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The European Employment Strategy in an enlarged EU

*Georg Fischer and Luc Tholoniati**

This article reviews the origins, development and impact of the European Employment Strategy against the backdrop of the employment performances and policies of the EU, from the early 1990s up to the mid-term review of the Lisbon Strategy in 2005. It recalls how the issue of employment was put at the centre of the policy debate in the 1990s and of the discussion about the right balance between economic and social policy integration at EU level. While the EU-wide emphasis on employment initiated in the mid-1990s is likely to have had some positive effects, in particular in terms of a return to employment growth and an increase in participation and employment rates, many major challenges remain or have developed in the meantime. The experience of the EES shows that there is room for a European strategy to promote growth and jobs.

Contents	4	Has enlargement changed the European picture?
Introduction	4.1	Labour market characteristics and challenges of the enlarged EU
1 The issue of employment in the early 1990s	4.2	The new Member States and the EES
2 The Employment Title of the Amsterdam Treaty and the Luxembourg Process	5	Assessing the impact and development of the EES over time
2.1 The Amsterdam Treaty and the new Title on Employment	6	The relaunch of the Lisbon Agenda: a new venture for the EES?
2.2 Luxembourg agreement: the launch of the European Employment Strategy	7	Final thoughts on the EES in retrospect
3 Improvement in employment performance since the mid-1990s: a mere coincidence?	8	Conclusions
		References

* The views expressed in this article are those of the authors and do not necessarily reflect the opinions of their institution.

Introduction

As so often in the development of the European Union, and this is the case for employment and social policies, progress in integration is associated with the names of cities. In June 1997, the signing of the Amsterdam Treaty gave new tasks to the Union in the field of social policies and introduced the Employment Title – a new section in the Treaty dealing with the coordination of employment policies. In November of the same year, the Luxembourg EU Employment Summit launched the European Employment Strategy (EES), a new form of employment policy coordination, and in 2000, the Lisbon Summit launched an agenda of economic reforms asking the EU to create conditions for a return to full employment and to strengthen social cohesion.¹ Lisbon and subsequent European Councils put forward ambitious objectives and targets on employment, quality in work and the fight against poverty, and supplemented the more traditional Community methods with the open method of coordination as a policy methodology to pursue these goals.

This article reviews the origins, development and impact of the EES against the backdrop of the employment performance and policies of the EU. It recalls the political steps that led to the emergence of the Strategy in the mid-1990s and discusses its adaptation over time in the light of major economic and policy developments, in particular the impact of enlargement. It reflects on its future in the context of the relaunch of the Lisbon Strategy for growth and jobs in 2005.

Notwithstanding the importance of policy developments since 1997, it would be wrong to believe that the policy process on employment started with the adoption of the Amsterdam Employment Title. The principal policy issues of how to promote monetary stability, economic growth and high levels of employment in a coherent manner and how to balance economic and social objectives have accompanied the Community from its early days and are reflected in the Maastricht Treaty and in particular in the “White Paper on Economic Growth, Competitiveness and Employment” adopted by the Commission in 1993.

The draft Constitutional Treaty has largely confirmed these new policy elements and strengthened

some aspects by integrating policy coordination in the economic, employment and social areas in one provision, namely Article 14, and by highlighting full employment as one of the key objectives of the Union.

Indeed, the period since the adoption of the Amsterdam Treaty has shown progress in actual labour market performance. By 2001, unemployment had come down from over 10 % to 7.7 % since Amsterdam and the employment rate had increased from around 60 % to over 64 %. These improvements in overall labour market performance have come to a halt in subsequent years, in a context of sluggish economic growth. Unemployment reached a new peak of 9.0 % at the end of 2004. Prospects for 2006–2007 may look brighter as economic growth is expected to pick up.

Against this background, both the review of the Employment Strategy in 2002 and the report of Wim Kok’s Employment Task Force in 2003 have highlighted the role and significance of the European Employment Strategy. In particular, they have emphasised the need to move from words and commitments to action on policy implementation, and to tackle areas where policy conflict is likely to emerge. The relaunch of the Lisbon Strategy in 2005 is meant to strengthen the momentum and consistency of action at national and EU level.

1 The issue of employment in the early 1990s

The early and mid-1990s saw a rather dismal labour market performance in the EU as a whole and in most Member States. Unemployment rates were consistently over 10 %, youth unemployment around 20 %, and 5 % of the active population was out of work for more than 12 months. Despite a return to economic growth, employment rates stagnated at the 60 % level, well below the figures measured in the 1970s and even further below those recorded in the US and Japan. By 1996, only three Member States were showing any improvements in performance, the Netherlands, Ireland and Denmark. This raised serious questions about the ability of European societies to provide jobs for all citizens and provided ammunition to those who spoke of the “European disease”. Others presented persistent high unemployment as reflecting the concentration of policy efforts to achieve EMU leaving little room for policies to combat unemployment. Although from very different perspectives, both strands of

¹ The strategic goal set in Lisbon by EU leaders for the next decade is summarised as follows: “to become 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”.

thinking question the balance between the economic and the social dimensions of European integration in the post-Maastricht Union.

The President of the Commission at the time, Jacques Delors, felt that following the introduction of the single market and the agreement on EMU, action on employment was at the top of the agenda. In 1993, the Commission submitted its "White Paper on Economic Growth, Competitiveness and Employment" to the European Council. The document outlines a strategy comprising research and development, tax policies, industrial policy, education and labour market measures as well as direct action at EU level to finance major investment in transport and research. Much of the substance of EU policies that were agreed later can be traced back to proposals contained in this White Paper.

Jacques Delors insisted that responsibility for employment policies should lie with the Prime Ministers and that the traditional division of Finance Ministers being responsible for the economy and Labour Ministers being responsible for the unemployed was part of the problem. Hence the practice was established that Prime Ministers would monitor progress in the meetings of the European Council.

As a response to the White Paper, the Essen European Council agreed in December 1994 on five key objectives to be pursued by the Member States.

These included the development of human resources, the promotion of investments through moderate wages policies, the improvement of the efficiency of labour market institutions, the identification of new sources of jobs through local initiatives, and the promotion of access to the world of work for young people, long-term unemployed people and women. The Essen European Council also called upon Member States to prepare multi-annual programmes reflecting the policy recommendations and asked the ECOFIN and Labour and Social Affairs Councils to monitor progress. The first "joint" report on employment was prepared by the two Councils and the Commission and was presented to the European Council in Madrid in 1995.

In response, the Madrid European Council stated: "*For the Union and the Member States the fight against unemployment is the priority task*". It also prepared the ground for the crucial institutional provision of the Employment Title: "*Promoting employment makes national economic and structural policies a matter of common concern. Therefore ... the IGC should examine how the Union could provide the basis for a better cooperation and coordination in order to strengthen national policies*." Consequently, this led, at the end of 1996, to the establishment of a permanent Employment and Labour Market Committee composed of government representatives and the Commission.

Box: Why European action on employment?

From the mid-1990s onwards, European documents started to mention a common European concern for employment, justifying the need for European action, as was later reflected in the Amsterdam Employment Title and in the development of the "Luxembourg Process". This contrasts with previous positions of many policy-makers in the EU, who did not see any role for the Union in the area of employment. Many policy analysts would have argued that four types of constraints would prevent the EU from being active in employment issues:

- *legal and institutional constraints*: the principle of subsidiarity and the intergovernmental bias on employment matters – with few competences attributed to the EU and the requirement of consensus – imply that no action is the most likely option, as agreement is only possible on the basis of the lowest common denominator;
- *political and ideological constraints*: given the lack of competences, national actors do not

have strong incentives for acting at EU level. Moreover, supporters of a social Europe have traditionally fewer resources than their opponents, partly because they are relative newcomers in the EU arena compared with economic actors, and partly because they have more difficulty joining forces and acting consistently at EU level. Almost everybody seems to be determined by the wish to preserve national sovereignty.

- *practical and technical constraints*: the wide diversity of economic performances and priorities across the EU and the great heterogeneity of social and labour market institutions make any form of harmonisation hardly likely, if not unrealistic, in practice.
- *financial constraints*: the lack of major financial resources beyond the European Social Fund for economic policy management of the EU did not permit the provision of major resources to parts of the Community with serious employment problems (comparable to a system of fiscal federalism) and led it to develop regulatory

("hard-law") and policy coordination ("soft-law") instruments instead.

A market-making EU social policy?

