

Let's get to Work! The Future of Labour in Europe

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Discussant's notes (1)

You all are familiar with Antoine de Saint-Exupery. He was certainly not a labour market expert, but he was an expert of impossible missions like commenting on a book about the future. "As for the future," he said, "your task is not to foresee it, but to enable it." This wisdom contains the general message I would like to bring forward:

Sure, the book provides many interesting, and even some surprising forecasts about the future of labour in Europe, but uncertainty remains. From this it follows that the emphasis in drawing conclusions should be on shaping the right institutions: Institutions that enable flexible responses to the "unknown known" to ensure a future of labour that is compatible with our values. Even if there is no unified European Social Model, there are common values, circumscribed for instance in the EU-2020 strategy for "sustainable, smart, and inclusive growth."

This leads me to my first general comment. What I miss is a normative discussion on "work". "Work" is not only a source of income, but also a source of self-respect and personal identity. Even if you don't want to go as far as *Maria Montessori* who saw in work not a means but an end, the principle of inclusion assumes a high value of work, at least in its self-determined form. Inclusive growth, therefore, implies not only some equality of prosperity among the EU-members, but also some equality of employment chances among the workforce, including people who have reduced work capacities for some reason.

1. Comments to: Miroslav Beblavý, Ilaria Maselli and Marcela Veselková (eds.)(2014), *Let's Get to Work! The Future of Labour in Europe*, Vol. 1, Brussels, Centre For European Policy Studies (CEPS).

Shaping institutions to “enable the future” requires, therefore, not only to make workers fit for the market but also to make the market fit for the workers. I miss, for example, a discussion on reasonable workplace-adjustment for the increasing number of people with reduced work capacities. Furthermore, unemployment, in particular long-term unemployment is not only a “waste of human capital”, as mentioned in this report, but also neglect of the human right to participate in the labour market.

Now, let me come to some specific points. I will structure these comments along the line of the books three main messages. First, the future of labour in Europe will move from energy intensive regime to a human labour intensive regime. Second, the future of labour in Europe will be driven by symbolic knowledge and services. Third, the future of labour in Europe will strongly be determined by demographics, in particular by the reduced working-age population.

The book’s contribution to the so-called *socio-metabolic regime transition* is the most innovative. Even if – as the authors admit – the forecasts still contain a lot of speculation, peak oil, peak gas, and peak coal are a fact. The decreasing energy returns of investment will lead to a revaluation of human labour, in particular for care work or empathy work. It will even probably lead to an increase of physical labour, for example, repairing or maintenance work. This has various consequences for employment policy and for Europe as an agent to promote a green economy.

First, the demand of investments in renewable energies increases. It would be of utmost importance to counter the decreasing returns of energy investments by scale effects through joint European investments, for example, into a European wide network of green energy. To increase the job content of such investments, emphasis should be given to decentralized systems. To prevent poverty related to rising energy costs, more economic incentives should be directed to energy savings.

Second, and even more important might be a paradigm shift in the understanding of investment. That’s how I read Iain Begg’s conclusions on page 217 – to explicitly include all expenditure to human labour, skills and workplace innovations into the definition of investment. I am also endorsing the policy conclusion to shift taxes from labour to the consumption of energy intensive resources.

Third, taking the socio-metabolic regime transition seriously means to reassess the kind of skills needed for the respective new jobs. It is not just the direction of skill formation towards so-called green jobs. The net job creation in this sector might even be very modest as the Nobel laureate Christopher Pissarides emphasised in

recent presentations. It is, in my view, the need to revalue middle level skills that combines theoretical knowledge with work experience and learning on the job. In other words, skilled craft work, engineering, and professional care work. The book correctly argues for later tracking and early investments in education, but it remains tacit with respect to dual systems of learning, not only at the secondary and tertiary level, but also related to life-long learning.

Various studies, in the meantime, have shown that member states with dual learning systems, particularly apprenticeship systems, have significantly lower youth unemployment. Furthermore, evaluation studies show that for unemployed adults, the combination of learning on the job and school-based training brings out the best and most sustainable results of reintegration. Also, the combination of job maintenance and training is still a much-neglected practice to adjust skills to the new jobs. Providing more opportunities to combine work and education or training would also be an answer to the book's fresh evidence on eroding employability with age. Finally, dual learning systems for adults would also respond to the important finding in chapter 5 that at the end of the day, for most people job security is still the most important element of "good work" (2).

