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# **Towards a European Full Employment Policy\***

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## **Abstract**

Full employment in the European Union member states is a challenge but feasible, also in downswings of the business cycle and during stages of increased robotization. It requires a labor legislation that ensures flexibility and retraining, responsive labor sharing during the business cycle and to individual life cycle needs, government interventions to supply supplemental employment and revamping dual education. The future of work is better ensured with coordinated European full employment labor policies establishing fair work conditions based on long-run business strategies as well as a fair distribution of national income between labor and capital.

Keywords: Employment, full employment, future of work, robotization, fair work, work-sharing, employment regulations, basic income, vocational training

JEL-Codes: J5, J8

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## 1. Introduction

In Europe, work is still the most promising path to social security, individual happiness and even good health. Nevertheless, European policymakers and member governments have given up full employment as the ultimate objective of economic policy and organizing principle of society. There are dreams about or fears of jobless economies, prominent again in the year of the 200th birthday of Karl Marx or in the debates about the consequences of robotization. There is also the notion that jobs are created by business and not by government. Employment is then a matter of free markets and government employment interventions only reduce competitiveness on the global markets for goods and services, while driving up taxation or budget deficits. During the Great Recession of 2008-2014 most EU countries suffered from mass unemployment. Some even experienced youth unemployment rates of around 50%. In the iron triangle of productivity/competitiveness, government deficits/debts/taxation and employment, employment turned out to be the weakest element in periods of downturns in the business cycle.

The increasing robotization of society brings the *trade-off* between full employment on the one hand and competitiveness on the other to the fore. Robotization will surely destruct a high percentage of the existing jobs, and may be replaced by fewer ones with different demands on the competencies of the worker. In Davos in January 2018 CEO's of major firms went as far as to express support for a "basic income" as a way to deal with limited job opportunities in the future labor market. In their view full employment is more and more becoming an illusion.

Here we explore the opportunities for full employment under robotization and under business cycles from the premise of retaining full employment as a realizable policy goal.

The level of employment develops in a country in overlapping social and economic triangles. The economic triangle is formed by the three points of public finance (taxation, budget deficit, labor costs) as the result of –amongst others- demand-supply relations and productivity as a proxy of competitiveness. The social triangle is enclosed into an area determined by the corners:

- How important is work by the individual for his "social contract" with society and how much enjoyment does he/she derive from it?
- What are the income-needs of individuals and families?
- How important is time available for a balanced work/life relation?

The flexibility of labor contracts hinges between the social and the economic meaning: for competitiveness flexibility is essential, while the individual worker prefers the highest level of job security.

The institutions governing the labor market operate within these circles and determine as an end result amongst others the level of employment, under changing economic circumstances. These changes occur as a result of business cycles and of long-run trends, like mechanization and robotization. The institutions are broadly: government, organized employers and organized employees. The group of employers is to be distinguished into international operating employers which are more or less footloose and national employers for which the costs of moving to another country with other labor conditions are so high that moving is not a realistic option.

## 2. Fostering Full Employment Policies

In this paper we seek for the holy grail of full employment over a longer period taking into account business cycles and increasing robotization. We first consider the social and economic anchor points within one country, only to realize that globalization reduces the scope for national policy. Subsequently we consider the potential of European policies to at least increase the scope to promote full employment in the long run. At present individual EU countries design their policies amongst others to create comparative edges against the others (as well as to other parts of the world), ignoring the scope for a joint full employment policy. This national orientation also reduces transparency and labor mobility across EU countries, and hence delays convergence between them. As a result the strong message for those who are concerned about the future of labor is that crude market forces may rule the labor markets of individual EU countries, unless European countries work together to achieve a common framework of workable regulations .

In the past fifty years the US economic and social developments were always precursors for European developments some ten years later. If we do not want this to repeat in the future, we should be concerned about a European, competitive alternative. As the core elements of a new strategic full employment policy, we suggest to make full employment a societal goal.