Given these constraints, it is actually quite remarkable that the EU engaged in action in the field of employment. For some authors, the European social policy emerged and gradually developed as a corollary or as a complement to the prevailing process of economic integration, with spill-over effects possibly leading to unanticipated breakthroughs, for instance as a result of rulings from the European Court of Justice [Leibfried/Pierson 1995]. Others analyse the emergence of the European social policy as a process of "negative" integration within the Union [Majone 1998], whereby EU legislation is meant to dismantle obstacles to economic efficiency, without any social goals being pursued on their own.

European action in the social field was therefore long described as a *market-making* or *market-building* social policy. Hence, for instance, the focus on the free movement of workers, on regulating health and safety conditions through EU directives and on investment in human resources through the European Social Fund so as to ensure a sound functioning of the single market and a more adaptable workforce. Such explanations may hold for describing the state-of-play prior to the Amsterdam Treaty.

EU activism on employment – political change in major countries and ...

The definition and launch of the EES result from the combination of political circumstances and underlying dynamics. To a large extent, 1997 provided a window of opportunity for political activism to materialise, with newly elected governments willing to raise the employment agenda to EU level. Early in 1997, the French electoral campaign had been influenced by the "Vilvorde case", the sudden closure of a Renault plant near Brussels, which led to the first "Euro-demonstrations". Having threatened not to sign the Stability Pact during the campaign, the newly elected French government made its approval conditional on stronger EU action on employment. The Jobs Summit of November 1997 was a response to this call. At the same time, the change of government in the United Kingdom and the willingness to promote New Labour's "Third Way" led to renewed British activism at EU level, after years of deadlock.

... underlying economic, social and political factors

The political circumstances of 1997 do not give the full picture. As was shown above, the foundations of the EU action on employment had already been partly laid in the early 1990s. The role of the EU had already been addressed in the intergovernmental conference of 1996 leading to the Amsterdam Treaty. Several underlying political, economic and social factors may account for these developments, in the context of increasing political and economic integration throughout Europe.

- *Economic governance in the context of EMU and the impact on employment:* Throughout the 1990s, there was a debate about the inclusion of an employment dimension in the Maastricht criteria for EMU participation. Many – well beyond the trade unions and the traditional left – felt that the Maastricht process with its emphasis on nominal convergence and financial stability would damage economic and in particular employment growth. The question raised was whether a "rigorous" preparation of EMU would not leave employment and especially the unemployed behind. And indeed, with the exception of a few countries, unemployment remained stubbornly high and employment growth was weak despite economic recovery and some progress towards the Maastricht criteria. While none of the European actors at the time proposed an additional Maastricht criterion dealing with unemployment, the bleak employment performance created a political demand for a strong European commitment to employment.
- *Mutual dependency of labour markets in the EU (creating win-win environments, avoiding social dumping):* There are deeper economic and social factors in place which may justify EU action on employment. First, with the growth of the single market and more so with EMU on the horizon, it would have been wrong to believe that even the biggest Member States could pursue employment policies totally independently of developments in other countries. Trade creates such dependency as well as migration (although actual intra-EU mobility is limited). There is also a socio-psychological/political economy dependency: the impact of high unemployment in some Member States on the economic and social climate in the Union as a whole. Even an economy with low unemployment and high employment will be deeply affected by the confidence effects of high unemployment elsewhere if the countries are big and/or deeply integrated in the EU economy.

A specific concern is that such dependency may create a race to the bottom in terms of working conditions and wages and a race to the top in terms of subsidising activity. Actual evidence was anecdotal but as EMU came closer, such concerns became more pronounced – as was strongly expressed by the European Social Democrats at the time.

- *Learning from each other to implement structural reforms (same problems, same solutions?):* Against this background, European policy makers felt that some commonality in the approach to employment and unemployment would help to improve the state of affairs. The idea was to use the EU level to promote employment policies at national level, be it to argue with the national Finance Minister or with the social partners – all of whom were critical about action on employment, although for different reasons. Hence the two elements of EU policy coordination: peer pressure and best

practice exchange. This approach was based on the realisation that major aspects of EU employment problems were not or not exclusively the result of macroeconomic management but of structural features to be addressed nationally as part of an EU-wide policy effort.

- *Putting flesh on the concept of European citizenship:* Since the Maastricht Treaty, the concept of European citizenship has gained significance and features prominently in the Charter of Fundamental Rights of the Constitutional Treaty. Activities in the field of social protection, social inclusion and the fight against discrimination, which have much to do with employment, have developed since the Amsterdam Treaty came into force, with implications in terms of EU legislation and policy coordination. The application of the Charter of Fundamental Rights may lead to further synergies between EU legislation and policy coordination in future.

2 The Employment Title of the Amsterdam Treaty and the Luxembourg Process

2.1 The Amsterdam Treaty and the new Title on Employment

The introduction of a new legal basis in the Amsterdam Treaty allowed a new political will to materialise. As the political agreement on the Treaty coincided with the signing of the Stability and Growth Pact in June 1997, intense discussions arose on the need to ensure that growth and employment would figure as prominent goals of the new European framework (see box). Heads of State and Government decided to hold their first Jobs Summit in Luxembourg City in November 1997 and decided to launch the European Employment Strategy (EES) – also known as the Luxembourg Process – in anticipation of the Treaty coming into force.

While the Treaty does not change the principle of the Member States being responsible for employment policy, it entrusts the European institutions, notably the Council and the Commission, with a stronger role, new tasks and more forceful tools. Moreover, the European Parliament has a role in the decision-making process. The Amsterdam Treaty also enhances the role of the European social partners through the inclusion of the Social Protocol into the Treaty. The Title on Employment Policy contains the following elements:

1. The importance of the employment objective is enhanced by the fact that the employment articles are included in the Treaty as a title and not as a chapter (comparable to the title on economic policy).
2. It emphasises that employment is an issue of “common concern”. The Member States are to co-ordinate their employment policies at Community level.
3. The Member States and the Community are asked to work towards developing a co-ordinated strategy for employment and particularly for promoting a skilled, trained and adaptable workforce and labour markets responsive to economic change.
4. Article 127 also contains the principle of “mainstreaming” employment policy: all Community policies should take the employment objective into account.
5. It creates the framework for a country surveillance procedure (Article 128): Member States’ employment policies are examined by means of a yearly Joint Employment Report established by the Commission and the Council. Furthermore, the Commission proposes and the Council adopts yearly Employment Guidelines for the Member States, which Member States should take into account when drawing up their National Action Plans for Employment. Finally the Commission may propose and the Council adopt recommendations for individual Member States.
6. It establishes a permanent, institutional structure (Article 130), the Employment Committee, to ad-

visé the Council and the Commission on employment issues and thereby to enable an improved preparation of Council deliberations.

7. It creates a legal basis for analysis, research, exchange of best practice and the promotion of incentive measures for employment (Article 129).
8. Finally, it makes it possible for decisions to be taken by qualified majority, which prevents a single country from blocking decisions or recommendations.

2.2 Luxembourg agreement: the launch of the European Employment Strategy

When the Luxembourg Jobs Summit (November 1997) launched the EES on the basis of the new provisions of the Amsterdam Treaty, the ambition was to achieve decisive progress within five years. Heads of State and Government agreed on a framework for action based on the commitment from Member States to establish a set of common objectives and targets for employment policy. This co-ordination of employment policies at EU level was to follow the principles foreseen in the (draft) Treaty:

- Employment Guidelines set out priorities for Member States' employment policies.
- Country-specific Employment Recommendations
- National Action Plans: every Member State is to draw up an annual National Action Plan which takes account of Guidelines and Recommendations.
- Joint Employment Report: the Commission and the Council are to examine jointly each National Action Plan and present a Joint Employment Report as a basis for revised Employment Guidelines and Recommendations for individual countries.

In this way, the EES started to deliver a rolling programme of yearly planning, monitoring, examination and re-adjustment of national employment policies. The EES also initiated a new working method at EU level, which was to become known as the open method of co-ordination (OMC) following the conclusions of the Lisbon European Council in 2000. Management by objectives (including through targets), country surveillance ("peer pressure") and mutual learning are central features of the EES. Following the Lisbon Council, the OMC was to be replicated in other areas, such as social inclusion and pensions.

