

EMPLOYMENT POLICIES and SOCIAL COHESION IN EUROPE

Nick Adnett,

Business School, Staffordshire University, UK

Abstract

Throughout the EU joblessness is not only a major cause of poor living standards but is itself a key cause of social exclusion. Employment is a key determinant of an individual's ability to participate fully in society, build social networks and realise their potential. More specifically the long-term unemployed and those living in jobless households face not only an immediate risk of poverty, but also over time lose the skills, self-esteem and social interactions necessary for successful re-engagement with the labour market. Hence at the heart of the Lisbon Strategy adopted by the Council of Ministers in 2000 was the proposition that employment was the best safeguard against social exclusion. However, in-work poverty affects around 8% of people in the EU, reflecting low pay, low skills, precarious and part-time employment, but also characteristics of the households such as number of dependents and work intensity. Here we explore what insights researchers and policymakers in Europe have gained into designing employment policies to promote social cohesion, we do so with a particular emphasis upon the most recent research findings and with a view to making our discussion accessible to policymakers and practitioners.

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1. Introduction

The role of this paper is to review the European approach to the use of employment policies to promote social cohesion and identify best practice at different policy levels. In pursuit of this objective the paper is organised as follows. In Section 2 we introduce a number of fundamental issues, a discussion of which is a necessary precursor to the analysis of European employment policies. Section 3 contains a brief description of the evolution of the theoretical analysis of the links between employment policies and social cohesion. This discussion includes a review of the key indicators utilised to quantify the contribution of employment policies to social cohesion in Europe. In Section 4 a complementary analysis of the evolution of employment policies is presented, looking also at the interaction between European Union and national level policy-making in this area and the evolution of attempts to co-ordinate those policies. The final part of this section addresses the issue of the degree of complementarity between the employment policies pursued in Europe to address social cohesion and the health, education and taxation policies targeted at this area. Section 5 identifies examples of ‘best practice’ employment policies in Europe, recognising that perceptions of ‘best practice’ can change over time. The pre-requisites for successful policy innovation are examined and the prospect for potential cross-national transferability examined. The overall findings of this review are presented in Section 6.

Throughout the EU joblessness is not only a major cause of poor living standards but is itself a key element of social exclusion, since employment is a key determinant of an individual’s ability to participate fully in society, build social networks and realise their potential (European Commission, 2007a). More specifically the long-term

unemployed and those living in jobless households face not only an immediate risk of poverty, but also over time lose the skills, self-esteem and social interactions necessary for successful re-engagement with the labour market. Hence at the heart of the Lisbon Strategy adopted by the Council of Ministers in 2000 was the proposition that employment was the best safeguard against social exclusion. However, in-work poverty affects around 8% of people in the EU, reflecting low pay, low skills, precarious and part-time employment, but also characteristics of the households such as number of dependents and work intensity (Bardone and Guio, 2005). Below we explore what insights researchers and policymakers in Europe have gained into designing employment policies to promote social cohesion, we do so with a particular emphasis upon the most recent research findings and with a view to making our discussion accessible to policymakers and practitioners.

2. Some Preliminary Issues

In this short section we address three issues which will inform our review below and also provide a sketch of current employment trends in Europe and their relationship to social cohesion.

2.1 Do Labour Market Institutions matter in the Promotion of Social Cohesion?

The presumption of much policymaking is that well-designed and targeted employment policies and the creation and consolidation of benevolent institutions can promote social cohesion and improve overall economic and labour market performance. Given the diversity of labour institutions across OECD countries then it would seem relatively straight-forward to test these presumptions. However as

Freeman (2008) points out, it is difficult in practice to isolate the effects of labour market institutions. Indeed, as he explains, the multitude of cross-country studies reach agreement only on the finding that institutions can affect the dispersion of labour market earnings and the degree of income inequality. Whilst these latter findings suggest that for our particular concern with social cohesion a comparative approach will be productive, we still know relatively little about the effects of different employment policies and labour market institutions on aggregate employment and unemployment outcomes and the extent to which successful policies and institutions can be transferred across time and countries.

The limitations of our current knowledge about the impact of different employment policy regimes and labour market institutions suggest the need for extreme caution in drawing firm conclusions from our review. These limitations of aggregate analysis also suggest the need for a greater emphasis upon micro-studies, and particularly the evaluation of specific policy experiments.

2.2 Is there a European Model for Employment Policy?

Whilst the European Commission and many commentators frequently find it useful to talk about the European Social Model, it is clear that there are many different evolving employment policy regimes in Europe (Adnett and Hardy, 2005, Aiginger and Guger, 2006 and Rovelli and Bruno, 2008). In part these different policy regimes reflect the diversity of behaviour across individual national labour markets, as well as differences in political and legal philosophies. Diverse institutions, customs and practices within national, regional and sectoral labour markets in the EU 27 have generated different policy responses to common trends. Taken together these

differences mean that policies successful in one locality, region or Member State may not be transferable to others. Policymakers need to be sensitive to this diversity and avoid undue standardisation and over-reliance on prescriptive hard law measures. Hence the gradual eclipse of grandiose plans for cross-Europe harmonisation of employment and social cohesion policies and the increased use of derogation, soft law and the open method of co-ordination, though as Alesina and Perotti (2004) point out, the European Commission's own rhetoric sometimes hides the reality of this change.

2.3 The Changing 'best practice' Model

Notwithstanding this recognition of the extent of diversity within and across European employment and social policies, policymakers have frequently chosen to champion a particular national system as representing European 'best practice'. In the last thirty years or so European policymakers have, in succession, anointed the German model of conservative-corporatism and co-determination, the Swedish corporatist system, and more recently the Dutch 'polders model' and the Danish 'flexicurity' system as representing European best practice. Each of these, together with at times a dash of neo-liberalist Thatcherism inspired retreats to laissez-faire, have inspired usually short-lived attempts to apply these 'magic bullets' to employment and social cohesion policies across European labour markets.

Fashions change and robust evaluations of employment policies still remain relatively scarce in Europe, which together with our previous recognition of the diversity of European labour markets suggest a further need for caution in drawing firm conclusions from our review.

2.4 Key Trends in Employment and Social Cohesion in Europe

It is not the role of this Report to detail trends in labour market performance and social cohesion (the European Commission's annual '*Employment in Europe*', '*Joint Report on Social Protection and Social Inclusion*' and '*The Social Situation in the European Union*' reports provide excellent reviews of these trends), however if we are to understand some of the major forces determining the evolution of theory and policy in this area we need to briefly identify key recent trends.

The impact of technology, globalisation and the resulting increased mobility of capital and intensification of competition have impacted on European labour markets to hasten deindustrialisation and the relocation of labour-intensive manufacturing activities eastwards. Hence education premiums have risen in the increasingly knowledge-based economy and the intensity of working has tended to increase. At the same time employment has been spread more thinly as the number of part-time workers and those on fixed-term contracts increases. Whilst unemployment in the EU has begun to fall in recent years, it is still highly concentrated amongst the long-term unemployed, youths and within jobless households. These changes in the pattern of labour demand have interacted with equally dramatic changes in labour supply. The proportion of mothers working has increased, as have participation rates in post-compulsory schooling, whilst, until recently, early retirement and those on disability pensions represented an increased, and by OECD standards a relatively high, proportion of those of working-age.