- Agree on common European labor regulations with a substantial degree of flexibility to allow dealing with the consequences of substantial changes of product and production technologies, ensuring international competitiveness.
- Allow for a breathing employment system that reduces and redistributes working hours and introduces labor hoarding in business cycles downswings and crises and provides easy working time expansions in periods of upswings and booms.
- Strengthen instruments of family - orientation to enable a smoother coordination between work and the individual life cycle to take better care of children and the old-aged.
- Apply workable government finance rules to (i) impose limits for deficits and debt and solid rules of budgetary policies, (ii) to strengthen 'automatic stabilizers' and complement them with redistribution policies in times of downswings; (iii) generate public employment for those without access to the regular labor market.

We develop our arguments as follows. First, we look into the role of work for the individual and for society (section 3). Second, we consider in section 4 the trade-off between employment and productivity. It results out of distrust in government and an over-confidence in the power of unregulated markets. Competitiveness is our point of departure for employment policy. The additional employment measures require substantial public funds. This raises questions about taxation under robotization.

These policy lines towards full employment are compared to a “basic income” in section 5, dismissing basic income as inferior, in terms of generating individual and societal happiness, as well as due to the excessive demands on public funds. In section 6 we further consider labor policy from the point of view of productivity, arguing in favor of 'flex-security': flexibility for the employer, and security as a means to ensure a rapid transition of a worker loosing employment to a new job (including the required training). In section 7 we show the advantages of European labor regulations: they would enhance transparency and thus improve cross border mobility and would increase the comparative edge of

countries participating. We consider the impact of business regulation on employment. Some 30% of employment is located in firms whose decisions are determined by the short term interest of profit maximizing shareholders or by equity companies. We argue for giving room for long term strategies. These are likely to affect employment positively.

### **3. Work, Individuals and Society**

All available research in Western Europe shows that work is good for people. Western Europe exhibits considerable standards for the quality of work. Under those circumstances it can be well argued that any job is better than no job. Work means more than the income one earns with it: it organizes life and it provides a social environment. It also provides psychic rewards for efforts and talent. There is ample evidence that people who have a job are happier than those who do not have (paid) work (Winkelmann and Winkelmann, 1998). An evaluation of the large German workfare program shows that people's life satisfaction rises substantially after moving from being totally out of work to being part of the program (Wulfgramm, 2011). When people become unemployed, they experience sharp falls in well-being, which remain at this lower level until they are re-employed (Helliwell et al. 2013, p. 66; Winkelmann, 2009)). The unemployed and those who experience unemployment in their neighborhood become also more uncertain about their financial future. They are likely to become more Eurosceptic (Ritzen, Wehner and Zimmermann, 2015). So the policy goal of full employment is a no-brainer, as it is the way to ensure happiness.

Work is also good for one's health as has been shown again and again in the literature of course provided work conditions are safe and healthy. The overview of Waddell and Burton (2006) shows the strength and consistency of this finding (). So why don't we have full employment in our countries, and for that matter, in the EU in general?

The main reason is that "the market" will not generate the number of jobs needed for full employment. Sometimes the market will create more jobs, and the labor market becomes tense, but often the number of people which seek work exceeds the number of available jobs. In 2018 we experience in the Netherlands and in Germany tense labor markets with significant labor shortages. Nevertheless, we have a substantial percentage of unemployment, dubbed the "natural rate of unemployment". This is to be understood as the combination of those who are in transition from one job to another and those who are "unemployable" under market conditions. In the period 2008 till 2014 we had experienced an increase in unemployment and felt that full employment (taking the hypothesis of a natural rate of unemployment for granted) was no longer feasible.