The Luxembourg Council adopted the first set of employment guidelines centred on four areas of policy action ("pillars"):

"Improving employability", the first pillar, was aimed at reintegrating into the labour market the

large number of people who have been out of work for a long period. Enhancing the job-related skills and job-search capacities of the unemployed should allow them to return to employment rapidly. Two reorientations in policy terms were advocated. First, the focus on the administration of unemployment benefits, should be replaced by a focus on getting the unemployed back into employment ("activation"). Secondly, action should be initiated as early as possible when somebody becomes unemployed rather than holding back policy instruments for those already unemployed for a long time ("prevention"). Early action is based on the view that the traditional approach of concentrating measures on the long-term unemployed had actually exacerbated the phenomenon it had wished to address.

Removing obstacles to job creation was the purpose of the second pillar, "developing entrepreneurship". The policy measures advocated under this heading included the simplification of rules for setting up enterprises and for employing people, as well as reductions in the tax burden on labour, and were aimed at mobilising businesses for creating jobs.

Helping workers in jobs to adapt to structural change, thereby preventing unemployment from occurring, was the idea of the third pillar, "encouraging adaptability". The social partners were seen as the main addressees of this pillar. Lifelong learning by means of the joint action of the social partners and the public authorities became one of the policies advocated under this pillar.

"Strengthening equal opportunities between women and men" was presented as the fourth pillar and was designed to signal to women that they were no longer seen as the "biggest" problem group and that equal opportunities should become an important driver for making European labour markets more efficient. Two policies were developed under this pillar. First, workers with responsibilities for caring for family members, the vast majority of whom are women, should receive the support necessary for full participation in employment. Secondly, the "mainstreaming of equal opportunities" in all areas of employment policies should be ensured, meaning that the specific situation of women and men should be taken into account when designing and implementing employment policies and labour market programmes.

The creators of the strategy were well aware that job creation is at the heart of the EU employment challenge: *"The objective of these measures, which are to form part of the overall strategy for employment, is to arrive at a significant increase in the em-*

ployment rate on a lasting base" (Presidency Conclusions Luxembourg 1997, paragraph 22). However, they did not endorse the target of a 70 % employment rate as proposed by the Commission.² Only some years later, following further political change and against the backdrop of a favourable employment trend, did the Lisbon and Stockholm European Councils put forward the employment rate targets: the EU should achieve an employment rate of 70 % by 2010, with at least 60 % for women and 50 % for workers aged 55–64.

The first set of guidelines nevertheless developed the idea of quantitative targets as part of the specific methodology described above. Prime Minister Juncker, the chair of the Luxembourg European Council, attached quantitative targets as a basis for benchmarking. Such targets were seen to have multiple functions. The feeling was and still is that quantitative targets can raise policy ambition as they, firstly, make policy progress measurable and, secondly, make results comparable. Moreover, by defining common quantitative targets, the pressure towards the convergence of outcomes should increase.

The development of quantitative targets and of comparable EU-wide indicators based on harmonised statistics became a major preoccupation of the employment coordination process.³ The annual joint report on employment contains an annex reporting on indicators, including agreed quantitative targets. The most important quantitative targets at the time related to activation and prevention, requiring that all unemployed people should be offered an alternative to unemployment before being unemployed for 12 months (before reaching 6 months of unemployment for young people), and to the training of the unemployed. Later on, new targets were added, *inter alia*, on the proportion of the adult population participating in lifelong learning activities and on the availability of childcare.

3 Improvement in employment performance since the mid-1990s: a mere coincidence?

In the period between 1997 and 2002, the EU experienced a relatively strong increase in employment

and employment rates. This was accompanied by a drop in unemployment and an even more pronounced one in long-term unemployment. Considering that economic growth in the period was weaker than in the upswing of the late 1980s while the reaction of labour market indicators was stronger, a structural change in the labour market may have taken place. Several studies by the IMF and the OECD were published which highlighted that something had changed in EU labour markets. The Commission analysed these changes in the annual Employment in Europe reports and in its annual report on the EU economy. The following points were made.

Better functioning of EU labour markets:

Econometric estimates showed a drop in the NAIRU (as a proxy for structural unemployment) starting in the mid-1990s. It was quite pronounced, and accelerated in the 2000–2003 period. Of course, the drop in the NAIRU followed the overall unemployment trends but this situation is in contrast to the late 1980s, when unemployment in the EU also fell but the NAIRU estimates did not decrease. The drop in the NAIRU was accompanied by an increase in employment and in participation rates suggesting that Europe was capable of benefiting from employment increases to absorb existing unemployment and to attract additional labour supply.

Increased job content of growth and higher participation leading to a drop in unemployment:

A comparison of the labour market behaviour in the 1980s and the 1990s⁴ shows that in the later period, the response of unemployment was more pronounced when resources were underutilised (measured by the output gap), while this was not the case in the 1980s, indicating that the absorption of unemployment was weak in the 1980s. The analysis also shows that employment generally responded more strongly to economic growth in the second period and that this was made possible by a stronger increase in participation in periods when the economy was above its potential. This relates especially to the continued increase in female participation and also in a rising share of migrant workers in employment.⁵

These structural changes can not be explained by compositional effects alone – neither demographic changes nor the secular increase in educational lev-

² The detailed assessment of the Luxembourg strategy by the European Trade Union Confederation highlighted this refusal as a weakness (ETUC Memo on the 1998 Employment Guidelines, 9.12.1997).

³ Following the Lisbon Council, structural indicators were developed (cf. Eurostat website) to reflect the Lisbon objectives including those on employment. The latter were also integrated into the EES.

⁴ See for instance, European Commission: Employment in Europe 2002 (chapter 2).

⁵ European Commission: Employment in Europe 2004.

Table 1

Overall employment rates

Pace of progress since 1997			
Rates in 2003 (%)	Low	Close to average	High
> 70	DK	SE, UK	NL
65–70		AT, CY, DE, PT	FI, IE
< 65	CZ, EE, LT, MT, PL, SI, SK	BE, EL, FR, LU, LV	ES, HU, IT

Notes: Pace of progress is defined as the percentage point change in the employment rate between 1997 and 2003:

a) Low progress: the employment rate increased below the EU25 average minus half of the (unweighted) standard deviation;

b) Close to average: the employment rate increased inside a band of one standard deviation centered on the EU25 average;

c) High progress: the employment rate increased above the EU25 average plus half of the (unweighted) standard deviation

Source: European Commission, draft Joint Employment Report (COM(2005)13).

els provide major explanatory factors for the increase in employment rates. While the wage moderation that started in the late 1980s has been identified as one important explanatory factor for the observed increase in the employment content of growth, other factors seem to have contributed as well, including a better management of benefit regimes and more active labour market programmes.⁶

Convergence of employment in the EU15 but huge differences still remain:

Labour market performances have converged in the period observed. Not only has the EU employment rate increased relatively strongly but also differences between the EU15 countries have declined. Table 1 below compares the relative situation of the Member States as against the 70 % target, with their pace of progress during the period 1997–2003, also including the new Member States that joined the EU in 2004. This convergence also applies to unemployment and long-term unemployment. Intuitively, one would expect the fall in long-term unemployment to be a result of a policy change, particularly as the EES focused so strongly on the prevention of long-term unemployment. Indeed, countries with very high levels of long-term unemployment saw strong decreases, most notably in Spain but also in Belgium and Italy.

It is necessary to add that the less favourable developments in Germany also contributed to convergence as Germany's labour market indicators stood above the EU average in the mid-1990s and have improved very little since then, thereby contributing to convergence. However, other countries, including

the Nordic countries and the Netherlands, have managed to improve their performance further. On the other hand, France and Italy first looked like laggards in the process but saw major improvements in the later years of the period under observation. The trend towards improved performance almost everywhere seems to support the idea that the process of peer pressure and mutual learning is proving effective.

Having said this, one should not overlook that at the same time the labour market indicators were still far from the Lisbon targets. The speed of improvement was too slow to bring the EU close to the targets mainly because of the trends in some major countries including Germany, France and Italy. The Commission's report "Employment in Europe 2004" analysed the labour supply trends over the medium-term in the EU and especially in the major countries. This showed a change in the trend but one that was insufficient to create enough supply potential to allow employment growth to reach a 70 % employment rate in 2010 for the working population as a whole and even less so for the 50 % target for the 55–64 age-group, a group more and more at the centre of the concerns of policy makers confronted almost on a daily basis with new projections of rising old-age dependency.

