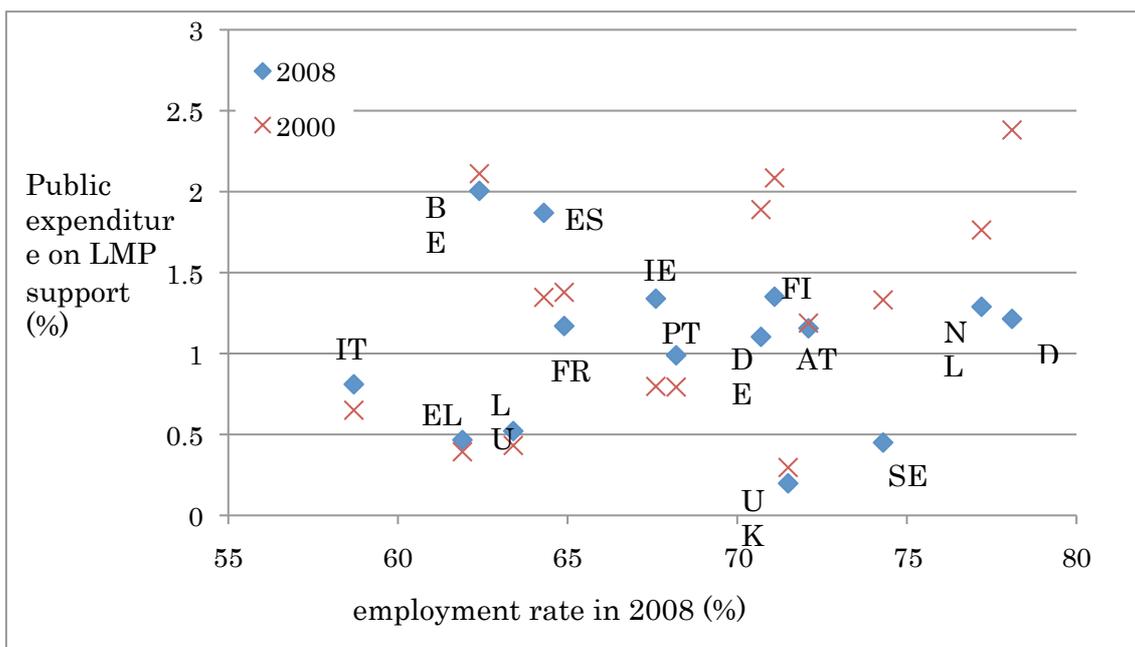


Data: Eurostat,

<http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tps00076&language=en>

Explanatory variable 5: Public expenditure on LMP Support

Public expenditure on LMP Support means that used for LMP (categories 8-9), which covers out-of-work income maintenance and support (mostly unemployment benefits) and early retirement benefits.

