

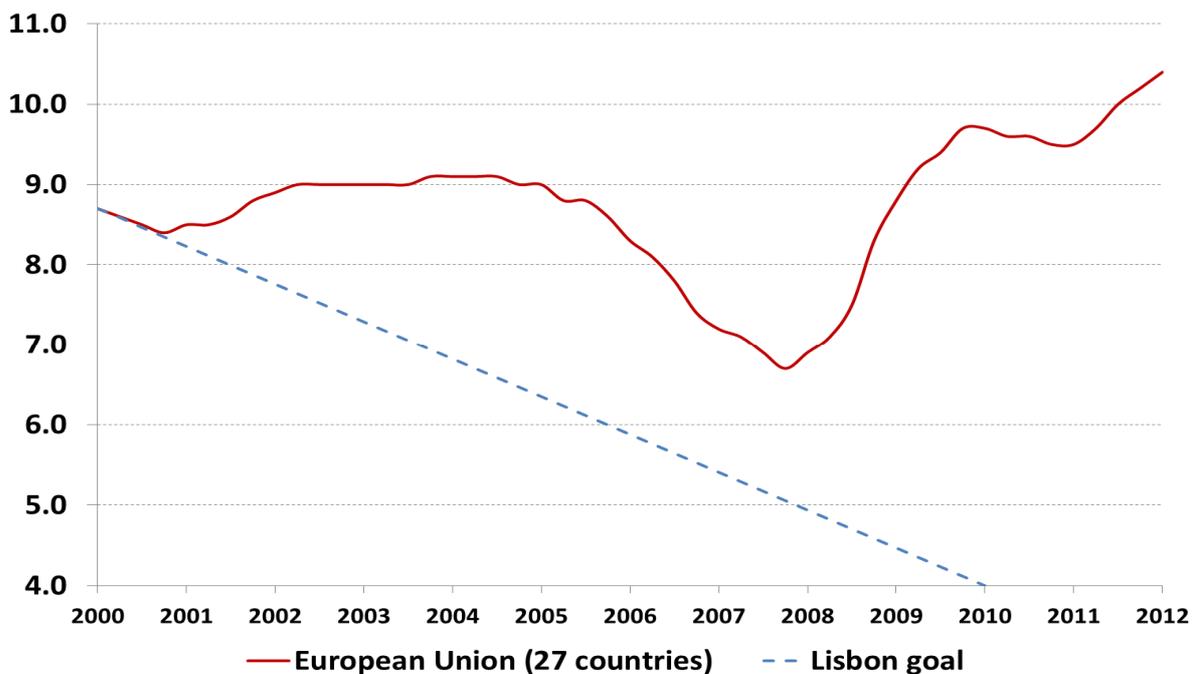
# Which employment pathways for Europe?<sup>1</sup>

Günther Schmid<sup>2</sup>

## 1. Setting the scene

There are serious doubts about the current employment pathways in Europe. The Lisbon-strategy 2010 did not deliver enough jobs, quite apart from good jobs. The unemployment rate never reached the goal of four percent. On the contrary: After some hope until 2008, unemployment shot up into the two digit sphere near 11 percent (Figure 1). Europe-2020 even remained silent about this target.