Significance of new forms of contracts:

Several studies have related stronger employment growth to a rise in fixed-term and, to a certain extent, in part-time contracts. These forms of employment seem to facilitate the hiring of workers as well as the emergence of additional labour supply. While most studies agree on this conclusion, others warn that there is evidence in some countries of the possibilities of temporary contracts being overexploited

⁶ European Commission: Employment in Europe 2004 (chapter 2).

and signs that they are being used as substitutes for permanent contracts.⁷ The risk of side-effects of an increase in the use of temporary contracts is, however, only one of the less favourable messages resulting from the above-mentioned studies. The more fundamental question raised by some analysts is whether the fact that employment growth needed to be facilitated by the use of less well protected forms of contracts is not itself a sign of remaining labour market problems. This seems to be particularly relevant in some Member States where policy debate on labour market segmentation has sharpened.

Labour market segmentation and transitions:

As part of the analysis of labour market performance, an important strand of the literature addressed the issue of transitions, focusing on the longer-term outcomes of people entering employment in jobs depending on their characteristics with regard to contractual forms, access to training and relative wages. Studies⁸ showed huge differences between countries in longer-term outcomes for people entering the labour market under more restricted conditions. The labour markets in some Member States seem to be substantially more unequal in terms of opportunities and access to more stable and better paid jobs. In some countries, transitions from temporary contracts to permanent employment are twice as likely as in others, while the probability to remain active in the labour market after some years in temporary contracts also vary widely across countries.⁹ Over a longer period, this will not only impact employment and participation in numerical terms but it may alter the skill-productivity profile of the labour force.

Slowdown in productivity growth:

Another less reassuring outcome of recent research relates to productivity trends. Obviously, in statistical terms, if growth becomes more job-rich, productivity growth will decline. This decline has continued since the mid-1990s and was seen less negatively when the resilience of EU labour markets was praised in the period of the prolonged slowdown between 2002 and 2004. Nevertheless, poor productivity trends seem to be an issue of concern especially if compared with the rapid increases in the EU's main economic partners, such as the US and eastern Asia. While a discussion of the reasons for the relative

decline in productivity trends in the EU goes beyond the scope of this paper, there are some facts worth mentioning when analysing job creation in relation to productivity.

A higher job content of growth in an economy with underutilisation of its labour resources implies first of all that the labour market adjusts to the different scarcity of inputs (see above). As productivity growth associated with the increase in employment was never negative, rising employment should have a positive effect on economic growth and welfare. In this sense, an increasing job content of growth should be regarded as positive under the given circumstances of low employment rates and high unemployment in many EU countries. Secondly, sectoral analysis¹⁰ showed that for major growth sectors such as business services and finance, as well as for high-tech services and industries, the EU has managed to catch up with the US in terms of employment growth while the productivity gap has increased. The question therefore arises as to whether the obstacles to productivity growth are indeed related mainly to the labour market or to other markets or whether restrictions of demand are forcing the economy to produce below capacity, which leads to a situation in which better skilled people produce below their productivity potential.

... and the nature of the new jobs created:

Increasing utilisation of labour resources could easily go hand in hand with lower productivity growth if the additional labour resources are less productive, assuming that the economy first employs the most efficient resources. Therefore the strong increases in employment rates in some EU countries may have well been accompanied by the entry of less productive workers into employment and thereby by declining productivity growth. This would certainly be true if additional labour resources wished to work fewer hours than the "main labour force" traditionally employed, and there is evidence that this was the case for the rising number of women, younger and older people in employment. Indeed, the working-time effect explains part of the relative decline in productivity growth compared with the US but not the total.

On the other hand, there is little evidence in support of the fact that the majority of additional workers demonstrate lower productivity, especially in the major countries where employment was and still is

⁷ See European Commission: Employment in Europe 2002 (chapter 3) and Employment in Europe 2004 (chapter 4).

⁸ See subsequent issues of Employment in Europe for literature surveys and analysis.

⁹ See European Commission: Employment in Europe 2003 (chapter 4) and Employment in Europe 2004 (chapter 4).

¹⁰ See European Commission: Employment in Europe 2003 (chapter 2).

low. In fact labour market entrants are typically much better educated than those who leave the labour market. Changes in the educational composition of the labour force are quite large if one compares for example 1997 and 2002, particularly in some countries with strong decreases in productivity growth, such as Spain. Moving to the demand side of the labour market, the composition of net job creation does not suggest that most net job creation was of the low wage/low productivity type. More than 60 % of net job creation in the EU since 1997¹¹ has been in knowledge-intensive services, which represent one third of total employment. Similarly, net job creation in high-tech industries and services surpasses by a large margin the share in either total employment or GDP. These seemingly paradoxical developments suggest that at least in some EU countries, educated workers are not in a position to fully use and develop their potential even if they are not counted as being in low productivity employment.

4 Has enlargement changed the European picture?

4.1 Labour market characteristics and challenges of the enlarged EU

The prospect of enlargement with ten new Member States had been anticipated and prepared for a number of years prior to 1st May 2004. It may, however, still be too early to judge its real impact. What is clear is that both the performances and the policies of the EU have not remained untouched as a result. The central and eastern European Member States have undergone rapid restructuring of their economies and everything suggests that this process will continue for years, leading to radical change also in employment and labour market structures. In general terms, the overall picture of the EU labour market changes in statistical terms as a result of enlargement and becomes more diverse, as the employment structure and employment-productivity patterns differ significantly between the former EU15 countries and the central and eastern European Member States.

The sheer fact of having 25 Member States affects the EU average from a statistical point of view and makes it relatively worse off in economic and employment terms (see table 2). The average employment rate of the EU25 was 62.9 % in 2003, whereas

it was 64.3 % for the former EU15. In most new Member States, with the exception of Hungary, employment rates have stagnated over the years, with the employment rate in Poland actually decreasing and becoming the lowest in the EU (51.2 % in 2003). The female employment rate of the new Member States, which used to be higher than in the EU15, has also declined over the years.

Although the issue was never addressed openly before enlargement took place, it was implicitly acknowledged that the objectives and targets set for the EU prior to enlargement would remain valid for the enlarged Union. As a result, the gap that has to be filled in order to meet the Lisbon employment objectives and targets has increased somewhat.

Enlargement also increases the diversity of situations across the EU, at both national and regional level. The new Member States are characterised by relatively lower employment rates and higher unemployment rates, with Poland and the Slovak Republic as the poorest performers. Labour market participation and employment rates have declined, as people leave the labour market and employment is destroyed in traditional parts of the economy, such as agriculture, without being fully compensated for by job creation in services. Compared with the former EU15, some new Member States, notably Poland and the Baltic countries, show a substantially larger proportion of employment in agriculture (12.4 % versus 4 %), most of them have a larger share of employment in industry (31.9 % versus 27.6 %) and a markedly smaller share of employment in services (55.6 % versus 68.3 %).¹²

Most interestingly, the pattern of economic and employment growth in the new Member States in recent years also contrasts significantly with that of the EU15. Following a period of strong job creation in the late 1990s, the performance of the EU15 has suffered as a result of the economic slowdown since 2001, and employment growth has stagnated. In contrast, the new Member States have achieved reasonably strong economic growth in recent years, driven by strong productivity increases, while employment has actually declined by 0.2 %.

This pattern of productivity-driven “jobless” economic growth may continue for some years in the new Member States as a result of intense economic restructuring. Table 3 presents a cross-tabulation between per capita income levels and their average growth rates. The negative correlation between the

¹¹ Ibid.

¹² See European Commission: Employment in Europe 2004.

Table 2

The impact of enlargement from EU15 to EU25 on key indicators

	EU15	ACC10	EU25	As a % of EU15		
				EU15	ACC10	EU25
Total population (millions as at 1.1.2003)	378.5	74.5	453	100	19.7	119.7
GDP (1000 million pps)	9,161	830	9,991	100	9.1	109.1
GDP per capita (1000 pps)	24.0	11.1	21.9	100	46.4	91.2
Employment 15–64 (1000 persons)	161,038	28,228	189,266	100	17.5	117.5
Working age population 15–64 (1000 persons)	250,623	50,497	301,120	100	20.1	120.1
Employment rate 15–64 (%)	64.3	55.9	62.9	100	87	97.8
Unemployment rate (%)	7.7	14.8	8.9	100	192.2	115.1

Notes: ACC10=ten new Member States which joined the EU in 2004. PPS=purchasing power standards.

Source: European Commission, Employment in Europe 2003, 2002 Eurostat data.