Notwithstanding generally increasing real wages and slowly reducing average working hours, European workers became less satisfied with their labour market experience, adding to concerns about job quality in the EU. In part this seems to reflect growing concerns about job security, the increasing intensity of work and the growth of staggered working times, evening and weekend working. Most categories of atypical working and more flexible working time arrangements affect female workers disproportionately. Gender gaps remain stubbornly large throughout much of the EU, especially in the Mediterranean countries notwithstanding the gradual retreat of the 'male breadwinner' model.

Income is relatively evenly distributed in the EU by OECD standards, in part reflecting high levels of social protection. Just over a fifth of Europeans receive less than 60% of the EU median income, and the highest concentration of these are in the poorest (newest) Member States. In a majority of Member States the largest segment of the population at risk of poverty remain those in traditional 'male breadwinner' households, though demographic changes mean that single parents, the retired and the chronically ill's share is increasing in most countries. Increased international migration and asylum have generated growing pockets of poverty amongst those immigrants unable to integrate into their local labour markets, whilst intergenerational transfers of disadvantages remain stubbornly strong in Europe, especially amongst marginalised ethnic groups such as the Roma.

Given these current trends in labour market behaviour and social cohesion, we next turn to review how theory has evolved to analyse the links between employment policies and social cohesion in Europe.

3. The Evolution of the Linkage between Employment Policies and Social Cohesion in Europe

Whilst the development of social protection policies in Europe in the nineteenth and twentieth century reflected the diversity of prevailing national political and social philosophies and labour market behaviour and customs discussed above, the development of national employment policies was much more determined by trends in economic theorising. The emergence of major regional and active labour market policies from the 1960s reflected the concern that in European economies there was a large amount of structural unemployment which even more competitive labour markets could not speedily remove. This belief was initially enshrined within a Phillips' Curve framework within which effective government intervention targeting mismatch unemployment could improve the trade-off facing governments between inflation and unemployment. Accordingly in the 1960s in many European economies there were major expansions of regional, training and job search assistance policies.

Regional policies at this time were predominantly based upon the proposition that footloose industry should be provided with incentives to move to high unemployment regions. Similarly during the 1960s, national training policies were developed initially concentrating upon perceived failures in training markets and again providing financial incentives for firms to increase their on-the-job training levels and join centrally-accredited certified training schemes. The same economic philosophy lay behind the expansion of employment services in which state monopolies targeted informational mismatch in the labour market by providing a job placement service. At this time the emphasis was very much on labour market efficiency and the belief that large scale and standardised government interventions could address such problems.

There was little concern with the explicit targeting of these schemes at the socially-excluded or those peripheral to the primary labour market. These employment policies were effectively developed separately from the emerging equal opportunities policies, which were largely based at this time upon equity and political, rather than efficiency, considerations, and which were exclusively targeted at the growing number of female workers.

The emergence of high and persistent unemployment in European economies from the mid 1970s coincided with mainstream European economists rejecting previous Keynesian orthodoxies, including the simple Phillips curve framework. The new orthodoxy accepted the concept of a unique equilibrium or sustainable rate of unemployment determined by the extent of labour market imperfections. In terms of the dominant Non-Accelerating Inflation Rate of Unemployment (NAIRU), the role of Active Labour Market Policies (ALMPs) was to lower wage-push forces to enable the economy to achieve a higher sustainable rate of employment. In turn this required that the unemployed were now to be targeted by employment policies. Accordingly, policy-makers began to target their training, job-search and the newly emphasised job-creation policies on the young and long-term unemployed. This effectively produced a linkage between employment policies and social cohesion, since the linkage between the two was at this time predominantly associated with reducing the incidence and concentration of unemployment. The latter reflecting a belief in, at that time, state and duration dependence amongst the unemployed, reflecting their decreasing probability of leaving unemployment for employment over time. As Pastore (2007) recounts, whilst this was initially interpreted as reflecting a chronic lack of labour turnover and net job creation in Europe, causing a depreciation of

human capital, later research suggested that European long-term unemployment was predominantly a consequence of poor motivation and low search intensity.

By the mid-1990s there was a widespread consensus amongst economists, encapsulated in the 1994 *OECD Job's Study*, that European labour markets were over-regulated. The term 'eurosclerosis' was used to describe the combination of slow growth, low employment rates and rigid labour markets which characterised many European labour markets. For example, the extension of employment protection legislation in Europe protected 'insiders', those in employment, whilst through raising hiring costs it reduced job creation, thereby lengthening the unemployment spells of the 'outsiders'. Moreover, the resulting labour market rigidities created their own constituency of workers in unproductive jobs which created strong political resistance to labour market deregulation (Saint-Paul, 2000).

Well before the Delors Presidency the European Commission had adopted a belief that continued and sustainable European integration required a philosophical and policy commitment to social cohesion. In turn, the achievement of the latter was supposed to rely upon workers seeing the tangible benefits of increased European economic integration in the form of a levelling-up of the levels of social protection. Political support for continued integration also required that the social partners were brought into European policymaking and, through the Amsterdam Treaty, employment objectives were formally incorporated into the Union's objectives. The Commission's interpretation of the new context was to promote the existence of a triadic relationship between the Union's economic, employment and social objectives. Henceforth, employment policies and social cohesion policies were to be evaluated

against their consistency with the Union's economic objectives, whilst sustaining a social consensus favouring continuing economic integration. We discuss the resulting emergence of the Luxembourg Process, European Employment Strategy and the Lisbon Strategy in the following section.

Meanwhile in the face of persisting high unemployment, inflationary pressures and the increased level of competition following increased European and global economic integration, individual national European governments were trying to develop employment policies consistent with their own economic and social priorities. Theory and empirical studies provided insights into the 'scarring' effects of unemployment and unemployment hysteresis. These led to economists to advocate a further movement away from universalism towards policies encouraging the 'churning' of the unemployment stock. The belief being that the overall employability of the unemployed would be increased if ALMPs were targeted at the long-term unemployed, since the resulting higher proportion of short-term unemployed would increase the overall outflow from the unemployment stock. Hence converting the benefits of the long-term unemployed into marginal employment subsidies was advocated, rather than the job-preserving and general job creation schemes previously preferred (Snower, 1996).

Similarly, advances elsewhere in the social sciences on cycles of deprivation and the inter-generational transfer of poverty and their links to the dynamics of social exclusion, encouraged researchers to champion both earlier, pre-labour market entry interventions into schooling and tackling the concentration of unemployment by household and location through targeted employment policies. Together with the

activation of passive policies, 'Make Work Pay' reforms also included training programmes now targeted at raising the potential in-work wages of the low-productivity workers. Strengthening or re-establishing the links of the poor to the labour market was now seen as a more productive and sustainable approach to reducing poverty and promoting social inclusion than the previous reliance on passive income-support policies with their unavoidable moral hazard effects.