### **4. The Trade-off Between Employment Regulation and Competitiveness**

The history of most of Western Europe shows that in times of economic recessions, like during the economic crisis of period 2008-2014 countries experience large scale unemployment, serious budget deficits and stagnation in productivity increase, which worsens their competitiveness. The reaction to the crisis could not be any other than to cut budgets (increasing unemployment) and loosening labor

regulation). Germany notably and the Netherlands to a lesser extent escaped more or less from this general picture (see Rinne and Zimmermann, 2012, 2013 for an analysis of the German situation), also indicating that the ambition to return to full employment is possible provided one is willing to execute the right policies. This was because they had already in the early part of 2000 introduced more flexible labor arrangements and adapted social security provision to ensure a sufficient supply of (employable) labor. Competitiveness is often associated with (relative) productivity growth, as products become cheaper when productivity increases. However, this relation is not as clear cut as shown in the comparison between the US and Europe in the period 1973 to 2003: productivity growth in the EU-15 slowed since 1995, while that in the United States accelerated, without changing (much) in the size of the trade flows (Dew-Becker and Gordon, 2012). Nevertheless: *our basic premise for full employment policies is that employment policies should support as much as possible productivity growth.*

Productivity growth is often equated to decreasing employment (as one would surmise on the basic – but static- equation that employment is total production divided by labor productivity). Indeed, the productivity slowdown in Europe in the period 1995-2003 was accompanied by a growth in employment, accommodating the growth in the supply of labor, mostly due to more hours of work sought by women. For open economies the static equation is generally also relevant for dynamic changes, as productivity translates into international competitiveness, so that a productivity slowdown translates into less exports and more imports. All evidence points indeed towards a strong negative tradeoff between productivity and employment growth within Europe. The consequence is that *on the longer run an employment strategy supporting productivity increases will lead to less employment* (Dew Johnson and Gordon, 2015). However, it is less employment on higher wages, while the alternative of low or no productivity increase also leads to a loss of employment (because of a loss in the competitive position), but then without the sweetening of higher wages.

Employment is best measured as hours worked, but full employment should be oriented at available jobs and the desired utilization of full potential worktime. Full employment would imply that all individuals seeking work have a job with a breathing employment system that reduces and redistributes working hours and introduces labor hoarding in times of business cycles downswings and crises and provides easy working time expansions in periods of upswings and booms. It also allows for family - orientation to enable a smoother coordination between work and the individual life cycle to take better care of children and the old-aged. There are at least three ways to make employment policy based on competitiveness consistent with full employment.

First, the possibility of work on a 'regulated' number of working hours may enable more individuals to work while combining this with personal circumstances like rearing children or providing care for elderly or disabled persons. 'Redistribution of work' is a possibility if carefully instrumented and monitored provided that the demands of companies and workers are met and balanced. An interesting example in this context is in Germany a recent Collective Bargaining Agreement in the German metal and electrical industry where IG-Metall (the biggest German trade union with more than 2.2 million members with a total employment of some 3.5 million) has achieved that workers can reduce working time temporarily to 28 hours per week to satisfy personal and family needs, while companies are allowed to contract more workers for 40 hours per week than previously to compensate for the loss in a sector that has the 35 hours week as a standard for full employment. Other examples of redistribution of working hours across the life cycle are found in Nordic countries and in Germany. Here extensive regulations exist for parental leave when children are born or are small. In this case the

costs need to be borne collectively in order to avoid for the employer the excessive costs of certain types of workers.

'Regulating the hours of work' has been successfully introduced in the Netherlands and in Germany as a means to fight unemployment in times of a recession. Both countries have a regulation that firms can reduce their paid-for working time of employees if they can argue that this is temporary. The workers can continue to be employed part time, while the hours the worker is laid off are compensated through social security. This measure has had a substantial impact in reducing employment in the period of the economic crisis of 2008-2014 both in Germany and the Netherlands. It has also speeded up recovery as the measure implied that general and firm specific knowledge, embodied in the workers, was saved. This knowledge would have been lost if the worker would have become unemployed, which would have also degraded human capital. In such a system workers stay employable. However, it is crucial that only transitory fluctuations in demand are accommodated, structural change in industries are not hindered and inefficient companies are not unfairly saved.