Table 3

Labour productivity growth and levels (per person employed)

Average annual growth rate of real GDP per person (1997–2003)	Low	Medium	High
GDP per employed person employed at ppp in 2003 (EU25=100)			
≥ 110	IT	AT, FI, BE, FR, LU, NL	IE
75–110	ES	DE, DK, SE, UK	CY, EL, MT
50–75		PT	CZ, HU, PL, SI, SK
≤ 50			EE, LV, LT

Notes: Ave: average growth for the EU25; x: average growth for a country; std: unweighted standard deviation for the EU25:

a) Low: $x - \text{ave} - \text{std}/3 \leq x < 8\%$; b) Medium: $\text{ave} - \text{std}/3 < x < \text{ave} + \text{std}/3 \leq 8\%$; c) High: $\text{ave} + \text{std}/3 < x < 2.0\%$.

Source: European Commission, draft Joint Employment Report (COM(2005)13).

levels and growth rates of per capita income (ppp) suggests a rapid catching-up of lower income countries.

In short, the new Member States display specific employment challenges and priorities, although their peculiarity may lie more in the magnitude of the problems than in their nature. Given their specific labour market characteristics, one could see the following policy issues emerging.

Firstly, these countries have had to undergo a modernisation of their labour market institutions and employment legislation. For instance, these countries had comparatively low levels of active labour market policies and weak unemployment benefit systems to cushion the effect of restructuring and to help people to remain active in the labour market. Policies were extensively used to promote the withdrawal from the labour market as a result. Employ-

ment legislation was also characterised by strict employment rules by international standards, with protected employment in certain enterprises and sectors and very little use of more flexible forms of employment such as part-time and fixed-term work. This situation has changed rapidly over the years, with important overhauls of employment legislation in several Member States. The share of fixed-term contracts has increased very significantly in several countries: in Poland, it went up from about 5 % in 1998 to 20 % in 2003, raising new, unprecedented questions about the risk of the labour market becoming segmented.

Secondly, the new Member States display comparatively favourable rates of completion of upper-secondary education, but relatively low levels of higher education and continuous training. Given the rapid changes in the economy and the resulting pressures for job mobility, developing effective lifelong learn-

ing systems has been identified as a major challenge. Difficult questions have to be addressed including whether wages provide sufficient incentives for upskilling and how to provide tax breaks and other financial incentives for individuals and enterprises to invest in skills.

A third challenge concerns the extent of undeclared work which, according to estimates, may concern up to 20 % of the workforce in some Member States. This may be fuelled in part by the tax structure, with a tax burden on labour that is too high and too concentrated. This is also partly a result of the restructuring process, with informal work, for instance in agriculture, playing a cushioning function for the substantial numbers of low-skilled workers. Weak administrative capacities and inadequate law enforcement may also explain why the phenomenon is not being tackled adequately. The size of the informal economy distorts business competition and reduces the tax revenues necessary to finance public investments and social protection schemes.

A fourth challenge concerns the integration of ethnic minorities into mainstream society and the economy. Some of the new Member States have large shares of minorities from neighbouring countries or endogenous to the countries, such as the Roma population. Another related challenge is the need to prepare for future migratory flows. As these countries have become the new external borders of the European Union, they are likely to experience future migratory pressures. Moreover, they are affected by demographic decline, and are likely to experience significant emigration.

4.2 The new Member States and the EES

In spite of the increased diversity of employment situations and priorities brought about by enlargement, the integration of the new Member States in the employment coordination process went rather smoothly in political and institutional terms. Accession was preceded by a preparatory joint policy review exercise between the (at the time) future Member States and the Commission. In 1999 the Commission initiated a co-operation process on employment with the future central, eastern and mediterranean Member States. The future Member States and the Commission produced together Joint Assessments Papers (JAPs) on employment.

The JAPs¹³ reviewed the employment trends, the characteristics of the labour market and the employ-

ment policy challenges of the acceding countries. The analysis of these papers was based on the assumption of continued structural change resulting from a further opening of the economies of the new Member States and identified resulting policy challenges which national policies should anticipate. These challenges were also considered to be relevant for the preparations for the future use of the European Social Fund as the main financial instrument at EU level to support structural change.

The new Member States have been participating fully in the EES since the date of their accession and they produced their first National Action Plans for Employment in November 2004. The content of the employment guidelines in 2003, and again in 2005, reflects the common view of what the employment challenges and priorities are for the EU as a whole.

While the challenges identified in the JAPs and NAPs of these countries are particularly pronounced and somehow specific to each of the countries, they are by no means unknown to the EU15. In fact, policy measures taken in the new Member States (such as measures to address economic restructuring, undeclared work and regional disparities) have also influenced the former EU15, where a number of Member States share similar challenges.

To some extent, the integration of the new Member States has also rejuvenated the EES and highlighted its added value. The quality and status of the first NAPs produced by the new Member States were praised by the Commission¹⁴, as they tended to be both forward-looking and comprehensive documents. Enlargement has also led to a growing demand for additional country expertise and renewed cross-country comparison at EU level, which has steered analytical work and mutual learning activities. Mutual learning may just be starting out in this regard.

5 Assessing the impact and development of the EES over time

The evaluation of the first set of guidelines

The policy orientation of the first set of guidelines outlined above remained more or less valid for the

¹³ The first JAPs were signed with the Czech Republic, Slovenia, Poland and Estonia in 2000 and early 2001, followed by Malta, Hungary, Slovakia, Cyprus and Lithuania in late 2001/early 2002

and by Romania, Bulgaria and Latvia in autumn 2002. The results are summarised by the European Commission in its progress reports COM(2003)37final and COM(2003)637 final.

¹⁴ European Commission: Draft Joint Employment Report 2004/2005, COM(2005)13 of 27.1.2005.

first five years of the Strategy, although there was a tendency to revise and add guidelines. The guidelines were extended to many related areas and became more numerous themselves. After the first five years, there was a general feeling that the policy context should be reviewed and adapted to the changing labour market challenges. An extensive evaluation was carried out in 2002 which identified major challenges and issues for the future of the EES.

The Commission summarized the findings of the evaluation in its communication on the first five years of the EES.¹⁵ While remaining cautious as to the exact impact of the EES on national performances, the communication highlighted a series of “significant changes in national employment policies, with signs of convergence towards the common EU objectives”. In particular, the Commission highlighted reforms in public employment services and in tax-benefit systems in line with the principles of activation/prevention, progress in reducing the tax burden on labour, attempts to modernise work organisation, particularly in terms of working time arrangements and more flexible work contracts, and a renewed endeavour to modernise education and training systems, in line with the concept of lifelong learning. The Commission also emphasised that progress had been made in generalising the approach of gender mainstreaming, although gender gaps remained wide.

Beyond policy convergence, the Commission considered that the Luxembourg process was particularly instrumental in developing a new approach to policy formulation away from managing unemployment and towards promoting employment growth, as well as new partnerships and working methods, both at national and EU level, in particular in terms of monitoring and evaluation.

On the other hand, the communication also identified a number of weak points and challenges for the future, mostly related to the governance of the Strategy and the need to move ahead with implementation. In particular, it acknowledged that the profile of the EES remained far too limited in the Member States. The evaluation also emphasised the need to revamp the EES with a view to aligning it more closely to the Lisbon goal of sustained economic growth, more and better jobs and greater social cohesion by 2010.

¹⁵ European Commission: Taking stock of five years of the European Employment Strategy, COM(2002)416 of 17.7.2002.

The revision of the guidelines and the report of the Employment Taskforce in 2003

The integration of the EES into the Lisbon strategy since 2000 and upcoming enlargement made a revision of the guidelines inevitable. Following the 2002 evaluation, the Commission and the Council worked on new guidelines, which were eventually adopted by the Council in March 2003. Following the integration into the Lisbon strategy, the 2003 guidelines dropped the four-pillar concept and presented a list of ten guidelines, including concrete input and output targets, broadly in line with the original Strategy. A new emphasis was given to issues such as human capital, undeclared work and immigration. Greater attention was also paid to improving the delivery and governance of the EES in an enlarged EU, through greater use of the country-specific recommendations and a better linkage between EU spending and employment priorities.

Despite the results from the evaluation and the adoption of a new set of employment guidelines, the political perception prevailing at the time was that nothing had actually changed in terms of employment performance and policy progress, and that action was urgently needed in the face of economic slowdown and stagnating employment. At the Spring European Council in March 2003, EU leaders asked the Commission to establish an Employment Taskforce headed by Wim Kok, the former Prime Minister of the Netherlands, to further reflect on priorities for action. The Taskforce submitted its report¹⁶ in November 2003, which for the first time also reviewed the situation of the new Member States alongside the old ones.