**Figure 1: Unemployment rates of EU-27, 2000-2012, compared to the Lisbon-target**



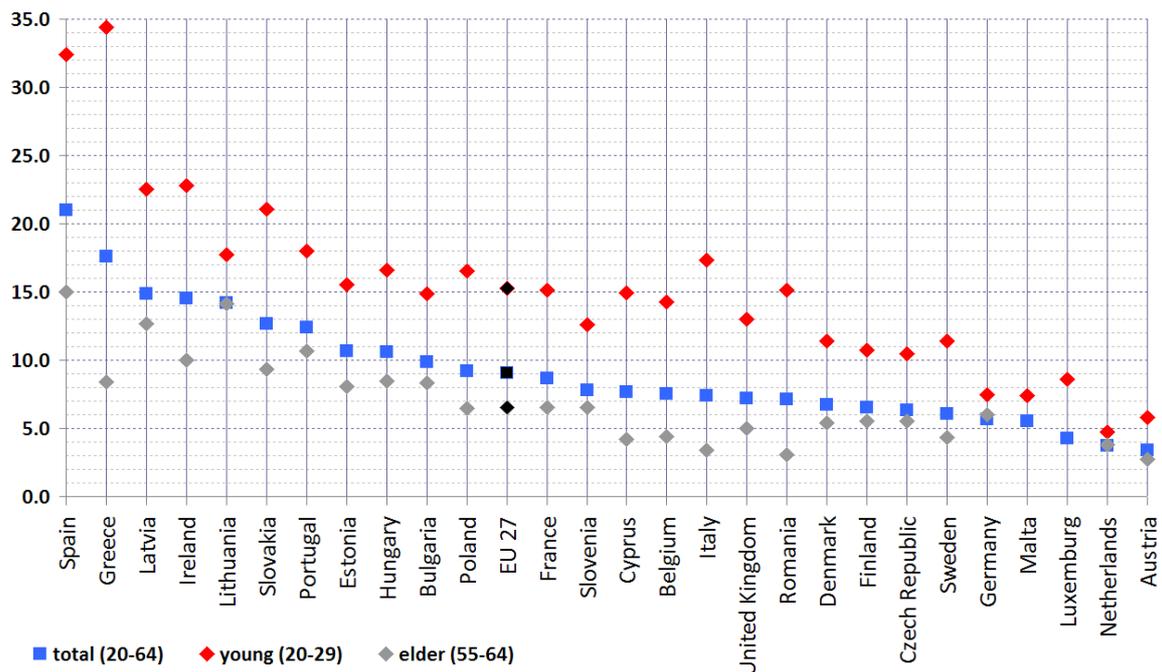
Source: Extended version from Berkhout et al. (2010: IV, Fig. 20) + data for 2010-2012: European Labour Force Survey; quarterly data, seasonally adjusted

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<sup>2</sup> Director of the Labour Market Policy and Employment Research Unit at the Social Science Research Centre Berlin (WZB) from October 1989 to March 2008, and Professor Emeritus of Political Economy at the Free University of Berlin; email: [gues@guenterschmid.de](mailto:gues@guenterschmid.de); homepage: [www.guenterschmid.eu](http://www.guenterschmid.eu).

The group mainly hit by this development are the young. Apart of the youngest in age 15 to 19, of which the majority is assumed to stay in education or in vocational training, the unemployment rate of young adults in age 20 to 29 is not less dramatic: In Spain and Greece, one third of them are without a job. In many other countries at least over 15 percent of young adults are unemployed (Figure 2).

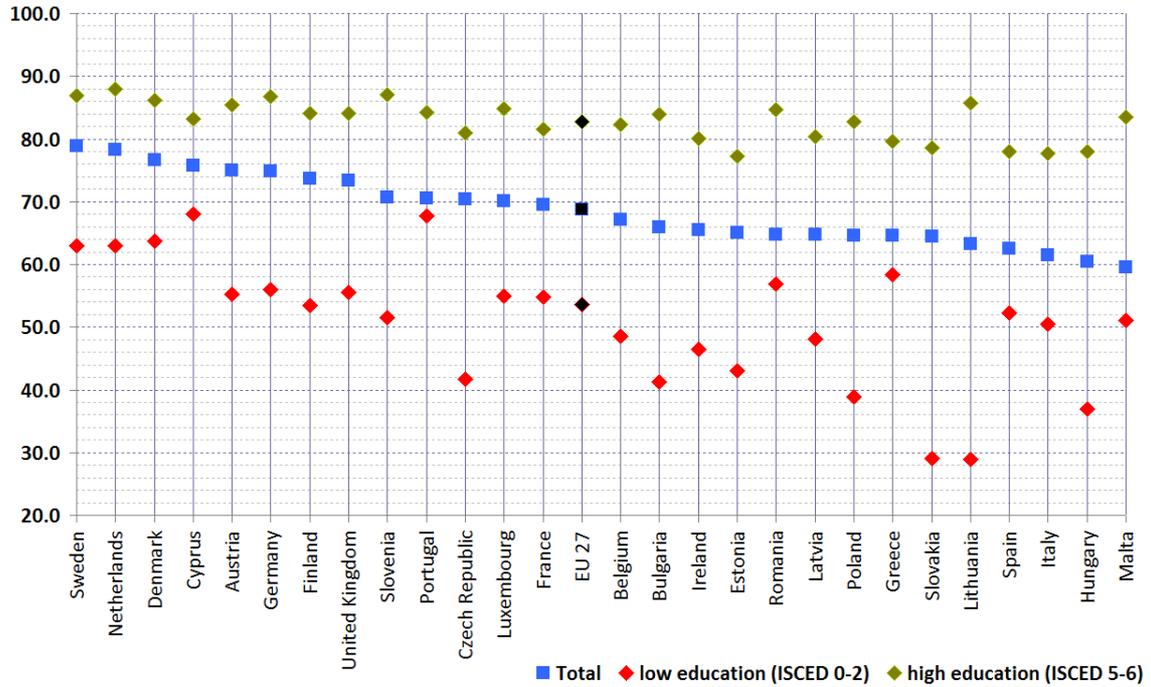
**Figure 2: Unemployment rates for young adults (red) and seniors (grey), 2011 Ranked according to total (blue) in age 20-64**