Advocates of Workfare policies also stressed their relevance to reducing the incidence and risk of poverty amongst single parents, early retirees and those on disability pensions. Hence those who had advocated work-sharing solutions to high and persistent European unemployment were now viewed as having been seduced by the 'Lump of Labour Fallacy' and the new consensus saw increasing overall EU employment rates as the solution to social exclusion. Belated recognition of the serious impact of ageing on the sustainability of the high European levels of social protection worked to strengthen the view that a six point rise in the overall employment rate from 2000, together with reforms to the predominantly pay-as-you-go state pension system, would solve most of Europe's economic and social problems.

Recognition that much of the employment gap with the US was due to the lower rate of marketisation of household services in Europe (Freeman and Schettkat, 2002), raised new concerns regarding the quality of the additional jobs and the impact of the closure of this gap on the stubborn gender pay gaps. Moreover, labour economists, who had effectively been driving the reforms of employment policies in Europe, had been slow to incorporate job satisfaction, employment security, work intensity and overall work/life balance considerations into their analysis and policy

recommendations. Somewhat belatedly the supposed benefits of more flexible European labour markets were subjected to a more critical examination and ‘high ‘ and ‘low’ roads to retaining competitiveness through more flexible employment practices were identified (Michie and Sheehan, 2003), and the causes of the increasing work effort investigated (Green, 2004). ‘Bad flexibility’ was viewed as employer-led and resulted in a loss of worker’s control over working time, place and conditions, as well as increased insecurity which lowered overall job satisfaction (Clark, 2005). At the same time the growing dispersion in earning ability amongst European workers, reflecting the effects of skill-biased technical change and increased globalisation, caused others to champion the switching of government support away from ALMPs towards investment in early childhood schooling, given the generally higher returns accruing from such interventions (Esping-Andersen, 2008).

A further contribution of theory to understanding the links between employment policies and social cohesion was provided by the analysis of policy complementarities (Coe and Snower, 1997). These complementarities require that policy reforms be coordinated and mutually consistent. For example, successful activation of passive policies requires that policies that are harmful to efficiency and social cohesion in the long-run are dismantled and replaced by more efficient and effective employment policies which broadly achieve the same distributional objectives. This in turn necessitates that the design of complementary modernizing reforms has to be conducted at national not supranational level. Currently debates about the modernisation of European Social Policy and the merits of ‘flexicurity’ systems have encouraged additional formal analysis of the interaction between unemployment

insurance and employment protection policies and the need for policy complementarities to be recognised in policy reforms (Blanchard and Tirole, 2007).

The Eurostat-New Chronos database includes 23 indicators of social cohesion which can be grouped into six domains of which three are related to employment: regional dispersion of employment rates, long-term unemployment and jobless households (Eurostat, 2008). The adoption of these specific indicators reflects the prevailing belief, noted above, that the dominant linkage between employment policies and social cohesion is through policies targeting the unemployed and the inclusion of people furthest from the labour market through income support and activation policies. Consistent with the importance of raising the employability of the unemployed, a key indicator has been the proportion of the unemployed who are long-term unemployed and the percentage of adults and children living in jobless households. The increased emphasis upon activation strategies has also been reflected in the central role of targets for aggregate employment rates and those for females and older workers in the Lisbon Strategy (discussed in the following section).

The new concern with the quality of employment and the pursuit of a high road to flexible labour markets has generated interest in additional indicators such as the proportion of the employed on non-standard contracts, who work shifts and at weekends and measures of access to training and learning opportunities and patterns of occupational health and safety. However, longitudinal data tracking labour market transitions over time is scarce and the proxies available to trace changes in the quality of European employment over time remain inadequate. The renewed emphasis on gender gaps in European labour markets has also increased attention paid to indicators

of gender pay gaps and also to employment segregation, through measures of the share of female managers and indices of gender segregation by occupations and economic sector. In addition, time use data has begun to be used to analyse the time spent on different activities: paid work, domestic work, child and elderly care, civic activities, travel and leisure. For example, Fontainha (2005) uses such data collected by Eurostat to construct measures of social cohesion by gender, based on time allocation.

4. The Evolution of Employment Policies in Europe

In the second half of the twentieth century employment policies in individual European economies responded to the changing fashions outlined in the previous section, though their responses were moderated by each country's prevailing economic, political and social philosophy (Aiginger and Guger, 2006 provide an overview). However, from the end of the 1990s European-level initiatives began to drive national policymaking and lead to some convergence of national employment policies. The Amsterdam Treaty introduced a new title into the EC treaty requiring the development of a 'co-ordinated strategy for employment'. At the Luxembourg jobs summit in November 1997 a common employment strategy was agreed with specific targets being transposed annually by each Member State in National Action Plans for Employment. The resulting European Employment Strategy has periodically been reformed to reflect labour market developments, changing policy priorities and its frequently disappointing achievements and missed targets. In April 2005 the European Commission announced a further shake-up in response to the failure to

make the required progress towards achieving the strategic goals set at the Lisbon European Council (2000).

The Lisbon Strategy seeks to create “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. This Strategy envisaged the modernisation of the European Social Model and improved co-ordination between the EU’s economic, employment and social policies to achieve specified goals. The overall aim of the associated economic and employment policies was to close the employment rate gap with the US through setting a target of a six point rise in the EU’s employment rate to 70% by 2010, two-thirds of this rise being anticipated to be in female workers. At the following Stockholm Council intermediate targets were added for 2005 and a new target set for the employment of older workers (ages 55 - 64). This emphasis upon the overall employment rate represented a radical departure for European employment and social policies. Previous concerns with full employment and social cohesion were now subordinated to the achievement of higher employment rates. Given that employment rates among the young were expected to be static or fall over the period of the Lisbon Strategy as participation in post-compulsory schooling increased, then in addition to reducing unemployment the emphasis was upon increasing employment amongst the elderly, mothers and the, at that time, 14% of the working-age population classified as having some form of disability.

The uneven progress achieved in the first five years of this strategy (the overall 2005 employment rate target was missed), encouraged the Council to support the Commission’s “*Partnership for Growth and Jobs*” which re-launched and refocused

the Lisbon Strategy. The “*Integrated Guidelines Package*” for 2005 to 2008 provides a further comprehensive strategy of macroeconomic, microeconomic and employment policies to target slow economic growth and a low job creation rate in Europe. The Broad Economic Policy Guidelines and the Employment Guidelines were belatedly merged, effectively completing the reforms begun in 2003 towards a more ‘operational’ European Employment Strategy. Member States were now required to design a three-year national reform programme, with the Commission annually monitoring progress (the latest is the *Joint Employment Report 2007/8*). The Barroso Commission’s new Social Agenda provides the social policy dimension of the refocused Lisbon Strategy and has as its two priority areas of action: moving towards full employment and combating poverty and extending equal opportunities.