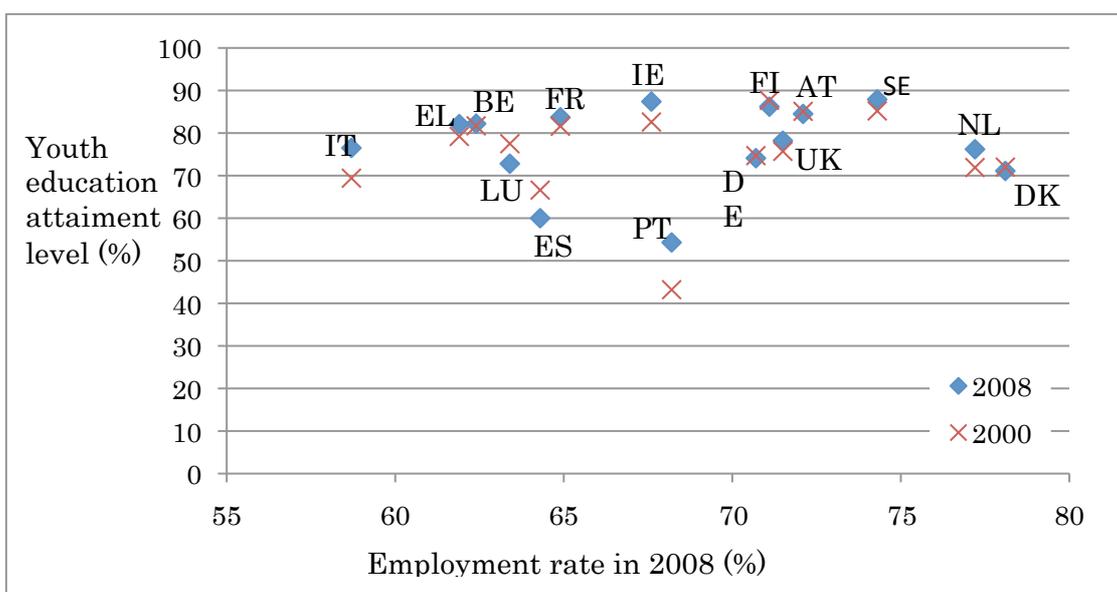


Data: Eurostat,

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Explanatory variable 6: Youth education attainment level

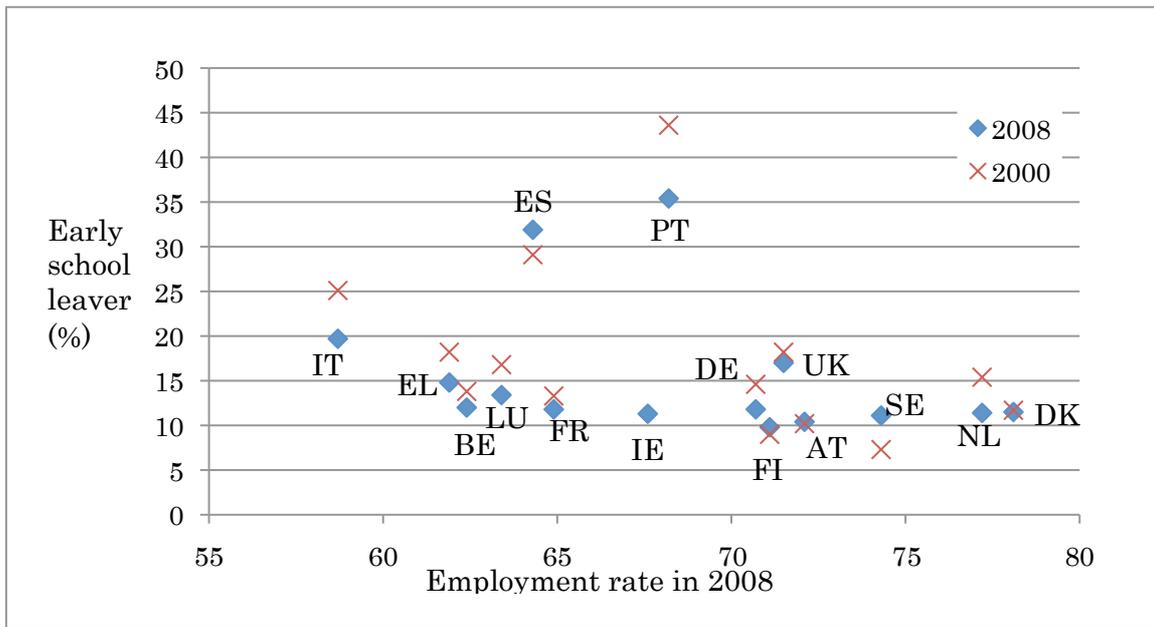
Youth education attainment level means percentage of the population aged 20-24 having completed at least upper secondary education (ISCED level 3 long).



Data: European Commission (2010), "Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis: 2010 compendium"