Second is the introduction of '*additional jobs*' in the public sector, but not competing with regular public sector jobs. The Netherlands has a decent example with the so-called Melkert jobs. These were jobs, for example, in additional security against non-violent (yet annoying) offences in the public domain, concierges (Hausmeister) in schools etc. They required few skills and catered for persons generally with lower levels of education. They have been an overwhelming success, both in terms of their contribution to society, as in the personal reward to the individuals concerned, who felt appreciated. They were abandoned because the political parties in charge felt that these jobs should be 'learning' jobs after which a transfer to regular work would take place and at the least the costs should be borne by the institutions where they worked (without compensation from the central government). Of course, these jobs require a considerable outlay of the public budget and the commensurate taxation. In Germany, similar jobs were created by labor market policies in the context of the so-called One Euro Jobs. Introduced as part of the German Hartz reforms, unemployed can keep their unemployment compensation and receive 1.00 - 2.50 Euros extra per hour for executing a special job. This is designed as a temporary measure to allow the unemployed to integrate into the regular labor market.

Third are the jobs for those that are unable to do regular work because of mental or physical handicaps. It is obvious that these jobs are more expensive than a simple hand out. They have been heavily criticized as distorting competition by doing work which could also be done by the private sector. Here society has to face a substantial moral dilemma: how important is work for handicapped persons when compared to the (slight) infringement on competition? In our view, the rewards of work for the persons concerned are considerable larger than the losses due to the infringement on competition. Also, at least if some of the efforts of those workers are productive, there is valuable output for society that would otherwise not be produced, which reduces the overall burden of the measure.

Fourth is the connection of education with work. The dual education system stands out as a means to reduce the friction between school and work (Zimmermann et al., 2013). Cahuc et al. (2013) show, for example, that youth unemployment in France would have been halved if France would have had the German system of dual vocational training. Dual vocational training has been difficult to introduce and to maintain in European countries, it needs a long tradition and commitment among companies. The 'cultural' gap between education and work is huge. Stereotypes exist of work being "hard and demanding" and education being soft and lenient. Suspicions or fears exist: employers use trainees as

cheap labor and schools free ride on the teaching done on the job. In the Netherlands the stereotypes, suspicions and fears almost led to the disappearance of dual education in the recession after the second oil crisis in the late 1970s and 1980s. The revival under a new law (the “WEB” establishing Regional Training Centers of 1995) also became in danger in the recent economic crisis.

There is potentially a solution to be found in the Norwegian system: full Government payment also for the part of training that takes place in industry (taking away the fear of industry of excessive costs for general training, which can easily benefit a competitor) and full supervision by the school of that training (taking away the fear that the trainee is exploited).

These are some general lines of a policy geared towards full employment. They start from a general line of labor policy which supports competitiveness, to be accommodated in a broader setting ensuring the absorption of the full supply of labor on a reasonable wage and making the funds needed available for that purpose. These lines would definitely reduce the increase of unemployment in times of a downturn in the business cycle. They, however, can only be successfully followed if public finance is counter-cyclical, so that in good times government budgets are creating surpluses, in order to cover for the budget deficits incurred with funding employment in bad times.

Will these lines also suffice in a period of rapid robotization? These lines are at least an alternative to be preferred above a “basic income” (as we discuss next). They may need some refinement in terms of the changing composition of labor demand under robotization.

## 5. Basic Income

Basic income notions have been around for some time, advanced from different groups with different purposes in mind. The Davos World Economic Forum proponents of a basic income seem mostly to support it in line with the Beveridge and Bismarck points of view. They were the early proponents of social security at the start of the industrial revolution. Social security was the grease for making the new forms of employment feasible, without creating abject poverty (which was less prominent in the predominantly agrarian societies before the industrial revolution). Others feel that 'basic income' simplifies the complicated set of government regulations in social security. Again another group will plead for a basic income to give parents a chance to devote their time to the upbringing of their children or to care for others in society.