The Taskforce put the emphasis on a number of new, emerging policy themes:

- developing “job-to-job” insurance by stepping up active labour market policies and supporting transitions in the labour market, especially in the situation of economic downturn;
- promoting flexibility combined with security;
- addressing the segmentation of the labour market;
- investing in human capital and making lifelong learning a reality.

The Taskforce also picked up the concerns regarding the employment of older people and insisted on active ageing as a means of increasing labour supply.

¹⁶ Report of the Employment Taskforce chaired by Wim Kok: Jobs, Jobs, Jobs – creating more employment in Europe, November 2003.

Labour supply was overall a central preoccupation of the Taskforce which was the first EU exercise to pay extensive attention to the predicted long-term decline in the working-age population. The Taskforce's report strikes an interesting balance between the contribution to raising labour supply by means of a better utilisation of the domestic labour potential and by means of economic migration, as well as between measures to raise employment and those to raise productivity growth, through expansion and better use of innovation and modern work organisation. Despite the emphasis on labour supply, the Taskforce report pays less attention to promoting equal opportunities in the EU labour markets, especially to mainstreaming the gender perspective in employment policies.

On governance aspects, the Taskforce confirmed the main orientations of the EES, calling for a greater use of the country-specific employment recommendations, a better linkage between EU spending and EU employment priorities, a more direct involvement of the social partners in the Strategy and greater efforts to share experiences and reinforce mutual learning at EU level.

The report immediately inspired the Commission and the Member States to adopt a new set of country-specific recommendations in 2004¹⁷ and to launch a new mutual learning programme at EU level. The report also played a role in the discussion on the future use of the Structural Funds, particularly the European Social Fund.

The work of the Taskforce was apparently considered to be such a success that the European Council asked Mr. Kok to chair a further High-Level Group to prepare the mid-term review of the Lisbon Agenda. This report, together with the Commission's Communication of February 2005¹⁸, laid the ground for the revision of the Lisbon Strategy approved in March 2005 and the adoption of new integrated guidelines for growth and jobs.

6 The relaunch of the Lisbon Agenda: a new venture for the EES?

The role of the EES as part of the Lisbon Agenda

At the same time as the EES was developing, the EU engaged itself in 2000 in a wider strategy of eco-

nomie, employment and social modernisation, known as the Lisbon Agenda. This covered many lines of action, ranging from the completion of the internal market to the promotion of innovation and R&D. Alongside economic and social reforms, employment was presented as one of the three dimensions of the Strategy, with a return to full employment as the central objective. Both the relative success and the remaining huge employment gaps in Europe and between the EU and the US clearly constituted two of the driving forces behind the adoption of the agenda.

It is to be noted that the EES actually preceded the Lisbon Strategy and, to a large extent, it was used as a source of inspiration for the extension of the open method of coordination to other policy fields, such as social inclusion and social protection. As of 2000, the EES was designed as the leading policy instrument to give direction to and ensure coordination of the employment policy priorities to which Member States subscribed at EU level as part of the overall Lisbon Strategy.

The issue of complementarities and synergies between the Broad Economic Policy Guidelines (BEPGs) and the EES, however, was soon to be raised. Both coordination processes find their legitimacy in the Treaty (under articles 99 and 128 respectively) and have tended to develop over the years, with possible overlaps and/or inconsistencies in terms of content and reporting. This concern was echoed by the Barcelona Council of March 2002, which called on the Commission to work towards the "streamlining" of the processes. The Commission issued a communication later the same year, trying to address procedural concerns.

Mid-term review of the Lisbon Strategy

It is probably correct to say that, at the time of the review of the Lisbon Agenda in 2004/2005, the feeling in Europe about progress on growth and employment was somewhat mixed. While in the previous period of economic growth, employment rates had increased comparatively strongly and unemployment levels had come down, progress stopped in 2001/2002 as economic growth became sluggish. Unemployment increased during 2002–2004, although this was much less marked than in previous slowdowns, reaching high levels in certain Member States. Long-term unemployment started to increase again, after years of decline.

At the same time, the quality of work of those employed seemed to stay below its potential and there were abundant signs that Europe seemed to be on

¹⁷ Council Recommendation on the implementation of Member States' employment policies (2004/741/EC) of 14 October 2004.

¹⁸ European Commission: Working together for growth and jobs – a new start for the Lisbon Strategy COM(2005)24 of 2.2.2005.

a low productivity growth trend. Cyclical developments, such as the sluggish economic growth resulting from low domestic demand and the global economic imbalances, played an important role in the discussion on the mid-term review of the Strategy. At the same time, it was clear that cyclical improvements would not suffice for Europe to improve its underlying economic potential, even more so in the light of demographic ageing. Hence the need for further structural reforms, not just in the labour market, but also in the services, product and financial markets.

Integrated guidelines for growth and jobs and national reform programmes

Following the report from the High-Level Group in November 2004, the Commission presented its analysis and proposals for the review of the Lisbon Agenda in February 2005. This was later discussed and endorsed by Heads of State and Government at their Spring European Council in late March. This coincided with a substantial revision of the Stability and Growth Pact.

As the 2005 Spring European Council put it: “Five years after the launch of the Lisbon Strategy, the results are mixed. Alongside undeniable progress, there are shortcomings and obvious delays (...). Urgent action is therefore called for. To this end, it is essential to relaunch the Lisbon Strategy without delay and re-focus priorities on growth and employment. Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of human capital”.

The main shift brought about by the review of the Agenda may not predominantly be in the reforms advocated, but relate more to the governance of the process itself. While focusing more strongly on growth and jobs, the Council also wishes to improve the sense of ownership of the Strategy at EU and national level through a new reporting system based on a single annual national reform programme submitted by Member States, with a three-year time horizon (2005–2008). At the same time, EU institutions would commit themselves to carrying out actions pertaining to their areas of competences, for instance those related to the single market, in the form of a Community Lisbon programme.

The direct implication of the review is to give a stronger role to the two Treaty-based coordination instruments, the Broad Economic Policy Guidelines and the Employment Guidelines, which would from

now on be combined into an integrated set of guidelines for growth and jobs. Following proposals from the Commission, these guidelines were approved by the Council and endorsed by the European Council in June 2005.¹⁹ They will serve as a basis for Member States to develop their national reform programmes for the years to come, starting in autumn 2005.²⁰ It remains to be seen whether the changes initiated early in 2005 will result in a reinforced Strategy, building on the dynamics of the various EU coordination processes gradually developed over the years, or whether it marks a radically new departure, with adjusted ambitions, for the Union as a whole. The Commission provided its assessment of the first national reform programmes in its 2006 annual progress report.²¹

7 Final thoughts on the EES in retrospect

What lessons could be drawn from the experience of the EES? Is there something to learn for the future of the Lisbon Strategy? Many scholars and researchers have studied the EES from a political science perspective. They often see the EES as a new mode of governance, illustrative of the open method of coordination which has blossomed in several EU policy domains and is now at the core of the revised Lisbon Agenda. They have investigated the role and power of the various actors involved at European and national level. While the emergence of an EU strategy for employment is widely regarded as a major novelty, discussion on its added value, significance and impact continues. Four lessons on the EES could be put forward for further reflection in the context of this article.

The first lesson is that the EES is actually a moving frame: much has happened to the Strategy over the last eight years. Since its launch in 1997, the EES has experienced many reviews and reforms. This has even accelerated since 2002. This feature certainly has a lot to do with the intrinsic tension of the EES, which needs to accommodate political pro-activism while securing its role as an administrative and institutional tool. On the one hand, there is indeed a need or a wish to build up a political momentum for employment at the highest EU level, for instance on

¹⁹ See Council decision of 12 July 2005 on guidelines for the employment policies of the Member States.

²⁰ See European Commission Staff Working Paper: Working together for growth and jobs – next steps in the implementation of the Lisbon Strategy. SEC(2005)622/2 of 30.4.2005.

²¹ European Commission: Annual Progress Report on Growth and Jobs – time to move up a gear. Com(2006)30 of 26.1.2006.

the occasion of a new Presidency or for a Spring Summit. Hence the tendency to renew the political agenda constantly. On the other hand, there is the more down-to-earth institutional and administrative reality of the EES, sometimes characterised as a routine, which, like employment trends, functions on a different time horizon and requires time to be built up and to develop. It also requires administrative and institutional actors to support it, with an important role being played by the Employment Committee.