Explanatory variable 7: Early school leavers

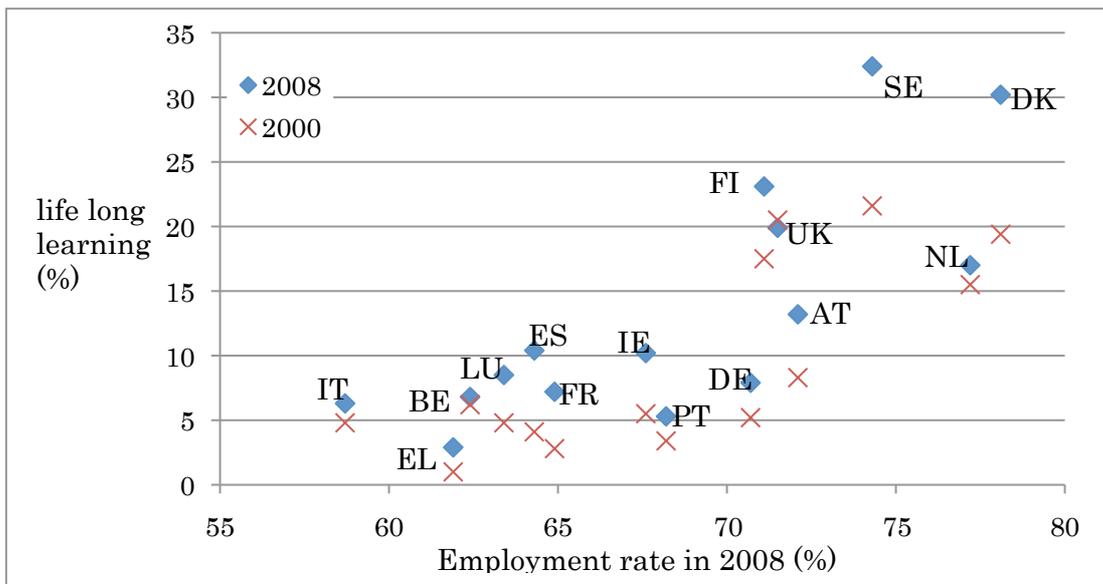
Early school leavers shows percentage of the population aged 18-24 with at most lower secondary education (ISCED level 2) and not in further education or training.



Data: European Commission (2010), "Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis: 2010 compendium"

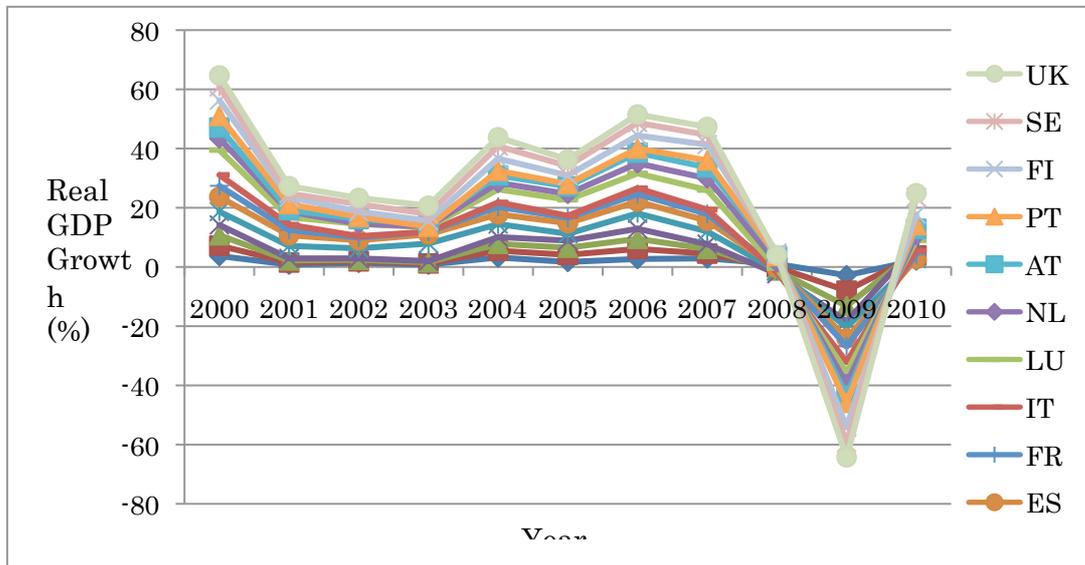
Explanatory variable 8: Life-long Learning

Life-long learning indicates participation of the adult population aged 25-64 participating in education and training (over the four weeks prior to the survey).