Source: Eurostat, own calculations, 3<sup>rd</sup> quarter

Europe cannot tolerate a lost generation! But also the official target of 75 percent employment rate probably will not be reached by 2020. Currently, only a few Member-states (Sweden, The Netherlands, Denmark, Cyprus, Austria and Germany) are already at this level. But some countries like Spain, Italy and Greece, and almost all New Member-states are far below this benchmark. What is even more worrying: It is especially the low skilled (here in red colour) that contribute to this low level of employment. The high skilled (here in green) already have jumped over this benchmark in all Member-states, without exception (Figure 3).

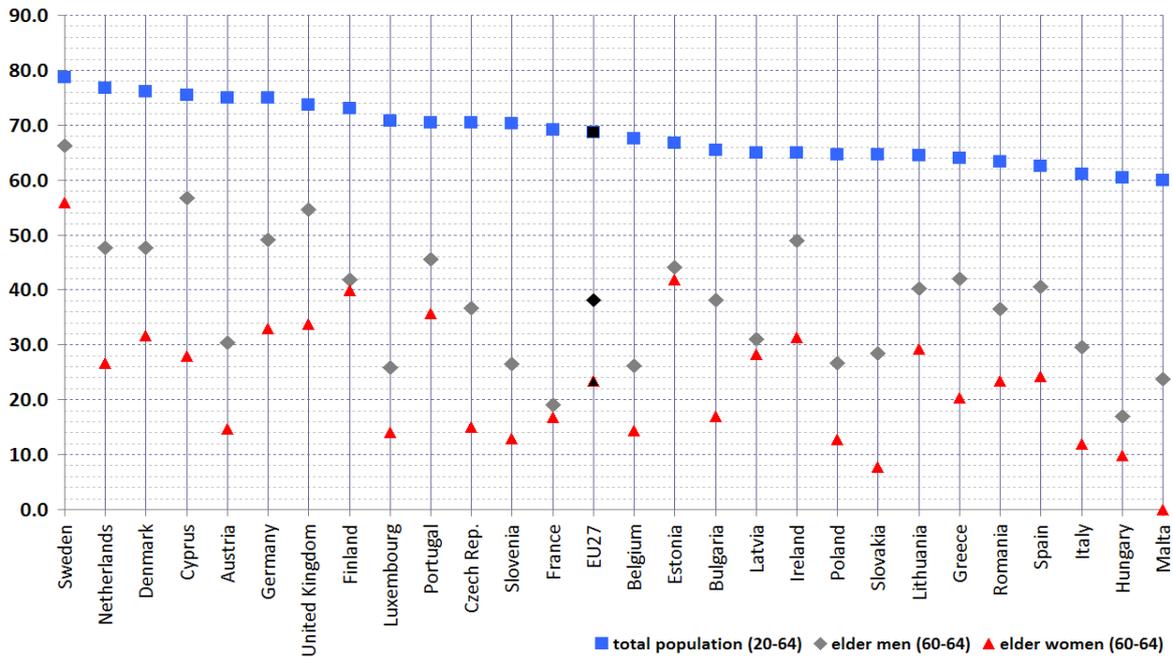
**Figure 3: Employment rates by educational level, 2010: Low education (red) and high education (green) compared (and ranked) with total (blue) in age 20-64**



