



Wilfried
Martens Centre
for European Studies

It's Our Job

Reforming Europe's
Labour Markets

Eoin Drea and Siegfried Mureşan





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Credits

Wilfried Martens Centre for European Studies
Rue du Commerce 20
Brussels, BE 1000

The Wilfried Martens Centre for European Studies is the political foundation and think tank of the European People's Party (EPP), dedicated to the promotion of Christian Democrat, conservative and like-minded political values.

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Martens Centre profile

The Wilfried Martens Centre for European Studies, established in 2007, is the political foundation and think tank of the European People's Party (EPP). The Martens Centre embodies a pan-European mindset, promoting Christian Democrat, conservative and like-minded political values. It serves as a framework for national political foundations linked to member parties of the EPP. It currently has 29 member foundations in 22 EU and non-EU countries. The Martens Centre takes part in the preparation of EPP programmes and policy documents. It organises seminars and training on EU policies and on the process of European integration.

The Martens Centre also contributes to formulating EU and national public policies. It produces research studies and books, electronic newsletters, policy briefs, and the twice-yearly European View journal. Its research activities are divided into six clusters: party structures and EU institutions, economic and social policies, EU foreign policy, environment and energy, values and religion, and new societal challenges. Through its papers, conferences, authors' dinners and website, the Martens Centre offers a platform for discussion among experts, politicians, policymakers and the European public.



About Eoin Drea & Siegfried Mureşan



Eoin Drea is Research Officer at the Martens Centre with expertise in the areas of European Monetary Union, employment policy, macroeconomic forecasting and the development of banking structures in the twentieth century. He holds a Ph.D. in Economic History from University College Cork, Ireland. Before joining the Martens Centre, he gained experience as a private sector economist in Dublin and London. In addition, he interned in the Economic Research Unit of the Directorate General for Economic and Financial Affairs (DG ECFIN) in Brussels. His research has been published by the European Commission as well as by a wide variety of academic journals including *Business History*, *Financial History Review* and *The Historical Journal*.



Siegfried Mureşan is a Member of the European Parliament for the EPP Group. He serves as Vice-President of the Budgets Committee and substitute member in the Committee on Economic and Monetary Affairs. Before his election to the European Parliament in May 2014, he served as Senior Political Advisor for Economic and Social Policy at the headquarters of the EPP. A Romanian national, Mr Mureşan graduated from the Academy of Economic Studies in Bucharest in 2004 and continued his studies with a Master's in Economics and Management Science at Humboldt University in Berlin.



The creation of jobs across Europe remains a key economic and social challenge for the EU. Given the negative impact of the financial crisis on European citizens, the EU's ability to promote effective job creation policies will be viewed as a major success of the wider European integration process. In this context, a new approach is required to provide a growth-based strategy for creating employment across Europe. What is required is an achievable strategy based on the realities of current modern EU labour markets.

Our research—undertaken through fieldwork in Belgium, Germany, Greece, Ireland, Portugal and Romania—demonstrates that labour markets within the EU remain overwhelmingly national and are shaped by domestic strengths and weaknesses. The current crisis has amplified long-standing labour market weaknesses in many member states and has highlighted deficiencies in the operation of the single labour market in the EU. It has also exposed a growing gap between some national education systems and the requirements of employers in today's labour market.

The national case studies all confirm the view that *the recent crisis offers a unique opportunity to undertake a fundamental reform of employment policies*. This should be supplemented by wider structural reforms designed to increase educational attainment levels, support SMEs and decrease the costs for those involved in supporting and creating employment. In this context our research identifies a number of key principles which are essential in developing achievable job creation policies. These principles are *flexibility, social solidarity, competitiveness and mobility*.

Based on these principles, a series of policy recommendations are provided which, if followed, have the potential to underpin significant job creation throughout the EU. These recommendations are the following:

Simplify the EU's approach to promoting employment and ensure more effective coordination between relevant EU programmes.

This should be done through a more formalised mechanism for sharing information on national employment policies and the creation of both an EU jobs statement and an EU institutional jobs forum.