Data: European Commission (2010), "Indicators for monitoring the Employment Guidelines including indicators for additional employment analysis: 2010 compendium"

Control Variable 1: Real GDP Growth



Data : Eurostat,

<http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tsieb020>

Control Variable 2: Kinds of a currency

• Euro area countries:

Belgium (BE), Germany (DE), Greece (EL), Spain (ES), France (FR), Ireland (IE), Italy (IT), Luxembourg (LU), Netherland (NL), Austria (AT), Finland (FI)

• Non euro area countries:

Denmark (DK), Sweden (SE), the United Kingdom (UK)

Implimentation

According to the data mentioned as dependent variable and explanatory variables, Long term unemployment rate, public expenditure on LMP Active measure and Life long learning generally have correlations with employmen rate in the EU member countries. For example, despite some exceptions such as Portugal and Germany, the countries with high employment rate have low unemployment rate. The countries which remark high public expenditure on LMP Active measure usually have high employment rate even though Belgium and United Kingdom are not the case. Furthermore, the

countries whose percentage of life-long learning is high reach high employment rate.

On the contrary, these correlations do not prove that the EES itself contributes to the rise of employment rate in the EU member countries. This is because rise of employment rate in the member countries does not relate to change value in the explanatory variables which has correlation with employment rate as the table below shows. That is, even though employment rate in the EU member countries, this not necessarily because of reforms of employment system fostered by the EES. In this meaning, with this research, it can not say that the EES has succeed in making employment rate in the EU member countries higher because the EES aims at improving employment rate through reforms of employment system in the member countries.

change value from 2000 to 2008 (data in 2008- data in2000)

| | | long term unemployment | public expenditure on LMP active measure | life-long learning |
|---------|----|---------------------------|--|--------------------|
| group 1 | DK | -0.4 | -0.762 | 10.8 |
| | SE | -0.6 | -0.853 | 10.8 |
| | UK | 0 | no data in 2000 | -0.6 |
| group 2 | DE | 0 | -0.519 | 2.7 |
| | FI | 1.6 | -0.075 | 5.6 |
| | AT | -0.1 | 0.129 | 4.9 |
| group 3 | IE | 0.1 | -0.1 | 4.7 |
| | LU | 1.1 | 0.145 | 3.7 |
| | FR | -0.6 | -0.374 | 4.4 |
| | BE | -0.4 | 1.082 | 0.6 |
| group 4 | EL | -2.6 | -0.094 | 1.9 |
| | ES | -2.6 | -0.054 | 6.3 |
| | IT | -3.2 | -0.196 | 1.5 |

Mady by the author

Conclusion

Through this research, the effect of the EES on the change of the employment rate in the EU member countries can not be found because rise of employment rate is not

reacted by changes of explanatory variables which have correlation with employment rate in the member countries. The employment rate on average in the EU member countries, however, has certainly risen since 2000 by 2008. In order to examine this reason, probably we need to conduct a research focusing on each of the member countries.

Even though the EES does not contribute to rise of employment rate in the EU member countries according to this research, groups who have had a great improvement of their employment rate is group 2 whose employment rate in 2000 was more than the average (65.2%) less than 70% and group 4 whose employment rate is the lowest values. From this point, not reforms through the EES but practising the EES and putting the Lisbon target may have positive effects on rise of employment rate in the EU member countries.

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Appendix: Benchmarks set in the European Employment Strategy in 2005

- every unemployed person is offered a new start before reaching 6 months of unemployment in the case of young people and 12 months in the case of adults in the form of training, retraining, work practice, a job or other employability measure, combined where appropriate with on-going job search assistance.
 - 25 % of long-term unemployment should participate by 2010 in an active measure in the form of training, retraining, work practice, or other employability measure, with the aim of achieving the average of the three most advanced Member States.
 - jobseekers throughout the EU are able to consult all job vacancies advertised through Member States' employment services.
 - an increase by five years, at EU level, of the effective average exit age from the labour market by 2010 (compared to 59,9 in 2001).
 - the provision of childcare by 2010 to at least 90 % of children between 3 years old and the mandatory school age and at least 33 % of children under 3 years of age.
 - an EU average rate of no more than 10 % early school leavers.
 - at least 85 % of 22-year olds in the EU should have completed upper secondary education by 2010.
 - the EU average level of participation in lifelong learning should be at least 12,5 % of the adult working-age population (25 to 64 age group).
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(The Council of the European Union (2005) "COUNCIL DECISION of 12 July 2005 on Guidelines for the employment policies of the Member States" 2005/600/EC, p. L205/27)