Source: Eurostat, own calculations, 3<sup>rd</sup> quarter

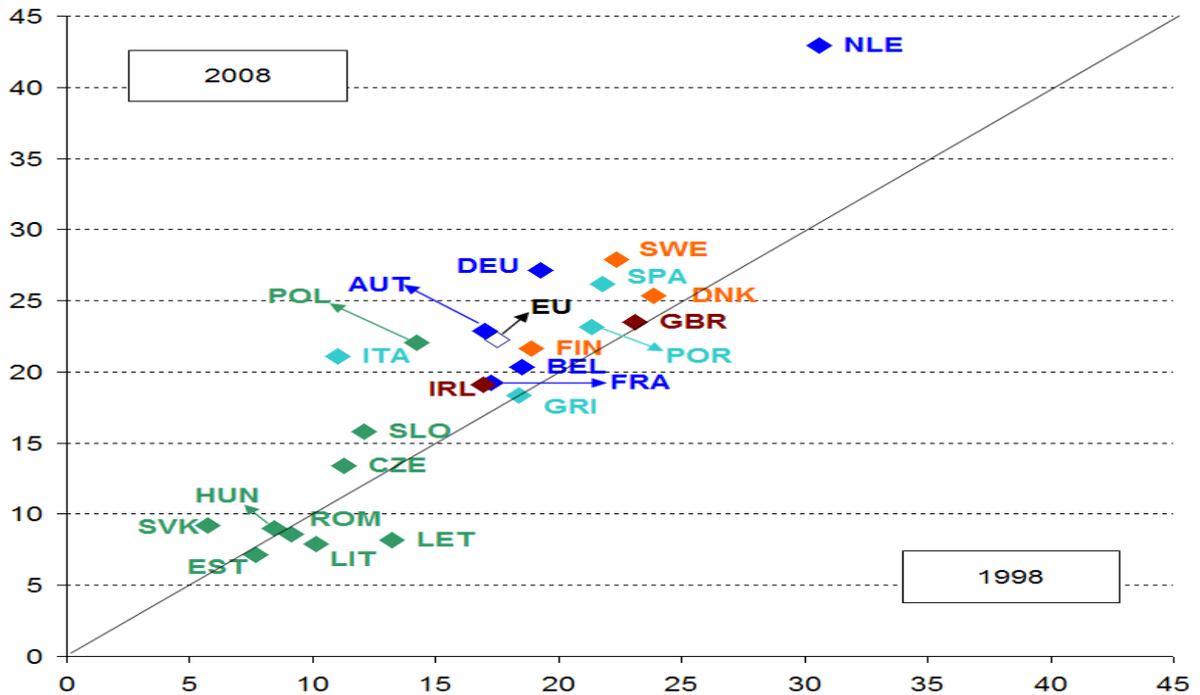
If we look at senior men (Figure 4, here in grey colour) and in particular at senior women (in red), their employment rates are 30 to 60 percentage points below this benchmark. There are only a few exceptions like Sweden and, at least for senior men, Cyprus. But for most other countries, the European labour market is not fit for old people. And even where employment increased, many of the new jobs are non-standard, which means part-time, temporary, casual or own account work. Figure 5 shows that from 1998 to 2008, the non-standard employment rate of Europe climbed up from about 17 to 23 percent. In The Netherlands, even 43 percent of the working-age population has non-standard employment contracts. Of course, not all but many of these jobs are precarious, which means jobs with low income, high risk of unemployment and low social security in old age.

**Figure 4: Employment rates of senior men (grey) and women (red) in age 60-64 compared and ranked with total (blue) in age 20-64, 2010**



Source: Eurostat-ELFS, yearly average

**Figure 6: Non-standard employment rates, 1998 and 2008 (Part-time, temporary, and own account work in percent of population 15-64)**



Source: Schmid 2011a, p. 174, for further explanations

Finally, the crisis drives labour market segmentation further which can be observed, for example, in the dynamics of long-term unemployment (Table 1): Typically, in a recession, here in 2009, the share of long-term unemployed goes down because the crisis hits people across all socio-economic categories, civil servants excluded. Interestingly, Cyprus has one of the lowest shares in long-term unemployment in Europe. But most important is: During the upswing, a negative selection process takes place, reflected here in the increasing share of long-term unemployed. Furthermore, research shows that the probability to transit into inactivity instead into employment increases with the duration of unemployment. So, everything has to be done to avoid long-term unemployment.

**Table 1: Share of long-term unemployed (> 12 months) in EU-27 and selected Member States in 1998, 2009, and 2011**

	<b>2008</b>	<b>2009</b>	<b>2011</b>
<b>EU-27</b>	40.5	33.4	44.5
<b>Denmark</b>	19.2	7.5	30.9
<b>Germany</b>	54.8	46.6	50.0
<b>Cyprus</b>	12.2	8.2	17.3

Are new skills the solution for all of these challenges just mentioned? The report on which this presentation is based, says: Of course, not. But skills play an increasing role, especially if they are embedded into an effective macro-economic employment policy. In the following, I will summarize the main findings and recommendations of this study (Schmid 2012a).