Basic income is to be received by all citizens (above a certain age). Government pays. The sum is unconditional (for example, not dependent on the requirement to look for work) and independent of any other income. It should be sufficient to provide for a living<sup>1</sup>. The main argument used to propose a basic income is 'individual freedom' to choose. The main counter-argument also comes from free choice, namely that due to the well-known and empirically strongly documented negative income effect reduces labor supply and work efforts. Moreover the estimated cost of the program are huge: The Economist (2015) calculates: “Suppose the government needs to levy tax of 25% of national income to fund public services such as education, policing and infrastructure. Paying for a basic income worth 10% of the average income requires average taxes to rise by ten percentage points, to 35%. A

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<sup>1</sup> [https://en.wikipedia.org/wiki/Basic\\_income](https://en.wikipedia.org/wiki/Basic_income) presents an excellent overview.



basic income worth 20% of the average income requires average taxes to be 20 percentage points higher, at 45%, and so on” and concludes: “Basically unaffordable”. The additional labor policy measures proposed above are much less expensive.

## 6. Labor Regulations

Labor regulations are the bone of contention in the developed world. In the post Second World War period European countries used to be in the mood of regulations based on permanent contracts on the one hand or self-employment on the other. This was a period with relatively little change in products or production technologies, so that firms were indeed able to supply long run employment while using the full productivity of workers. Changes in products or production technologies went mostly along with on-the-job retraining of the existing labor force. However in the 1970s and 1980s large scale industries went broke or changed their products or production technologies in such a way that new workers were needed and much of the old labor force had to be laid off (Hoffman, 2017). Laying-off workers caused frictions. These were in the released by using the Disability Pension (WAO) as a means to lay off workers. Gradually Government, employers and trade unions sought for other ways to create more flexibility for employers to adjust to new market and technology conditions. Temporary contracts were introduced, both in Germany through the Hartz legislation and in the Netherlands. The Netherlands also instituted the ‘Self-employed worker without staff’ (ZZPer) and facilitated through tax regulations people to work in this way for different employers. In periods of economic downswings the temporary contracts turned out to be the escape valve for firms to shed their surplus labor. This has created a substantial inequality between workers. The ZZPers and the workers on temporary contracts are often at a substantial disadvantage compared to the workers on permanent contracts. The solution is obvious. Pay per hour should (mandatory) be the same for each worker, whatever the nature of the contract. Marginal workers (with more flexible contracts) would then earn more per hour in order to compensate for the loss of security compared to the permanent contract. Marginal workers would also earn more to compensate for the extra costs of buying in to pension schemes and for the social security provided by employers in case of permanent contracts, like sickness payments and disability.

Flexibility in labor contracts will increasingly be needed to ensure competitiveness of the private sector. At the same time, the individual prefers security. In Ritzen (2015) the trade-off is discussed between security and unemployment from the point of view of happiness: more security means less employment. Security makes people happier, but the impact of unemployment is devastating for happiness. A major dilemma is to relate labor legislation including security to the business cycle. In the present (2018) tense labor markets the inclination is to provide more security (like in Germany envisioned in the Groko agreement). However, this may speed up the stage of decline in the business cycle which is surely going to come. The alternative would be to put the proceeds from the tense labor market into savings for future retraining.

In Ho (2015) the plea is made for more involvement of workers in the organization in which they work, as a means to increase labor satisfaction, while retaining full productivity and competitiveness. This presupposes some longer term relation with the firm or the organization. At the same time it does not

require the illusion of permanent employment. This is likely to be an illusion in the world of robotization with fast changes in production and production technologies.

## 7. European Labor Regulations

What can cooperation between European countries contribute to full employment? First there is the avoidance of competition in labor regulations between EU countries. Second, the increased transparency softens the impact of upswings and downswings in the cooperating EU countries through intra EU labor mobility.