We briefly review the nature of these employment guidelines before critically appraising their relevance to the main employment and social policy issues confronting the EU. The macroeconomic dimension of the integrated guidelines largely concerns securing stability, sustainability and the adoption of taxation and expenditure policies that promote dynamic efficiency. Hence there is a supply-side emphasis, with macroeconomic policies focussed on producing a stable context within which growth can take place, rather than those policies actively promoting growth. The main targets of the microeconomic guidelines concerned the stubbornly low European expenditure on R&D, the slow pace of transposition of the Internal Market legislation and the overly complex and rigid systems of regulation at EU and national level. Reflecting the key recommendations of Wim Kok’s Employment Taskforce, the new Employment Guidelines were based upon three broad headings: **attracting and retaining more people in the labour market and modernising social protection**

systems; improving the adaptability of workers, and enterprises, and increasing investment in human capital through better education and skills. In line with the previous 2003 reforms, the focus was on fewer and simpler policy objectives and priorities and on achieving specific targets through implementation of reforms and better governance.

Attracting and retaining more people in the labour market and modernising social protection systems

The first of these guidelines concerned implementing employment policies aimed at achieving full employment whilst improving productivity and the quality of employment, and strengthening social and territorial cohesion. Whilst unemployment appears too often to be viewed as yesterday's European problem, high unemployment rates still persist in several Member States and current forecasts suggest, at best, only a modest fall in the coming years. The incidence of long-term unemployment remains high and job creation, especially in start-ups rather than existing organisations, remains too low. At the same time, though productivity growth in the EU exceeded that in the US in the fifty years up to 1996, since then US productivity has grown faster suggesting that Europe's performance in creating 'good' jobs is no longer superior. In turn, this relative decline in productivity growth can be linked to the slower emergence of the knowledge economy in Europe (van Ark et al., 2008). Whilst the European Social Model has continued to provide relatively high levels of social protection, significant pockets of deprivation persist especially in some of the new Member States. Moreover, the recent emphasis in European-level policies upon the quality of employment is yet to be matched by adequate indicators of that quality and

concerns about the rising intensity of work in Europe are yet to be reflected in these Guidelines.

The promotion of a lifecycle approach to work, that is tackling the problems faced by different age-groups in the European workforce remains another area where rhetoric leads actual policy implementation. Notwithstanding long-standing commitments to active ageing the low employment rate of older workers in Europe, just over 40%, remains a key source of the employment gap between the US and Europe. The Lisbon target of 50% by 2010 now looks unreachable, as does the ambitious target of increasing the average exit age from the labour market (currently 60.9 years) by five years between 2000 and 2010. Whilst researchers are beginning to understand the determinants of the exit age, the sensitivity of these to policy changes has yet to be fully explored. Progress in area of gender equality also remains slow, with female employment rates below 50% in four Member States and a stubbornly persisting 15% pay gap. Whilst some progress has been made in reconciling work and private life, this has predominantly taken the form of Member States' commitment to improve the provision of childcare facilities, though once again few of the resulting targets have been met.

Only about half of Member States saw an improvement in youth unemployment between 2000 and 2006 and only six have reached their target of 10% or less of school leavers having completed only lower secondary education. Policies to combat youth unemployment have continued along four main axes. Firstly, through vocational and training pathways designed to be more reflective of current labour market opportunities for entrants. These include increased targeting on specific

guidance and pathways for at-risk school leavers. Secondly, the adoption of increasingly personalised guidance and job-search support for labour market entrants. Thirdly, expansion of job creation schemes targeting young entrants and finally reforms to taxation and social security systems to make work pay for youths. Member States at the 2006 Spring Council Meeting agreed that they should provide a 'new start' to the young unemployed within six months by 2007 and four months by 2010, though only about 15 Member States appear to have met their initial target.

A further element of this Guideline is ensuring inclusive labour markets, enhancing work attractiveness and making work pay for job-seekers, including disadvantaged people and the inactive. European Countries are increasingly using specific activation measures and placement support from employment services to increase the integration of those at the margins of the labour market. Increasingly it is being recognised that in the knowledge-based economy these need to incorporate programmes to develop the basic literacy and numeracy of adults, especially immigrants. Longer-term initiatives include programmes targeting the better integration of the children of immigrants into the local educational system. In general, European countries have been concerned to raise the effectiveness of their ALMPs rather than their scale in recent years. Measures taken include tightening the eligibility conditions for unemployment benefits, increasing the effectiveness of job assistance and the better targeting of training programmes for the unemployed. Activation has also increasingly taken the form of the promotion of self-employment and training in entrepreneurial skills for the long-term unemployed. Employment subsidies continue in some European countries, but in general these have become more targeted on the disabled.

A final category of policies within this first Guideline concerns the need to improve the matching of labour market needs. Many European countries have moved away from a public employment service monopoly and now rely on a variety of providers to assist the young, socially disadvantaged and others at risk of exclusion to cope with their job search and identification of their training needs.

Improving the adaptability of workers and enterprises

The second Guideline covers the promotion of flexibility combined with employment security and the reduction in labour market segmentation. Identifying the types of flexibility that can raise competitiveness without generating two-tier labour markets in Europe remains a key issue for reform. The ‘low road’ to raising flexibility through increasing employment of temporary and agency workers has not proven to produce sustainable increases in competitiveness in the globalised economy and alternative ‘high’ roads need to be identified. Whilst employment policies were initially slow to address this issue directly, the widespread debate on the merits of the Danish flexicurity system has changed this, with the Commission publishing a *Communication on flexicurity* in June 2007 (European Commission, 2007b). According to the *Joint Employment Report 2007/8* about half of the Member States have now developed, or are in the process of developing, comprehensive flexicurity approaches and combining efforts on contractual arrangements, lifelong learning, active labour market policies and reform of social security systems.

We explore the Danish flexicurity model in more detail in Section 5.1; below we review the trends across Europe in implementing flexicurity measures. Policies to strengthen labour market flexibility have included the promotion of part-time and tele-working, whilst attempting to reform permanent work contracts and employment protection legislation. At the same time, increased security has been targeted through extensions of social protection to workers on temporary contracts and those employed through employment agencies. However, whilst many Member States have used the label of ‘flexicurity’ to describe their reform and retargeting of employment policies, few have followed its essence in switching from job to employment security. Thus Spain has continued attempts to reduce segmentation in its labour market by reversing policies which created a huge expansion of the numbers on time-limited contracts (see Section 5.4 below). In many of the newer Member States segmentation takes the form of a large informal labour market where social protection is almost wholly absent. Most of these countries suffering from high levels of undeclared work are attempting to increase labour inspectorates and increase incentives for firms to switch to the formal, monitored sector (see Section 5.6 below).

A further component of this second Guideline concerns the need to ensure employment-friendly wage and other labour cost developments and wage-setting mechanisms. Efforts to reduce non-wage labour costs are now widespread in Europe and their focus has been particularly on young workers and those with disabilities. Prior to these newer guidelines the emphasis on promoting competitive unit labour costs had been through raising productivity and lowering employer’s social charges, rather than through wage moderation and restraining other costs of employing labour. In the current inflation environment the latter seems a strange priority, since increased

wage dispersion is frequently viewed as providing increased incentives to invest in human capital, itself a key requirement of the Lisbon Strategy.