Ironically, while it is meant to achieve the opposite, this combination of political activism and administrative routine may be detrimental to the credibility and transparency of the process. There is indeed the risk of combining the worst of both worlds, with political pro-activism leading to changing priorities and endless multiplication of initiatives, while institutionalisation would turn into some form of bureaucratised process run by an administrative elite. This certainly would not make it easier for the actors most concerned at EU, national and regional level to own and publicise the Strategy. Therefore, unchanged policy prescriptions for a certain period have the potential to stabilise the policy process and render it more effective if it maintains the dynamism and avoids the bureaucratisation trap.

The second lesson, if one looks beyond the tip of the iceberg, is that the scope and content of the EES have grown and deepened over time, partly as a result of a learning process. The establishment of a common language was a necessary first step in the early years of the Strategy, which went hand-in-hand with the development of common indicators at EU level. Without such statistical and conceptual infrastructures in place, the Strategy would not have developed. The second step was to use this common grid to establish a shared diagnosis of employment challenges and priorities at EU and national level. It is only on this basis that common objectives and targets could be developed, and that cross-country assessment and exchange of experiences could materialise. This highlights the fact that the EES has been an incremental process, gradually building up its own dynamics over time.

The EES now covers 25 Member States instead of 15. It encompasses subjects which were not prominent at EU level earlier on (such as wages, quality and productivity of work, childcare, immigration, undeclared work) and which reflect the full scope of employment policies, not just labour market reforms in the narrow sense. The EES has also led to the development of new techniques and activities at EU level, such as the mainstreaming of employment

concerns in other policy fields and the development of peer reviews to support mutual learning. At the same time, the EES has been a catalyst to develop and deepen employment analysis at EU level, both in terms of the evaluation of performances (through the Employment in Europe reports) and in terms of the monitoring of policy performances (through the Joint Employment Reports). In this respect, the existence and deepening of the EES has contributed to bridging the gap between research and policy-making at EU level.

There may, however, be a price to pay for such "success": while the Strategy has been able to produce more sophisticated information and more articulate policy messages about employment over time, there has always been a more or less explicit call to simplify ideas, policy messages and procedures, so as to focus attention and trigger policy momentum at EU level. This call for a greater political, less bureaucratic, profile is also to be seen in close conjunction with the wish to communicate and raise awareness about the EES and the Lisbon Strategy in general.²²

The third lesson is that, although the EES remains fragile, it can now be seen as a credible vehicle for dealing with employment at EU level. The EES provides a legitimate and reasonably transparent policy framework. It complements other policy instruments in the employment field: legislation, social dialogue and the European Social Fund. While initially influenced by the OECD, it now interacts with the work of this organisation and the on-going review of its Jobs Strategy.

The paradox is that while the vehicle seemed up and running after a few years, there may have been some reluctance to use it or fatigue in using it. This may partly be a matter of resources invested in the Strategy at national level, as the ability to follow and benefit fully from EU activities certainly varies from one Member State to another. It may also partly be deliberate. The EES is a strategy developed by the Member States collectively, with noticeable impact on domestic policies and debates. From a Member State perspective, there is always a risk that the end result of a collective discussion (as in the case of country-specific recommendations) will not serve its specific interests. Although they are the key to the success of the Strategy, transparency and peer pressure can bring about "undesirable" spill-over effects.

²² For an assessment of the perception of EU policies in public opinion, see in particular the European Commission's special Eurobarometer 202 / wave 60.2 of March 2004 on the EU communication on employment and social policies and special Eurobarometer 215/wave 62.1 on Lisbon of February 2005.

Nevertheless, the active participation of the new Member States in the Strategy when joining the Union can be seen as a sign that this risk does not necessarily outweigh the potential benefit in terms of support in the domestic policy debate. Since the Lisbon European Council of 2000 and the revision of 2005, the EES is now well established as the “employment pillar” of the Lisbon Strategy. The success of one will depend on the success of the other.

The fourth and final lesson is that the analysis of the EES as an institutional phenomenon cannot be disentangled from its political and economic context. The EES is a political object, built on an understanding of what the EU economic, employment and social challenges and priorities are. By definition, the EES must accommodate the cultural, political and socio-economic differences which exist across the EU: it is therefore partly a diplomatic exercise to combine these differences into a single framework, as well as to review this process over time to capture new political, economic and employment trends. Such reviews are all the more hazardous as the EES, like most EU processes in the employment and social areas, is fairly new at EU level. Despite some recognition in the Treaty, the detailed content and mechanisms of these processes are not cast in stone and are still under development. While the EES may have developed a coherence of its own, with a (sufficient?) number of political entrepreneurs behind it, circumstances matter and breakthroughs and policy shifts are always possible.

8 Conclusions

The establishment of the European Employment Strategy represents a significant institutional and political development at EU level. Its content and mechanisms are deeply rooted in the economic and policy context of the 1990s and have been reviewed and adapted over time.

While the EU-wide emphasis on employment has had some tangible effects on policies and performances, in particular in terms of a return to employment growth and an increase in employment rates, many major challenges remain or have developed since the mid-1990s, showing that there is ample room for a European strategy in support of growth and jobs. With deepening political, economic and social integration in an enlarged Union, this is all the more a necessity.

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The authors owe credit to the many officials and researchers met over the years. Their knowledge provides invaluable first-hand inputs to this paper and, more importantly, to the pursuit of employment goals across Europe. The following is a list of selected documents and publications which were used as background references for this article.

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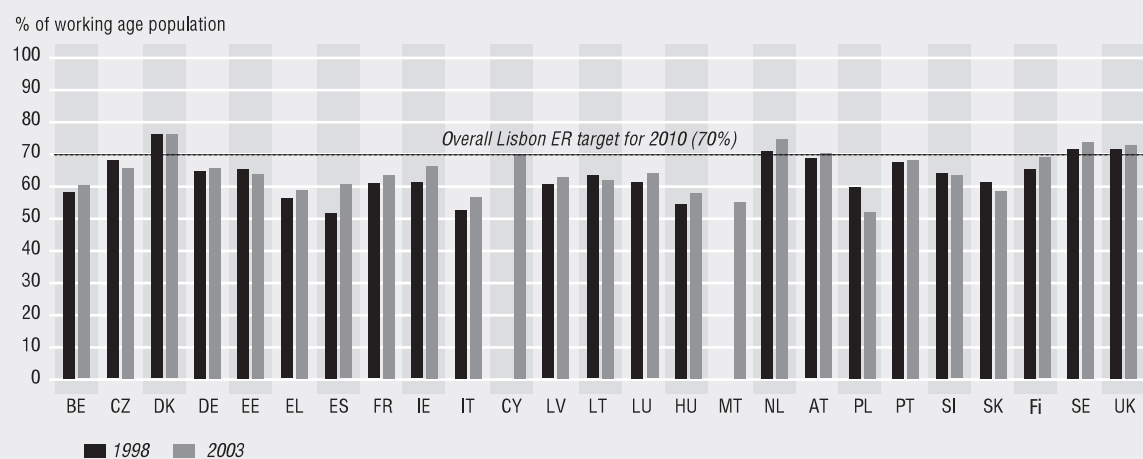
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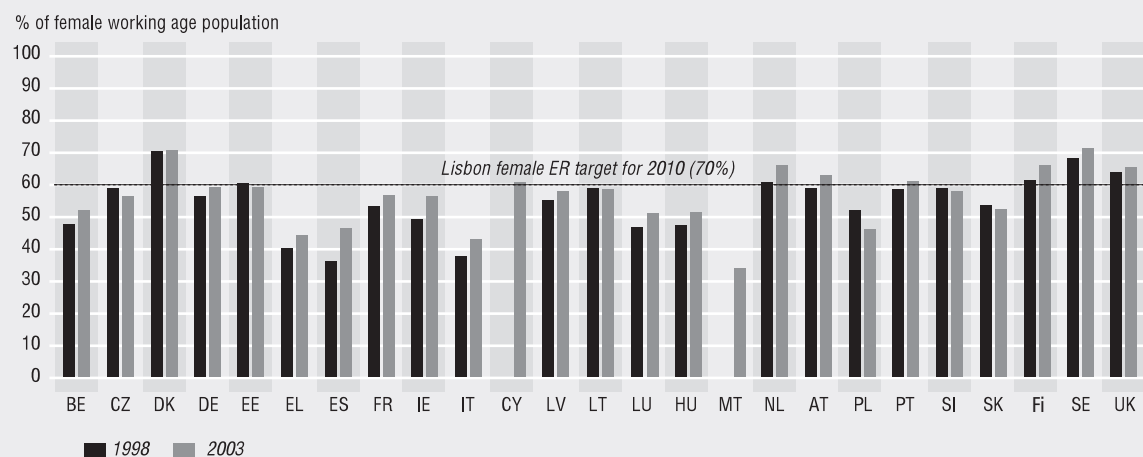
Annex 1