## **2. A New Momentum of Flexicurity**

First of all, a new momentum of flexicurity is required. It is high time to rethink this oxymoron: The relationship between labour market flexibility and security is a dialectic one. Both are mutually reinforcing. Employment policy of the first generation of flexicurity tended to emphasise flexibility and to think about security as a secondary element. The next generation has to emphasise more the flexibility potential of security. As we know from the education of our children: If they feel secure and self-confident, they develop more initiative and creativity than if they are insecure and anxious. The same

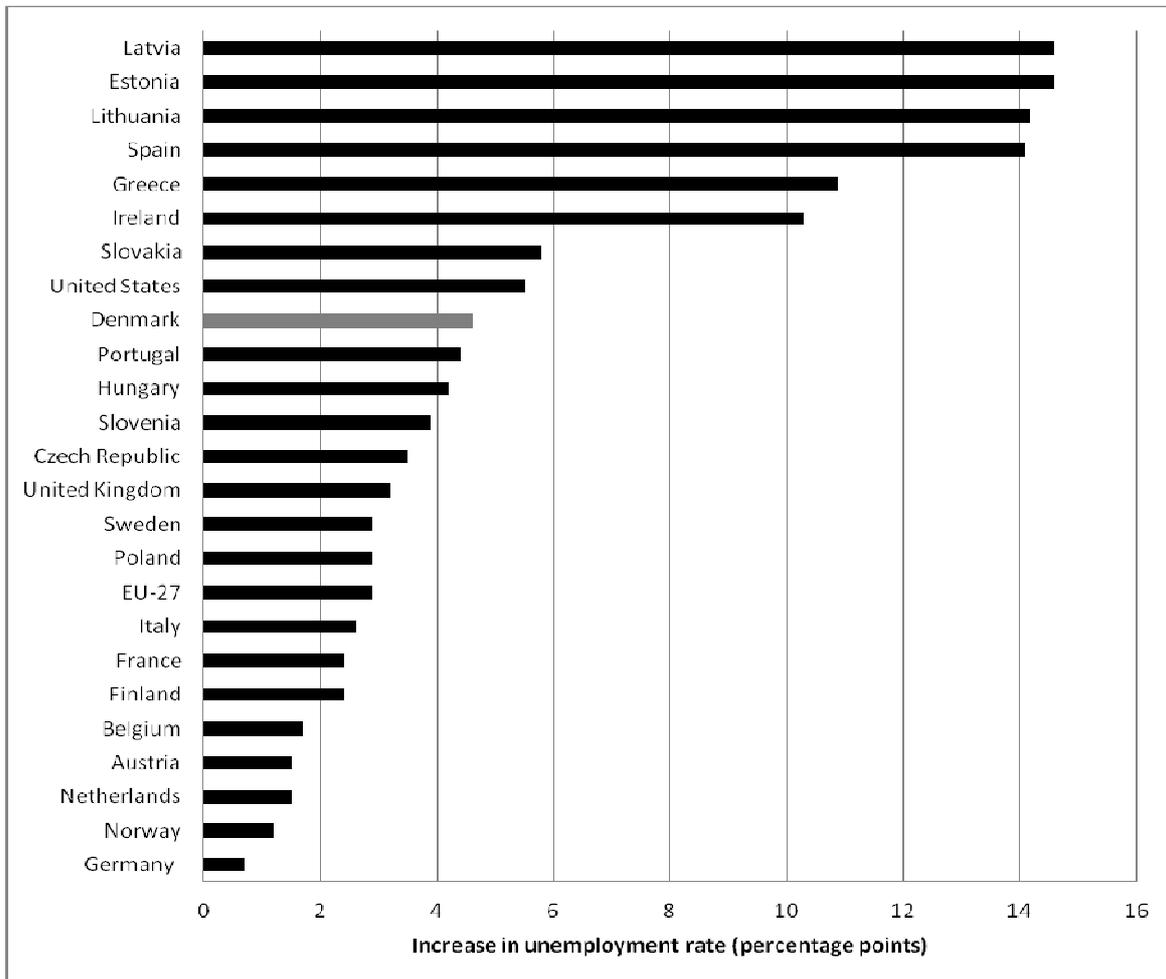
is true for workers: If they feel secure, they are encouraged to take risks and make risky transitions; otherwise they stick to their jobs, even if they feel overstretched and burned out.