EU countries compete in productivity through different types of legislation, aimed at making the country more attractive as a location for an international firm. Political stability and good governance are generally considered to be important assets for locational decisions. But also business-taxation and labor regulation are items considered in the location decision as they play a role in calculating future returns on investments made. However, the competition within the EU in taxation and labor regulation is a negative sum game: the overall losses exceed the sum of the individual games. Hence, competition within the EU (or parts there-of) through taxation or labor regulation should be avoided. Coordination between like-minded countries should be alternative. Like-minded could start with the Benelux and Germany, could include the Scandinavian EU countries as well as the Baltics, to be expanded subsequently.

The advantage of some degree of harmonization of labor regulation between (parts of) the EU also increases transparency for intra EU mobility and immigration of well-trained staff into the EU. These can make employment levels over the business cycle more smooth and contribute to potential shortages when the demand for well trained staff due to fast robotization cannot be satisfied.

The present Stability and Growth Pact of the EU is notably averse to anti-cyclical policy. The government budget-deficit mark of a maximum of 3% should be altered into an anticyclical one, demanding that in good times the deficit might even turn into an excess, so that in bad times higher levels are allowed.

CEO's of European firms complain about the role of private equity and blitz-active shareholders in setting firm strategies. These parties often force firms towards short term strategies with high pay-outs to owners/shareholders. Short term strategies often imply the reduction of the labor force, in favor of short run profits, while reducing the long run viability of the firm. EU countries should cooperate to increase the role of long-run shareholders while providing also a better role for the workers in the firm. This is not without costs (in terms of competitiveness) but the benefits by far outweigh the costs. The costs would be too high if firms could move between countries, based on competition between neighboring EU countries in terms of business regulation. European coordination will reduce these costs of relative foot-looseness substantially.

European coordination in business regulations might also contribute to the fairness of the distribution of national income between labor and capital. In the late 1970s and the early 1980s labor 'received' some 95% of national income in several Western European countries (while 75% was and still is considered the 'just' percentage. This was considered too high and led to agreements like in the

Netherlands the Wassenaar agreement of 1982 with trade unions pledging restraint in wages, while employers promised more investments and the concomitant employment. At present (2018), the distribution of national income is again off balance with 50% of income going to labor in a tense labor market. Unfortunately the increased heterogeneity of workers, the reduced power of the trade unions and the increased foot-looseness of firms stand in the way of a new agreement. However, on the scale (parts of) the EU such an agreement should be feasible.

## 8. Conclusions

Business cycles will continue to threaten employment in economic downswings. These are likely to be enhanced by the impact of increased robotization in the production process in manufacturing, but even more in the services. This raises the crucial question whether it is possible to maintain full employment or to abandon it in favor of a basic income.

We advertise for a revival or even a new renaissance of the concept and objective of full employment, in particular as a means of ensuring happiness of people which is the ultimate goal of policymaking. Employment is more than the income earned with it. Unemployment makes people less happy. Full employment may be more costly to the public coffers, yet is far less costly than a basic income.

Even in the absence of business cycles and of robotization a new renaissance of full employment would entail an extra public investment in jobs for those who are not employable in 'normal jobs' by providing additional simple jobs in supporting public security and public maintenance. Temporarily flexible worktime allocation or 'redistribution of work' can play a substantial role in downswings of the economy, with work reduction being funded by social security. Redistribution can also be funded by government in line with the life cycle of individuals creating more room for parents to care for small children or for caring for the elderly. Dual education or vocational training is a no-brainer where a modernization would deal with the potential costs of employers to provide general education, and on part of the employees to avoid the exploitation of in- service-training by employers.

The governance of full employment policy is a challenge. Public support for anti-cyclical policies, needed for full employment policy is weak. Also the support for flexible arrangements on the labor market is weak, even if they would hold for every-one equally. Moreover, support for European coordination is likely to exhibit substantial resistance from the nationalistic and populism movements.

Still, it is important to fight for full employment. The alternative is the gradual erosion of the welfare state and the reversal to the crudest form of global competitiveness, dominated by multinationals which constantly threaten us 'to leave the country' unless their demands are satisfied.

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