Graphs on employment performances

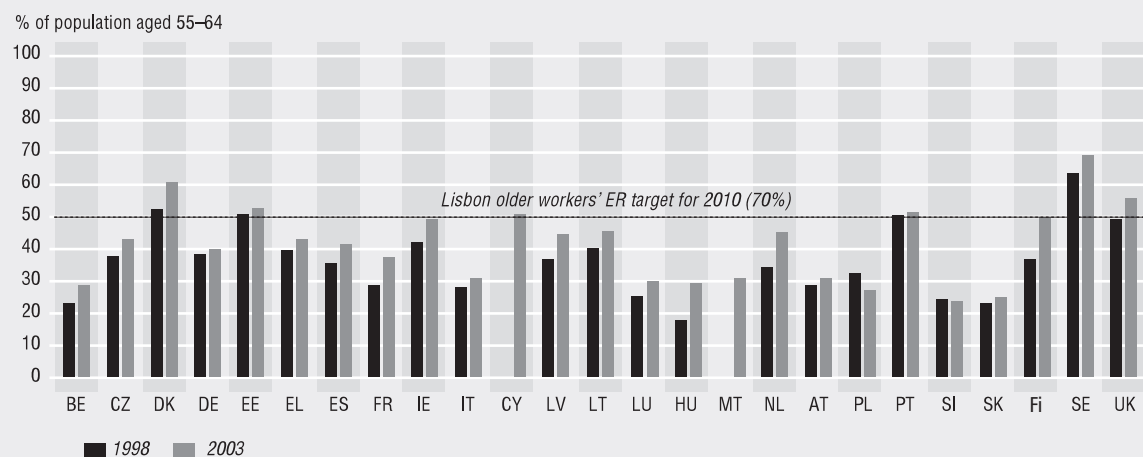
Overall employment rates for EU Member States, 1998 and 2003



Female employment rates for EU Member States, 1998 and 2003



Older workers' employment rates for EU Member States, 1998 and 2003



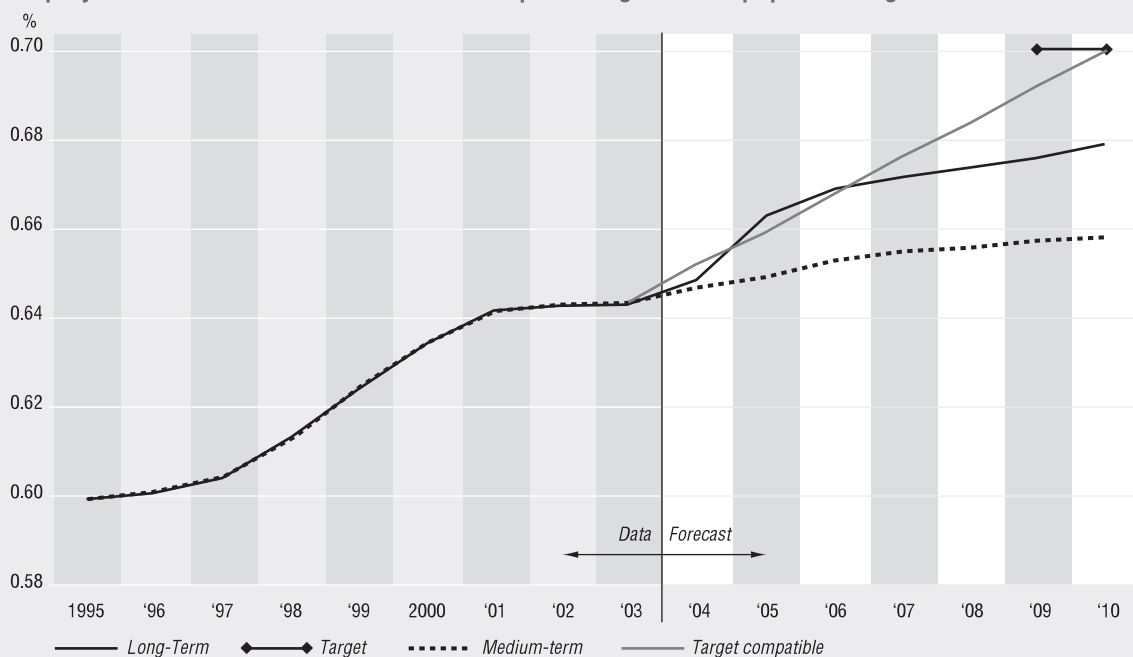
Source: Eurostat, QLFD.

Annex 2

Graphs on Labour Supply Potential

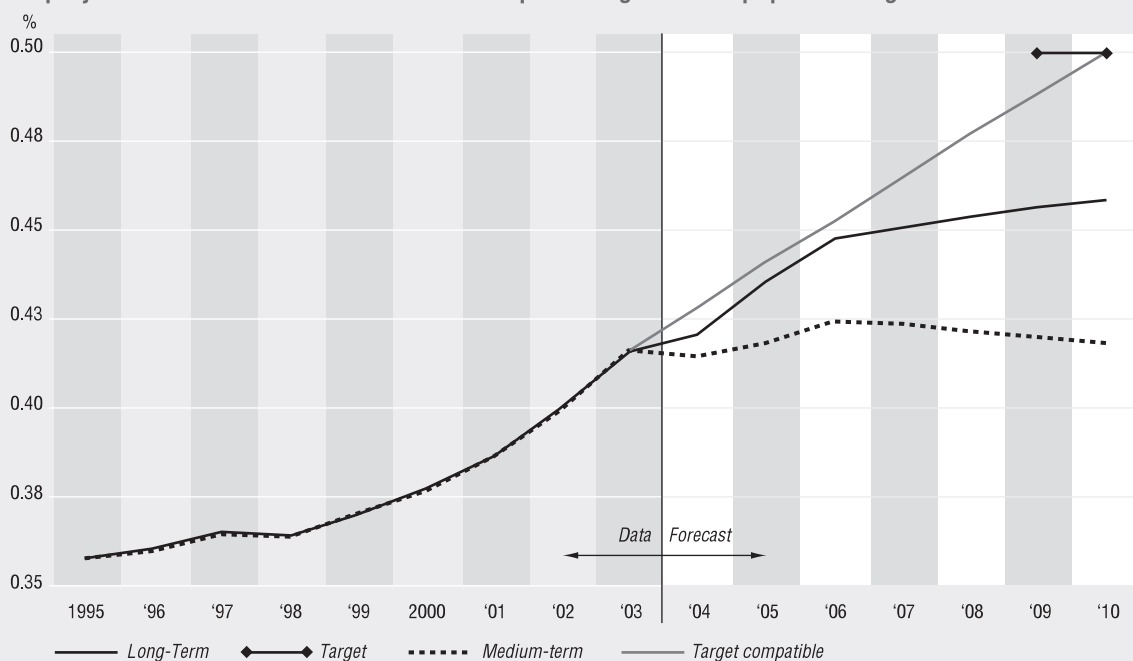
The following two graphs from the *Employment in Europe Report 2004* (chart 40) simulate employment rates for 2004–2010 exclusively based on the long- and medium-term labour supply trend for the EU 15. The long-term trend covers the 20-year period 1983–2003 and the medium-term trend 1993–2003. Employment rates are calculated using in the first case average NAWRU rates, in the second the lowest NAWRU rates observed over a 20-year period.

Employment rates for males and females as percentage of total population aged between 15–64



This graph shows that the medium-term trend is clearly more favourable than the long-term trend indicating some structural increase in labour force participation but insufficient to reach the 70% target in 2010.

Employment rates for males and females as percentage of total population aged between 55–64



Similarly, the graph on the older age group shows a change in the labour market behaviour of this age group. The change is actually quite marked but again not strong enough to reach the 50% Stockholm target, although the improvement could be very substantial.