The first element for a new momentum of flexicurity is to mind both sides of risk: potential gains and losses. Take the case of part-time work. Most new jobs in Europe have been created as part-time jobs, in particular for women. Of course, part-time jobs per se are not precarious. They are, in particular, good for the work-family-life balance. However, research shows convincingly that many part-time jobs, especially marginal part-time below 20 hours a week, are combined with low wages, low social security entitlements in case of unemployment, illness or old age, and with low chances of moving up the career ladder, even low chances to move back to full-time work.

The European Commission therefore should help to establish the individual right of reducing working hours in the same job and returning to a comparable job without a negative effect on pay. This may help to spread part-time jobs across all job categories without creating negative effects of occupational segregation, which keeps in particular women as prisoners of low-wage jobs.

The second element for a new momentum of flexicurity is to mind both sides of flexibility, external and internal. The first generation of flexicurity emphasised external flexibility, which means job-to-job transitions, reflected for instance in the Danish model. This view has to be changed. As Figure 7 shows, Denmark was not particularly successful in overcoming the last recession. It experienced a big jump in its unemployment rate and, if you remember the last table, a strong increase of long-term unemployment. This is not to say that Denmark may not anymore serve as the Poster Boy for flexicurity; Denmark still has many strengths. For small countries with a homogenous labour force and population, the flexicurity model of trading high income security for the acceptance of high external flexibility is still valid.

**Figure 7: Growth of unemployment in percentage points 2007 (min) – 2011 (max)**



Source: P. K. Madsen (2011), Still the Poster Boy? Danish Flexicurity and the Crisis, CARMA-Aalborg, mimeo

But in countries with a less homogenous labour force, with less population density, and with many more medium sized and large enterprises, like Germany, this model does not work. Germany relies much more than Denmark on internal flexibility, which means working time and wage flexibility. The extensive use of short-time work was only one element of internal flexibility; other elements were working time accounts, flexible collective agreements and reduction of overtime work. It was this capacity of internal flexibility which explains to a large extent Germany's low rise of unemployment during the last recession.

However, even in Germany this capacity of internal flexibility is still underdeveloped. The current short-time working schemes are not only quite costly but also conservative: They

mainly protect the core workforce, and they do not provide enough incentives to make internal flexibility investive: for example by combining short-time work with education and training to prepare for restructuring and to enhance the overall employability of workers in case they should become redundant.

In order to make internal flexibility investive, consensual involvement of social partners and effective employment services are essential to ensure fair risk sharing between the stakeholders: the firms, the workers, and the state.

The third element for a new momentum of flexicurity is to mind both sides of security: 'passive' and 'active'. Flexicurity frameworks have usually emphasised workfare, which means enforcing the acceptance of available job opportunities. The new flexicurity framework should accentuate more active securities that encourage labour market transitions. Workfare is mainly concerned with controlling "moral hazard", which means peoples tendency to be careless or even to exploit social security benefits. Active security is mainly concerned with stimulating calculated risk taking. If a reasonable safety net is available, individuals become more inclined to invest into their employability or to risk job-to-job transitions.

The new flexicurity momentum, therefore, should emphasise much more the potential of securities for individual risk taking by making transitions pay. In this light, generous short-term unemployment benefits are not 'passive' but 'active' measures allowing productive job search. 'Work-first-measures' should be combined with career oriented supports like opportunities for on-the-job-training, carefully targeted in-work-subsidies and wage insurance.

The fourth element for a new momentum of flexicurity is to mind both sides of information: stocks and flows, including transitions. A 10 percent unemployment rate can mean quite different things: It can mean that 60 in 100 become unemployed but stay on average only two months unemployed. But a 10 percent unemployment rate can also mean that only 10 in 100 become unemployed and stay 12 months unemployed. In a life course perspective, transitions and transition sequences, in other words careers are the relevant information we need. If people quickly move up to medium and high-wage jobs, a high

stock in low-wage jobs is less frightening than a low stock in low-wage jobs that turn out as dead-end jobs.

Following up individual transitions over the life course and assessing the impact of labour market institutions and policy measures on careers requires a modern data infrastructure on a panel basis. However, in most Member-states, such an infrastructure does not exist or is still largely underdeveloped. The European Commission could play an important supportive role in developing such an infrastructure, in particular employer-employee-linked data sets. It should encourage Member-states to build up monitoring systems based on transitions and transitions sequences in order to identify as quickly as possible new risks and skill requirements. Furthermore, each policy recommendation should contain a Gender Impact Analysis to strengthen the flexibility-security balance for women.