Increasing investment in human capital through better education and skills

The final two Guidelines cover this need to expand and improve investment in human capital and adapt education and training systems to new competence requirements. As mentioned above, EU benchmarks have been set for reducing the number of early school leavers and most Member States have addressed this issue through curriculum reforms and targeted incentives to continue in full-time schooling. However, currently every sixth young person in the EU27 aged 18-24 left compulsory schooling with no more than lower secondary education and has not participated in any kind of education or training after this. In addition, benchmarks covering improving secondary level attainment were set, by which at least 85% of 22 year olds should have completed at least upper secondary education by 2010, though again this target is likely to be missed. A final benchmark was set for the participation of adults in education and training with at least 12.5% of Europeans aged 25-64 participating, though here again the target currently appears likely to be missed. The latter target was to be achieved by favourable tax treatment of such expenditures and re-directed public spending. The responsiveness of both firm and worker investments in human capital to tax breaks remains a relatively unexplored research area. Participation rates remain lower for most of the targeted groups, the inactive and unemployed persons, older persons and those with low educational attainment. Tax incentives have also been used to stimulate on-the-job training investment by firms, though overall lifelong learning strategies remain under-developed and generally poorly integrated in Europe.

One key area that has been receiving more attention in Europe has been early education. American research evidence suggests relatively high social returns to early interventions through establishing a basis for learning throughout life for those at risk of social exclusion. The belief that such benefits apply in Europe has formed the basis for curriculum reforms in early-education, an expansion of the training of pre-primary teachers and extension of compulsory schooling in many Member States. National qualifications frameworks consistent with the European Qualifications Framework have now been developed by most European countries, with the intention of promoting the expansion of high-quality education, training and flexible learning pathways, and facilitating regional and national labour mobility. Generally these frameworks promote a greater emphasis upon learning outcomes, with the expectation that this will increase the relevance of the learning to the labour market, and hence be reflected in the future earnings of participants.

Taken together these Guidelines largely represented a repackaging of the previous European Employment Strategy, though the Integrated Guidelines for the first time specifically mention the need to modernise European social protection systems. However, there seems little agreement as to what form this modernisation should take and most Member States have already activated many of their passive policies and targeted reversing the growth of those of working age on disability pensions. Member States are again urged to promote inclusive labour markets in which employment policies were to be combined with active inclusion policies in order to combat poverty and promote social cohesion. Making work more attractive than benefits is to be achieved through a balanced approach in which individually-tailored measures, minimum wages or target payroll tax cuts were co-ordinated with increased

employment opportunities which enabled those at the margins of the labour market to find employment and climb the occupational ladder.

The Lisbon Strategy has also led to a re-focusing of equal opportunity policies on raising the employment rates of women and elderly workers: the two main groups where higher employment could close the employment gap with the US. It was recognised that to achieve these increases not only would support through increased childcare provision be required, but greater economic incentives in the form of reduced pay and employment discrimination were also required. Gender mainstreaming was adopted by which each policy decision was to be evaluated in terms of its impact on gender gaps in the labour market and the Commission was required to produce an annual report on gender equality (European Commission, 2008). In turn, as Hardy and Adnett (2005) explain, this led to new interest in work-life balance issues and concerns to regulate for parental leave and restrictions on unsocial working hours, albeit from the narrow perspective of raising employment rates (Fagan et al., 2006).

In recent years the growth of immigration of predominantly low-skilled workers has affected most of the EU-15 Member States and raised new dimensions of social cohesion. Whilst the nature of these migratory flows is very diverse across countries and time, there are indications that the employment rates of immigrants are relatively low, reflecting skills, education and linguistic deficiencies, as well as direct labour market discrimination. Fermin and Kjellstrand's (2005) study of current national policies suggests a need for improvements in the targeting of language tuition and

individualised employment services aimed at the active promotion of employment for immigrants and ethnic minorities

5. European employment policies and best practice

Given the diversity of labour market behaviour, norms and social customs in Europe together with the different weights attached to the various dimensions of social cohesion, identifying a ‘best practice’ employment policy is problematic. Initially we start with an analysis of a key employment policies choosing one from each of the four (as adopted by Rovelli and Bruno, 2008) social policy models prevailing in the EU-16: Nordic (Denmark, Finland, Sweden and the Netherlands), Anglo-Saxon (Ireland and the UK), Continental (Austria, Belgium, France, Germany and Luxembourg) and Mediterranean (Greece, Italy, Portugal and Spain). From the Nordic model we examine the current infatuation with ‘flexicurity’, whilst from the Anglo-Saxon we investigate the contribution that a national minimum wage can make to the promotion of social cohesion. The Continental model is represented by a study of the evolution of ALMPs in Germany and how belated systematic evaluations of policies have begun to underpin reforms and favoured the expansion of policies promoting self-employment. Finally, the Mediterranean model is represented by an assessment of the consequences of the encouragement given to temporary employment in Italy and Spain in response to persisting high youth unemployment. The subsequent evolution of European policies targeting youth unemployment and social exclusion is then briefly outlined. We then turn to discuss the adoption of employment policies to promote equal opportunities, looking at a European level initiative (parental leave) and how individual European countries have developed their

own policies in this area. We conclude this section with an examination of undeclared work, a particular problem in the new Member States of Central and Eastern Europe

5.1 The Nordic Welfare Model: the evolution of flexicurity

As noted early in this Report, the Nordic/Scandinavian Welfare Model has been viewed for several decades as a successful approach to promoting labour market efficiency, high employment rates and social cohesion. The core principle of this model is that entitlement to public sector provision is individual while the financing is collective: that is social protection is financed through taxes. A key feature is that the standard of public provision is high relative to the average position of those in regular employment. The Scandinavian welfare model is very employment orientated, reflecting a relatively large public sector employment, but also the orientation of that sector towards promotion of employment and integration into the workforce (e.g. through the provision of childcare facilities and promotion of a high employment rate amongst mothers). It follows that a key determinant of the sustainability of such a system is its continuing ability to combine generous welfare arrangements with strong incentives to work. As Rovelli and Bruno (2008) point out the Nordic model countries are characterized by spending a high proportion of GDP on both passive labour market policies (unemployment benefits, redundancy and early-retirement payments) and ALMPs.