Undertake more clearly defined actions to increase labour mobility (at both the EU and national level) and to further develop a single labour market.

More specifically, we recommend developing a pan-European job search network, creating a common labour market module for students across the EU, extending the Erasmus+ programme beyond 2020, introducing a national Erasmus Entrepreneur programme and making it a priority to complete the proposed European Professional Card project with a view to increasing mobility among EU professionals.

Switch the priority from combating unemployment to creating jobs.

Much more work remains to be done in shifting the focus to unemployment prevention. Additional actions are required to achieve a better functioning single market (in areas that include energy, telecommunications and labour mobility). The further development of the internal market in these key areas would reduce business costs, increase intra-EU trade and lead to the creation of growth and jobs.

Finance the recovery and in this way build a bridge between investment and reform.

There is a clear link between levels of investment and employment. In this context, it is possible to provide additional mechanisms which will help re-establish a competitive economy and tackle Europe's investment gap, while still adhering to the existing Stability and Growth Pact. Consistent with the Juncker Investment Plan, *better use should be made of both the common EU budget and the resources of the European Investment Bank*. Smart investments in areas such as transport infrastructure, human capital and education, energy supply and high-speed internet networks would serve to increase the EU's competitiveness on a global scale while also creating employment opportunities throughout the EU. Smart investment plans and structural reforms should not be viewed as separate policies to be utilised only in times of economic crisis, but rather as complementary initiatives which will create growth and jobs in the long term. This being the case, a coherent and realistic structural reform programme should be a key element in all national development strategies, regardless of the prevailing economic climate.





A negative by-product of the financial crisis which has impacted Europe and the wider global economy in recent years has been an unprecedented increase in unemployment. The crisis has also heightened the importance of tackling the social consequences of unemployment, particularly youth unemployment. Finding innovative solutions to the prevailing employment crisis has therefore become a priority for policymakers throughout the EU.

This paper seeks to assess labour market policies in Belgium, Germany, Greece, Ireland, Portugal and Romania. It aims not only to determine which policy actions have been successful and the reasons for their success, but also to consider what can be learned at EU level from the differing experiences in each of the six member states considered. The ultimate objective is to present an analysis of each state's labour market and then, on the basis of this analysis, to offer policy recommendations for improving the European labour market.

Part 1 of this paper provides an overview of the general macroeconomic situation in each of the selected states. This includes consideration of key economic indicators and an analysis of labour market trends since 2007.

Part 2 sets out detailed assessments of the relevant labour markets, based on qualitative research undertaken by the Martens Centre. This research included interviews with representatives of labour unions, academia, national banks, public employment services, think tanks and private business, as well as with labour lawyers, government advisors and politicians. The interviews were conducted on a non-attributable basis to facilitate an unbiased and frank exchange of views. The analysis is structured as individual SWOT (strengths, weaknesses, opportunities and threats) assessments and includes conclusions and recommendations for each of the member states considered.

Part 3 sets out a series of conclusions, on which any realistic strategy for increasing employment in the EU must be based. These conclusions are based on the fieldwork conducted as part of this research and represent a new framework for addressing the employment issue in Europe. Part 4 identifies four key principles which underpin our conclusions and presents a policy basis for addressing the realities of contemporary EU labour markets. Part 5 provides recommendations for the EU as a whole.