### **3. A more skilled labour force**

Let me come to the substantive points: First of all, Europe is still not sufficiently skilled, and skill polarisation aggravates this challenge: Those with low qualifications are much less likely than the high educated to upgrade their skills, and comparative European research demonstrates clearly that it is educational institutions that reinforce skill-inequalities. Schools pre-select children into low-skill tracks, institutions for continuous vocational training and education remain weak or non-existent, and minimum standards of education are underdeveloped or not enforced. Europe, therefore, has a key role in improving skills and to remedy educational inequalities.

The first recommendation is: Mind middle level skills. We need not only a proper balance of flexibility and security; we also need a proper balance of skills. That's why it is contested to put priority on raising the share of people in age 30 to 34 with formal high education to at least 40 percent. Europe should put more emphasis on minimum standards of education at an early age and on vocational education. Early education provides the basis for at least two transversal skills: the ability to learn and the confidence in one's own competences.

As you can see from the third line in Table 2, transversal skills are most important in the growing sector of secondary service occupations like lawyers, managers, engineers,

researchers, and life science, health, teaching or care professionals. These skills include making complex issues understandable, solving unpredictable problems, making difficult decisions, detecting and closing knowledge gaps, and coping with many different tasks.

**Table 2: Requirements of Methodological Competences in Occupational Areas (multiple percents)**

	Making complex issues to understand	Solving unpredictable problems	Making difficult choices	Detecting and closing knowledge gaps	Coping with many different tasks
Production-Occupations	18.7	44.1	34.0	20.8	63.2
Primary Services	25.5	40.8	32.0	21.7	65.2
Secondary Services	60.6	67.7	55.6	39.0	81.4

Source: Baethge 2011, taken there from Figure 4.

Vocational skills provide a close link between education and work. Moreover, soft skills – such as the ability to communicate, creativity, and entrepreneurship – depend on personality traits that are shaped at an early age and during workplace experiences rather than later by formal education. That leads me to the second point:

Mind the ageing population. The main response to this megatrend can only be to establish a life-long-learning system. Research indicates that enhancing skills at low and medium level might be more important than heading towards the benchmark of 40 percent in tertiary education. Often, higher education is only used to signal skills that are not necessarily learnt in higher education programmes. Scarce resources might better be spent into continuous vocational training and education, especially targeted to immediate skill deficits. Most important: Such upgrading can induce mobility chains that also open career paths for low-skilled and other outsiders. This would be an effective way to prevent or mitigate the tendency towards skills and job polarisation.

The third recommendation is: Mind institutions. European research convincingly shows that providing more skills is not necessarily related to investments into new skills but

rather to smarter work organisation. There is a need of better using existing skills by establishing a work environment that stimulates learning and cooperation of different skills. In this respect, high performance work systems should be developed, which means flat hierarchical structures, job rotation, self-responsible teams, multi-tasking, a greater involvement of employees in decision making and the replacement of vertical by horizontal communication channels. The European Commission could play a strong role in identifying best practices and even in providing financial incentives for restructuring towards high performance work systems.

The fourth recommendation is: Mind skills' uncertainty. There is no analytical tool to overcome this problem. It can only be solved by establishing learning systems of anticipation. There is a great need to combine analytical forecasting with the tacit knowledge of key actors at local or regional level. This learning by monitoring can be put forward through mutual agreements or covenants between communities, firms, social partners, and development or financial agencies. This often requires the initiative and mediation by regional governments.

#### **4. Better job quality**

Let me come to the next point: Better job quality. Europe created too many jobs of low quality, yet research shows convincingly that only job quality enhances sustainable growth of jobs. In particular, excessive use of temporary work undermines not only career perspectives of many young adults but also weakens innovation and productivity and therefore competitiveness. Thus, the creation of good quality jobs is not only a matter of social but also a matter of economic concern. How can this virtuous circle of job quality and job growth be put in motion?

First of all: Mind work-life quality. In the current economic crisis, temptations to increase work intensification and to decrease securities for employees should be resisted. Changes in work organisation are more effectively managed if workers are involved and encouraged to participate in decision making. An important case is working time. Research shows increasing workloads leading to early burn-outs or even to lasting mental health incapacities. There is therefore a growing need to monitor job quality not only at

national or European level but also to institutionalise this monitoring at company level and to establish early warning indicators for preventative interventions. Second: Mind capabilities. From a life course perspective, not only people's work capacities are changing but also their preferences. So, making workers only fit for the market would be a one-sided strategy; the market also has to be made fit for the workers. Of course, taken both together, many potential conflicts arise. We therefore need greater institutional capacities for negotiated flexicurity, in particular at the firm level. The European Commission, therefore, should encourage institutional capacity building by amending social policy guidelines or directives and diffusing good practices that make the market fit for workers.