As Andersen (2008) explains, in recent decades this model has faced several challenges which have required a further evolution of the system. These challenges include: increasing dependency rates primarily reflecting increased longevity;

increased demand for services, such as post-compulsory schooling and healthcare, and the effects of increased globalisation through raising the degree of competitiveness and hence increasing both the sensitivity of employment to unit labour costs and of factor mobility to international differences in taxation. To these challenges can be added the risk of losing the prevailing national social consensus, since it is this consensus which enables the high degree of cross-subsidization to be politically sustainable. To meet these challenges the Scandinavian countries have to maintain higher employment rates, though not working hours, than elsewhere in Europe. Andersen estimates that a drop in employment of 1% would imply, through reduced tax receipts and increased transfers, an overall deterioration in net-public finances of 0.8%. Hence, a key policy motivation is the maintenance of incentives to work, particularly amongst those with high replacement rates, which explains the long history of activation and workfare policies in these countries. At the same time the compressed wage structure in Scandinavian countries, together with the high tax burdens on workers, reduce the returns to education. Whilst the relatively cheap highly-qualified labour may generate some competitive advantages, incentives to promote high educational investments are weak.

Blanchard (2006) argued that the efficiency costs of generous, but well-designed, social insurance need not be large, if such policies are combined with strong competition in the goods market and the active use of macroeconomic policy. The essence of his argument is that insurance should protect workers not jobs, whilst employment protection should switch towards requiring employers to internalise the social costs of laying-off workers. At the same time unemployment insurance should

be conditional on active job search, engagement with training and job acceptance where possible.

In some ways the Danish ‘flexi-security’ model, introduced in 1993 by social-democratic politicians responding to very high unemployment, meets Blanchard’s requirements. Flexible rules for hiring and firing of workers are combined with a generous unemployment insurance scheme; together these provide a balance between numerical employment flexibility for employers and income security for workers. However, as Andersen (2008) points out the main components of the Danish model were in place thirty years ago when double-digit unemployment was present. What has changed is a greater emphasis upon activation with a shorter duration of unemployment benefits and expanded workfare elements in the unemployment benefit and social assistance schemes. For example, Graversen and van Ours (2007) report how a mandatory activation programme requiring more intensive contacts between the unemployed and the Danish public employment service resulted in significantly higher job finding rates. This programme leaves a high degree of freedom in planning and implementation to local Job Centres, but within the constraints of outcomes being benchmarked at the regional and national level. These activation programmes not only have beneficial effects on unemployment through those directly affected by the schemes, but by making the outside options less attractive this ‘threat effect’ of participation promotes wage moderation, increased job search and shorter durations of unemployment (Andersen and Svarer, 2008, Rosholm and Svarer, 2008). In turn this and other ALMPs require a macroeconomic policy stance supportive of job creation and a process of social dialogue in which the social

partners resolve disputes without endangering the dynamic efficiency of the labour market.

The Danish model has proved influential in current modernisation debates about reconciling economic and social objectives in Europe, not least in the Netherlands whose employment strategies share the Danish focus on enhanced numerical flexibility and work security (Wilthagen, et al., 2003 and Bekker and Wilthagen, 2008). However, as noted above, successful adoption of the Danish flexicurity package requires a high degree of social cohesiveness and general acceptance of social norms sympathetic to income redistribution within an egalitarian wage-setting system. Countries lacking these characteristics need to customise their reforms to reflect their social norms and customs and the nature of their wage-setting processes.

In contrast to Blanchard's argument and the interpretation provided above, Anxo and Niklasson (2006) claim that the renaissance of the Swedish model and the improved economic performance followed the adoption of more restrictive macroeconomic policy. This together with the reorientation of ALMPs towards supply-orientated measures and structural reforms to taxation and social protection systems to increase work incentives during the 1990s enabled, these authors argue, the Swedish co-ordinated collective bargaining system to re-discover an effective corporatist approach to promoting efficiency and equity.

5.2 Introduction of a National Minimum Wage: The UK experience

Over recent decades labour markets in developed economies have faced pressures which have tended to increase labour market inequality. The latter has taken the form of increasing wage inequality in the US and UK, but initially was reflected in rising unemployment amongst the low-skilled elsewhere in Europe. However, widening wage structures are now appearing in countries like Germany reflecting the impact of skill-biased technology and declines in both the minimum wage and trade unions (Machin and van Reenan, 2007). In-work poverty has been addressed in Europe through both minimum wage laws and, increasingly, through negative income taxes and/or tax credits. Here we consider an example of the former through an examination of a recent European ‘experiment’: the introduction of a national minimum wage (NMW) in Britain in 1999. The initial fixed rate (£3.60 per hour) covered 1.2 million adult workers, initially giving those in the bottom decile of the national earnings distribution an annual increase of around 10% (double the growth in median earnings in that year), this improvement in relative pay being greater for part-time workers. Subsequent upratings of the NMW have more than compensated for price increases and have raised the minimum wage to around 52% of median hourly earnings and it currently covers around 2 million workers. Overall, the NMW reversed previous trends and actually reduced wage inequality in the UK, as well as contributing to a significant fall in the gender pay gap (Dickens and Manning, 2006).

To assess the overall impact of the British NMW on poverty and social cohesion we also need to address the impact on employment opportunities. Metcalf’s (2007) survey of research findings concludes that there is no evidence that the introduction of the NMW influenced the level of, or trends in, UK employment and unemployment. Similarly, Metcalf finds no evidence of any employment effects in the low-paying

sectors of the economy or amongst different age-groups of workers, though there was a small reduction in the number of paid working hours of those workers affected by the NMW. This absence of adverse employment effects seems to be largely due to this partial adjustment of hours rather than employment (Stewart and Swaffield, 2008) and a re-distribution from profits to wages (Draca et al., 2008).

Overall, the introduction of a NMW in the UK shows that even given unfavourable labour market trends (large inflows of relatively low-skilled immigrants, weakening trade unions and collective bargaining and the growth of performance-related pay), it is possible to raise the real and relative pay of low paid workers through the adoption of a NMW without off-setting employment consequences. However, the transferability of such policies depends, as always, on both labour market and taxation contexts. Müller and Steiner (2008) show that a NMW would be likely to prove ineffective in reducing poverty in Germany, given that country's current means-tested income support.

5.3 Refining and evaluating ALMPs: the case of Germany

Active Labour Market Policies include a range of policies aimed at raising the outflow from unemployment through lowering the duration and concentration of unemployment spells. These include the provision of job search assistance in the form of information and support provided by public employment services, as well as the reduction of skill mismatches in the labour market through subsidised training programmes. Whilst these two policies initially absorbed the dominant share of European governments' expenditure on ALMPs, there has been widespread

experimentation in Europe with other ALMPs such as direct job creation schemes, employment subsidies, start-up incentives and job-rotation and job-sharing schemes. Policymakers' preferences for specific ALMPs have changed over time and these changes have not always been based on a firm evidence base. Over the last thirty years or so Germany has had perhaps the most varied experience with ALMPs, covering up to 80 separate programmes, and we now survey the results of recent evaluations of these policies.