This leads me to the second point, the argument that the future of labour in Europe will be driven by symbolic or academic knowledge and services. My first comment relates to the observation that jobs in private services will increase in both the "friendly" as well as the "tough" scenarios. What astonishes me is the huge gap of forecasted jobs: 15 million in the friendly scenario but only 3.5 million in the tough scenario until 2030. However, it becomes somehow opaque. What exactly makes this huge difference? And more important: Which policy measures or institutions could substantially narrow this difference?

From our own studies in former times and from recent studies in Germany, I know that the most important element of private services are "production-oriented services" such as software technologies, counselling, designing, research & product

2. Note that I am not arguing for copying the German model of apprenticeship, not in the least for its serious flaws. The argument relates to the principles of "dual learning systems" which are also widespread in Austria, Switzerland, Denmark and the Netherlands. For further reflections on these principles as well as further references to this subject see G. Schmid (2013), Youth Unemployment in Korea: From a German and Transitional Labour Market Point of View, Bonn, IZA Policy Paper No. 63, <http://ftp.iza.org/pp63.pdf> ; (published in Korean: The HRD Review, 2013, 7 (7), 126-151).

development, and marketing. As the name “production-oriented services” already signals, the backbone of such services is manufacturing. That is, creating sustainable jobs still means establishing a favourable institutional environment for manufacturing, which again is the backbone for international competitiveness.

An essential element for such a favourable institutional framework is related to the education system. Jobs or occupations in production-oriented services are of course not susceptible to direct policy intervention. But the education system could be better adjusted to prepare for such jobs and to prevent respective skill deficits. Conventional university education is often ill suited for such complex tasks. Applied higher education schools or even vocational academies do better, and again, dual tertiary education systems would be a suitable institutional innovation. To give you an example, The Hertie School of Governance in Berlin offers, among others, a course for *Master of Public Policy*. Originally, this course was planned for top managers in the government and other public institutions. In fact, 60 percent of the graduates land jobs in private enterprises, in particular those with international connections. Various contributions in the book correctly emphasise that “low-skilled” might be a misnomer; so I would like to add to this argument that “high-skilled” might be a misnomer, too.

Related to new technologies, the book provides various important insights. ICT is an important driver of job polarisation, the slow diffusion of ICT is also a source for the productivity gap between Europe and the United States, the inequality of broadband infrastructure enhances inequalities in job opportunities in regional peripheries, and the lack of venture capital causes low dynamics in ICT innovations. The book provides a valuable contribution in making these observations hard facts. However, it could have given more concern to proper policy responses, both at the national and European level. For example, a European-wide investment programme for broadband infrastructure and integration of ICT in school curricula at the national level. In Germany, for instance, there is a general lack of teachers trained in ICT, and PIAAC – the OECD Programme for the International Assessment of Adult Competences – identified an alarming deficit in ICT competences among adults in almost all OECD countries.

The chapter on labour market institutions identifies employment protection as an important barrier for innovation. This observation, however, seems to not be based on new empirical research, but on conclusions from selective readings of some literature. Is deregulation or flexibility the solution? The study is not conclusive about

this question, and it seems to me that some points would have to be clarified before drawing strong conclusions related to labour market institutions.

First, innovation is not clearly defined. Is it product innovation, process innovation, or the slow diffusion of innovation? Second, the empirical evidence provided is mixed. Studies on flexible jobs and innovation, for instance, by a team around the Dutch economist Alfred Kleinknecht, conclude that excessive use of fixed-term contracts is clearly damaging to what he calls “routinised innovation regimes”. High functional flexibility enhances a firm’s new product sales, and this requires high investment in R&D supported by heavy training efforts *and* stable employment relations. Employers will not invest in the skills of their employees if they have to fear poaching and employees will not invest in firm specific skills if they have to fear arbitrary disruption of their employment contract.

From this and others’ studies follows that the relationship of flexibility and security is trickier and not just a simple trade-off. I can only endorse the conclusion of the final chapter in the book, that the European Flexicurity flagship should take internal and functional flexibility on board, and not mainly rely, as it did in the last decade, on external and numerical flexibility.

This leads me to the third specific comment related to the argument that the future of labour will strongly be determined by demography, in particular by the reduced working-age population. Here, I think the book did an excellent job on clearing the conceptual and empirical framework. Also the three main policy conclusions are as obvious as important, and should be repeated: Do everything to increase the labour force participation; do everything to increase the demand for the rising supply of highly skilled workers; do everything to upgrade the so-called low skilled. However, if it comes to specific policies, institutions, or regulations, some qualifications or neglected reminders may still be useful.