## **5. More and better jobs**

Finally, more and better jobs are needed. The recent communication by the European Commission "Towards a Job-rich Recovery" contains many important hints to bring the European employment pathway in the right direction. Yet more could and should be done. My report stresses the following points.

First: Mind product market regulation as potential barrier for more and better jobs. It is correct that in some Member-states improper labour market regulation is still an important barrier for more and better jobs. But the other side of the coin is often neglected. Europe needs a coordinated huge investment programme into a European wide infrastructure related to telecommunication, energy, water and sewage. Proper European wide product market regulation would be necessary to complement the required large investments into Research and Development and into respective education or training.

Second: Mind the potential of employment maintenance measures. Conventional active labour market policies, supported by effective employment services, clearly help unemployed people to make faster transitions back into new jobs. But policy measures maintaining jobs for skilled workers in economic downturns combined with training and other employability measures are still underexploited. They would avoid ineffective labour turnover and uphold the specific skills necessary at company level. Furthermore, inbuilt-stabilizers need more attention, for instance by implementing labour market

policies in an anti-cyclical way: more people (expenditure) in (into) labour market measures in recessions, less people (expenditure) in (into) labour market measures in upswings during which workers or employers build up the stock for the employment insurance.

Third: Mind the potential of self-employment despite its limited capacity. Options to transit between dependent work and self-employment, or to combine wage work with own account work are still under-exploited.

Fourth: Mind the potential of investing into work-place adjustment. The current crisis will channel many disadvantaged people into inactivity like disability pensions, especially those with limited capacities to work. Europe must definitely invest more into reasonable workplace adjustment.

Fifth: Mind the job potential of human services. The European Commission should better assess the possible range of publicly financed jobs related to human services, such as social services, cultural and sport activities, education and care work, especially at community level. These are often jobs suitable for senior workers because they require low formal skills but specific competences in communication and personal attention.

Sixth: Mind the potential of green jobs albeit their capacity is limited. Though respectable in growth, it is indeed not employment in eco-industries which will power more and better jobs. The Commission's Employment and Social Report 2011 estimates its size only at 3.8 million in 2012. However, so-called green jobs may contain a wider spectrum. Despite their limits, therefore, Europe should mobilise this potential, for instance by reducing the uncertainty of the size of future markets by forward regulation, which means setting standards of product and service quality. It may also compensate market failures like information asymmetries and externalities through stimulating European wide co-operation or co-financing. And finally, Europe could support respective education and retraining especially related to small and medium sized firms to help them restructuring their work-places towards renewable energies.

## 6. Conclusions

Europe definitely needs more people in employment. Why? First of all: Creating more and better jobs is also a moral obligation. The familiar economic arguments related to demographic challenges and employment as evident precondition for prosperity are not sufficient. A job is more than just an earning opportunity for people.

The 2008 winner of the economic Nobel Prize, Paul Krugman, once expressed this view in a short and lucid way: "A merchant may sell many things, but a worker usually has only one job, which supplies not only his livelihood but often much of his sense of identity. An unsold commodity is a nuisance, an unemployed worker a tragedy."

This statement holds of course equally for men and women, and in particular for young adults who strive for a live in autonomy with a meaningful perspective and at least in modest prosperity. Therefore, more emphasis should be put on avoiding unemployment, in particular long-term unemployment, and on youth guarantees for employment or education, not only for the youngest but also for young adults.

Second, in order to advance this spirit, Europe needs an enhanced social dimension in a way which has already been expressed in the *Declaration of Philadelphia* 1944 and subsequently in the *Universal Declaration of Human Rights*, adopted by the United Nations in Philadelphia 1948. I quote: "Everyone has the right to work, to free choice of employment, to just and favourable conditions of work and to protection against unemployment." Article 9 of the Treaty on the Functioning of the European Union is at least reflecting this principle in a weak form. Its spirit needs to be revitalized in a prospective new Constitution for Europe in order to unequivocally signal that the (labour) market is a means and not an end in itself (Supiot 2010).

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