The 2002 Hartz reforms have led to a consolidation of German ALMPs based on a thorough evaluation of the merits of individual programmes. These reforms restructured the Federal Employment Agency's placement activities by making increased use of private service providers and redesigned the German Social Codes with an emphasis upon the effectiveness and efficiency of individual programmes. Many of the resulting evaluations suggested that on average previous programmes, and even some of the new ones introduced with the Hartz reforms, failed to increase participants' chances of finding regular, unsubsidised employment (Lechner and Wunsch, 2007). Overall, spending on ALMPs in Germany declined by a third in the three years after 2002, the only areas of expansion were support for business start-ups and partial retirement. However, Eichhorst and Zimmermann's (2007) review of these evaluations concludes that some programmes, notwithstanding their large deadweight losses, had proven positive effects on the speed of re-integration into employment. These included the use of placement vouchers, training (partly a switch towards higher quality and shorter duration programmes leading to recognised vocational qualifications), wage subsidies (marginally) and business start-up grants. We next briefly explore the latter policy.

Policies aimed at turning unemployment into self-employment have become a major focus of German ALMP in recent years. In 2004 they accounted for around a sixth of total German expenditure on ALMPs covering in total 350,000 business start-ups. The original scheme was a bridging allowance whose aim was to cover basic living costs and social security contributions during the initial six months of self-employment. The unemployed are entitled to this assistance conditional on their business plans being approved externally, usually by the regional Chamber of Commerce, such decentralisation being a common trend in modern ALMPs. In January 2003 a start-up subsidy was also introduced aimed at providing a fixed and declining support for start-ups over a three year period. Baumgartner and Caliendo's (2008) evaluation of these two start-up programmes finds reduced unemployment rates amongst participants and positive effects both on the probability of being in employment and on their income. Moreover, Caliendo (2008) reports that even in a labour market with severe structural problems, the region studied was East Germany, start-up subsidies seem to be effective.

Surprisingly, meta-analysis at the European level suggests that the effectiveness of ALMPs depends not on contextual factors such as national labour market institutions or the business cycle, but on the programme type (Kluve, 2006). Direct employment programmes in the public sector appear to have overall detrimental effects, whilst the use of targeted wage subsidies and targeted employment services can be effective at increasing participant's employment probability. Hence the recent renewed interest in the extension of marginal employment subsidies targeted at the long-term unemployed (Knabe and Schöb, 2006 and Brown et al., 2007). Bergemann and van

den Berg's (2006) survey of empirical research finds that ALMPs have a positive effect on employment outcomes for women, the effects being larger than for men particularly in countries with a relatively low female labour force participation. These conclusions are strongest for skill-training programmes.

5.4 Youth Unemployment: From temporary employment to activation

The emphasis on more flexible labour markets as a response to persisting high European unemployment was based on a belief that increasing the job finding rate was the solution. The low rate of job creation in Europe was, as explained above, frequently blamed on strong employment protection legislation (EPL). Though, Messina and Vallanti (2007) find that more stringent firing laws in European countries dampen the response of job destruction over the cycle and reduce both the creation and destruction of jobs in the declining sectors relative to expanding ones. Research suggests that the less skilled (Cahuc and Koeniger, 2007) and younger workers bear most of the adverse consequences of strong EPL (Bertola et al., 2007).

Accordingly several European governments started to reduce their level of employment protection towards the end of the last century, in particular by lowering hiring costs through the widespread encouragement of fixed-term contracts. In Spain whilst the high levels of protection enjoyed by insiders were maintained, in 1984 temporary employment contracts allowing unrestricted dismissals were introduced. This unwillingness to dismantle Franco-era EPL resulted in a third of Spanish workers, overwhelmingly the young, being stuck in, at best, fixed-term employment. Whilst it was initially hoped that fixed-term employment would be a 'stepping-stone'

to regular employment, the reluctance of employers to expand their core 'protected' workforce led to the expansion of precarious work experience, with most Spanish labour market entrants experiencing a succession of fixed-term contracts, interrupted by recurrent spells of unemployment (Pastore, 2007). In turn this insecurity of employment dissuaded youths from acquiring job-specific training, which further weakened their ability to compete with insiders. Overall, Dolado et al. (2002) conclude that the expansion of temporary contracts led a widening of the wage distribution, lower labour productivity, lower long-term but an unchanged overall unemployment. Whilst Kahn (2008) concludes that reforms to EPL in Europe since 1995 have encouraged a substitution of temporary for permanent employment with no overall positive effect on total employment.

Other European countries such as Austria, France, Germany, the Netherlands, Ireland and the UK have managed to achieve the 'stepping stone' outcome, here around a half of those in temporary employment find permanent employment within a year, partly reflecting these countries higher rates of job creation (Zijl and Van Leeuwen, 2005). In Italy, fixed-term contracts of employment were not allowed until 1997, when they were also introduced as part of programme targeting youth unemployment. Here the Spanish experience was not replicated (Picchio, 2008), partly because of a greater emphasis on training opportunities for labour market entrants and partly because employers were encouraged to use temporary employment as a short-term response to demand uncertainty. In contrast, where flexible temporary agency work regulations have been introduced, a substitution of permanent with temporary employment seems to have resulted (Nunziata and Staffolani, 2007).

In contrast to the policies pursued in Spain and Italy, studies reported in Hammer (2003) investigate the relatively generous benefits and high coverage of the Danish welfare system, discussed in section 5.1. They find that the Danish young unemployed reported lower levels of financial deprivation, were coping better with unemployment, had better mental health and well-being and were better integrated into employment than similar youths in Spain and Italy. More generally, the 1990s expansion of activation policies in Europe targeting the young unemployed, whilst initially typically being national level policies, became increasingly dependent upon local level providers as they evolved into more client-focussed schemes. This generated new forms of local linkages between employment, social services and the voluntary sector, though these organisations were not always able to respond to the diverse working identities and aspirations of their clients (Warner Weil et al., 2005, Walther et al., 2006).

5.5 Parental Leave: redistributing the costs of motherhood?

The persisting gender pay gap in Europe is in part a family pay gap, since it is mothers who generally face the biggest pay gap (Plantenga and Remery, 2006). In the UK one cause has been the large pay penalty of mothers working part-time, this penalty has been increasing reflecting the growing polarisation of part-time jobs in low-wage occupations (Manning and Petrongolo, 2008). Hence there is a danger that the growth of low-status, part-time service sector jobs in Europe will create a ‘career trap’. This occurs when mothers get caught in jobs which continually under-utilise their human capital and previously acquired workplace skills and competencies. In

countries with a more compressed wage structure family pay gaps are larger, these being especially large in Southern Europe (Dupuy and Fernández-Kranz, 2007).

The above studies identify the large costs to mothers of career interruptions and transfer to part-time employment and in turn these findings have encouraged policymakers to target improved leave arrangements for employed parents. However, to avoid dysfunctional effects resulting in increasing the family pay gap, that leave should not be too long and should, at worst, be evenly divided between parents (Plantenga and Remery, 2006). To achieve the latter outcome the leave must either be paid or some weeks have to be reserved for fathers otherwise the, typically lower paid, mother will continue the practice of taking unpaid carer's leave. Such an outcome would tend to increase rather than reduce both gender pay gaps and occupational crowding. The above characteristics of an effective parental leave policy have been incorporated into the Scandinavian model, with a paid leave period of about a year and a father quota (though this was abolished in Denmark in 2002), which reserves a specific time period for fathers to stay home with their children. The compensation rates during maternity and parental leave vary between 66% in Denmark to a maximum of 80% in Sweden, Iceland and Norway, and the leave can often be taken as part-time over a longer period.