More emphasis should have been given to the life-course perspective, in particular to the potential of working time flexibility for increasing labour market participation and work-life-balance. Again, what would be the proper institutional framework for enhancing working time flexibility? I am missing, for instance, the hint of gradual retirement as a forceful instrument to increase the labour force participation of elderly. Much more should be done to adjust the tax system and, in particular, the pension systems, to enhance the opportunity structure for gradual retirement among other incentives to mature aged workers to transition from full-time to part-time work.

The authors argue for demand stimuli to absorb the rising supply of high-skilled workers. However, this important point is not worked out in the book. Public investments into the education system, especially related to continuous vocational and educational training, would be an example, investments related to global warming another. This brings me again to the proper institutional framework required for realizing such investments. Why not, and here I follow Anton Hemerijck, Frank Vandenbroucke and others in a recent memorandum for a European Social Union, support embattled countries with conditional social investment contracts, bolstered perhaps by specially designed social investment project bonds? Why not support such investments at the national level by discounting social investments in national budget accounts, thereby exempting them from deficit requirements of the Stability and Growth Pact?

How “up-skilling” the low-skilled should be organised could also be researched and monitored in more detail. For instance, I think of covenants as an interesting institutional device to attack this problem. Covenants are partnerships at regional or sector levels between employers, trade unions, training delivery agencies, and the local or regional governments. Covenants are based on flexible mutual agreements that could solve one of the most important barriers to work-place innovation identified in chapter 6, namely *ex-ante* uncertainties over the distribution of costs and benefits of investments (3). In this respect, the European Social Fund could be directed more towards respective institutional capacity building instead of supporting single projects. Upgrading the low-skilled could also be an explicit element of workplace innovation. I congratulate the authors of the book for providing clear evidence of where we stand in this respect. It is indeed worrisome that workplace innovation is almost stagnating despite the clear evidence that it would enhance productivity.

Even more, during the recent year there was an intensified debate on building up a European fiscal capacity, in particular through the establishment of a European Unemployment Insurance. The Commissioner László Andor finally came up with the proposal of a unified basic European Unemployment Insurance system which member states could top-up if they wish. I do not find this proposal persuasive, and I have argued in a recent paper for the introduction of a European Fund for Employ-

3. T. Korver and G. Schmid (2012), Enhancing Transition Capacities and Sustainable Transitions, in: J. De Munck, C. Didry, I. Ferreras, A. Jobert (eds.), *Renewing Democratic Deliberation in Europe*, Brussels, Peter Lang, pp. 23-55.

ment and Income Security (4). This Fund would concentrate on supporting the capacity building of national unemployment insurance systems, on regulating minimum standards for income security including active securities over the life course, and on providing credits to member states' insurance systems in recessions or during necessary large-scale restructuring processes.

My final point comes back to the beginning: the importance of institutions for coping with uncertainties. Chapter 8 (The Role of the State) argues for a welfare reform towards social investment. It distinguishes between capacitating and compensating spending and provides a valuable descriptive exercise both for the dynamics of this spending and for the differences between member states.

Although I am strongly supporting the general gist of this approach, I still have at least two caveats. First is the proof for positive effects of social investments on sustainable, smart and inclusive growth still needs a more robust support both in methodology and empirical evidence.

Second, and more importantly, is that “capacitating” and “compensating” is a timely re-wording for “active” and “passive”. But the indicators chosen are partly misleading. For example, so-called “active” labour market policy spending does not always “capacitate” individuals, on the contrary: They often end in revolving door effects or downwards careers. Generous unemployment benefits, on the other hand, are not “passive” or only “compensating”. Such benefits are a necessary condition for a productive job search, as recent research shows. In addition, and from a social insurance point of view, workers consider this kind of compensation as fair income redistribution between the lucky and unlucky on the labour market. Expectation of such fair redistribution is the basis for building trust and the willingness to cooperate in the market game which, by definition, involves uncertainty. So, in this sense, unemployment benefits are an investment, too.

And, third finally, as the last recession has shown, the compensating welfare state served as an important macro-economic stabiliser. In other words, a well developed welfare system, be it “compensating” or “capacitating”, has to be considered as an essential *institutional capacity* for flexible responses to the future of labour.

4. Günther Schmid (2014), Inclusive Growth: What Future for the European Social Model? Bonn, IZA Policy Paper No. 82, <http://ftp.iza.org/pp82.pdf>.