Paid parental leave has been a characteristic of the Scandinavian model and Anxo et al. (2007) show that this policy, as part of a coherent and integrated set of policies for time and income management, over the life course results in a much lower level of gender inequality in time allocation. Del Boca et al. (2008) find that the availability of optional parental leave has a particularly large effect on the fertility and participation

decisions of women with lower educational qualifications in Europe. In response to its low participation rate in employment of mothers Germany has recently introduced such a paid parental leave policy. Here the previous means-tested benefit was replaced by a wage-related benefit of 67% of net earnings for a stay-at-home parent in the first year after birth, there is also a father quota and the total duration of leave is up to 14 months. Initial research suggests that mothers will significantly increase their working hours and their labour market participation as a consequence (Spiess and Wrohlich, 2006).

5.6 Combating Undeclared Work

Undeclared work includes any paid activities that are lawful but not declared to the public authorities. Due to both its nature and diversity the measurement of the extent of undeclared work is extremely difficult and the best available estimates were that it was responsible for up to 20% of GDP in some Southern and Eastern European Countries in 2004 (European Commission, 2004). A recent Eurobarometer survey (Eurobarometer, 2007) confirms the existence of a large market for undeclared work in the EU. Notwithstanding its severe methodological and definitional problems, the survey suggested that across the EU around 5% of employees admit receiving cash-in-hand wages, with the ratio higher amongst students, the unemployed and the self-employed. However, Williams (2004) finds that undeclared work is increasingly prevalent amongst the more affluent segments of the labour market. The survey found that the construction and household services sectors have a high incidence of undeclared work, as do the economies of Southern and Eastern Europe.

From the perspective of this Report the main concern with a large undeclared work sector is that it may crowd out compliance with social protection regulations in the regular labour market (i.e. promote social dumping), whilst preventing that protection reaching some marginalised groups over-represented amongst undeclared workers (e.g. illegal immigrants). Given the complexity and heterogeneity of undeclared work there is no simple solution to reducing its incidence. Bovi (2005) investigates the relatively large undeclared work sector in Italy and concludes that it behaves independently of developments in the regular labour market. He takes this finding as indicating the ineffectiveness over the previous two decades of Italian labour policies in converting black economy employment into regular employment. Given the

chronic problems in measuring the incidence of undeclared work, it is virtually impossible to directly evaluate the effectiveness of alternative policy responses, accordingly below we summarise recent innovative policies in the EU.

Within the EU the emphasis has been on policies to: reduce the financial attractiveness of undeclared work; reduce the costs of compliance with regulations; strengthening of surveillance and sanction mechanisms; increased trans-national co-operation and awareness-raising activities (European Commission, 2007c). The Making Work Pay reforms in most EU countries have improved the attractiveness of taking low-wage regular employment, though the average gross tax wedge remains high at around 40%. At the same time significant increases in the statutory minimum wage rate in many EU countries have also encouraged a movement back into declared work. Attempts have also been made to reduce the administrative burden and encourage the transformation of undeclared into regular work, for example simpler registration procedures introduced for family (Greece) and seasonal workers (France). Many Member States (e.g. France, Germany and Italy) have sought to increase their detection rates of undeclared work, strengthening the compulsory registration of workers (Germany again) and improving the monitoring of their social security systems (Belgium, France, Ireland, Italy and Portugal). Social partner agreements have been concluded in several Member States (Germany, Finland and Italy) targeting the reduction of undeclared work, especially in the construction industry, whilst in many new Member States large-scale awareness campaigns have been introduced, focusing on both the negative effects of undeclared work and the penalties faced by those workers if detected. Whilst the overall impact of these policies is impossible to measure accurately, the expansion of measures to combat undeclared workers in

Germany resulted in over 81,000 criminal procedures being started in 2005 with penalties for each conviction of up to 300,000 Euro (Ludwig, 2007).

6. Conclusions

Our above review of the development of European employment policies aimed at promoting social cohesion has shown that their targets, instruments and indicators have evolved over recent years. The initial equation of social cohesion with concentrated and persistent spells of unemployment led to a targeting of the long-term unemployed and entrants into the labour market. The more recent emphasis upon joblessness and in-work poverty have broadened the range of targets to include single parents, the disabled, ethnic minorities and recent economic immigrants and political refugees. At the same time the initial preference for universalism in employment policies, that is with mass, nationwide, broadly-targeted policy instruments has, in the face of evidence suggesting huge deadweight and displacement effects, shifted in favour of more narrowly focussed, decentralised programmes tailored to the needs of the individual. This is notwithstanding the increase in administration costs associated with such a switch. Finally, much recent research has pointed to the limitations of reliance on cross-sectional indicators when discussing unemployment, poverty and social cohesion in general. As European countries plot their own pathways towards a flexicurity future, it is becoming clear that in addition to the static indicators of social cohesion, new dynamic indicators are required that provide a longitudinal perspective on the labour market transitions of individuals (Wilthagen, 2008). The development of such indicators is crucial if the modernisation of employment policies in Europe is to be firmly based on rigorous evaluations.

Recent European experience has shown the limitations of adopting ambitious targets at macro-regional level which lack the political support and policies at national level necessary for their achievement. Whilst Member States have been encouraged by European level initiatives to improve their monitoring and evaluation of their own employment policies, the inappropriateness of such a breach with the principle of subsidiarity is now evident to all and the ambition of promoting a hard law-based, uniform European Social Model has effectively been abandoned.

A near truism is that employment policies work best at promoting social cohesion in environments conducive to rapid net job creation. In sclerotic labour markets employment policies can promote ‘churning’ thereby redistributing employment, but their overall effects on poverty and income inequality will be weak. Accordingly, even the promotion of ‘good’ flexibility in labour markets will have little beneficial affect in the absence of macroeconomic policies aimed at stimulating employment growth. In addition, to be effective in addressing social cohesion employment policies need to co-ordinated with complementary initiatives in taxation, education and health. There are examples of such successful co-ordinations in Europe. Overall ‘Make Work Pay’ programmes in several countries have resulted in the improved co-ordination of taxation, benefit and employment policies which have eliminated or reduced poverty and employment traps. Similarly, the recent emphasis upon flexicurity reforms has seen some dilution of employment protection legislation and a switching to taxation and benefit reforms to protect the living standards of those temporarily displaced from employment. However, there remains one key area where integrated social cohesion policies in Europe are needed. Given the structural changes in European labour markets favouring more educated and skilled workers, effective employment policies

are at best only able to partially compensate for those entering or re-entering the labour market with few qualifications. The benefits of early interventions to raise educational attainment in at-risk groups, and sustaining employment opportunities for elderly workers through further training, are now beginning to be recognised by European policymakers, though as yet little funding has been switched to such programmes from the essentially counter-cyclical ALMPs and co-ordination remains weak.

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