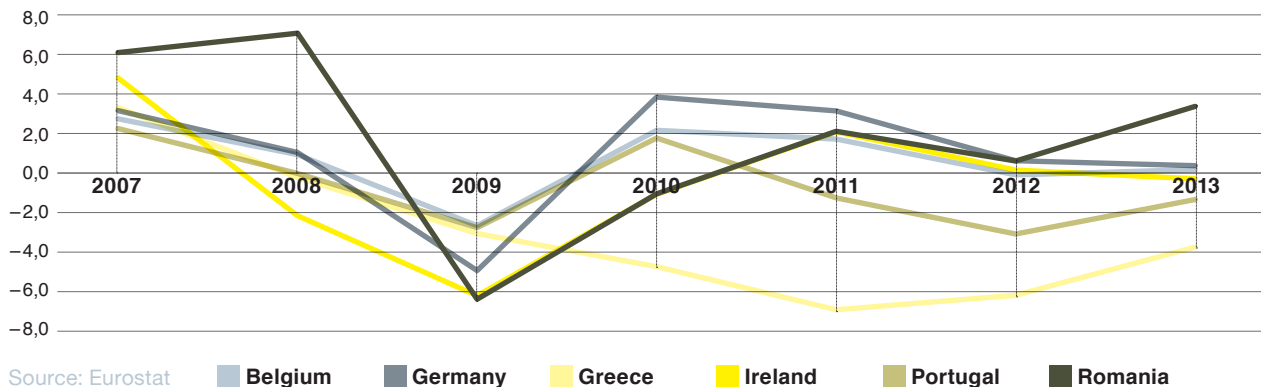
The economies of the selected member states have all responded differently to the challenges posed by the financial and banking crises. This section provides a broad macroeconomic overview of the relevant trends in these states and highlights the divergences in economic performance across a suite of key indicators.

Economic growth

For the purpose of this paper, economic growth is defined as volume growth in Gross Domestic Product (GDP). Figure 1 shows that all six of the member states under consideration experienced significant levels of economic growth in 2007, before the full impact of the financial crisis became evident in Europe. In 2007, growth rates ranged from 2.4% in Portugal to 6.3% in Romania, with growth in Greece (3.5%) exceeding that in Germany (3.3%).

However, by 2009 the full effects of the financial and banking crises were being felt, and economic growth contracted sharply. All six member states witnessed a decline in GDP in 2009. The fall-off in economic growth was most pronounced in Romania (6.6%) and Ireland (6.4%), followed by Germany (5.1%), Greece (3.1%), Portugal (2.9%) and Belgium (2.8%).

Figure 1 GDP volume growth rate, 2007–13 (%)





The period since 2010 has evidenced a clear divergence in the growth paths of the selected states. German and Belgian GDP growth rebounded strongly in 2010 before moderating significantly in the period to 2012. Both of these economies experienced low levels of growth in 2013. Romania's growth recovery commenced in 2011 (2.2%), slowed during 2012 (0.7%), before accelerating considerably in 2013 (3.5%). Ireland's return to growth in 2011 (2.2%) was not sustained; the economy contracted by 0.3% in 2013. However, it should be noted that GDP is not the most accurate indicator for measuring Ireland's economic growth owing to the importance of non-Irish multinational companies to the Irish economy. More relevant is the Gross National Product data, which indicates that the Irish economy grew by 1.8% in 2013.¹

Greece, however, has exhibited declining GDP levels since 2008. This is due to both the structure of its economy and the scale of the reforms required under the external assistance programmes provided by the EU/European Central Bank (ECB) and the International Monetary Fund (IMF). Similarly, Portugal has witnessed falling economic activity since 2011, although its cumulative rate of decline in 2011–13 (6.1%) was considerably smaller than that of Greece over the same period (17.2%).

General government gross debt

For the purposes of this paper, general government gross debt is expressed as a percentage of GDP.² Figure 2 shows that the government debt position of all of the states under consideration deteriorated in the 2007–13 period, primarily as a result of the negative impact of the financial crisis. However, the scale of the additional debt accumulation varied greatly. For example, in Germany the debt ratio rose from 65.2% in 2007 to 82.5% in 2010, but by 2013—owing primarily to the return of economic growth—it had been reduced to 78.4%. However, the ongoing external assistance programmes in Greece and Portugal have been ac-

¹ GDP and Gross National Product are closely related measures. GDP measures the total output of the economy in a given period, i.e. the value of work done by employees, companies and those who are self-employed. This work generates income, but not all of the income earned in the economy remains the property of residents (and residents may earn some income abroad). The total income remaining with Irish residents is the Gross National Product, which differs from GDP by the amount of income sent to or received from abroad.

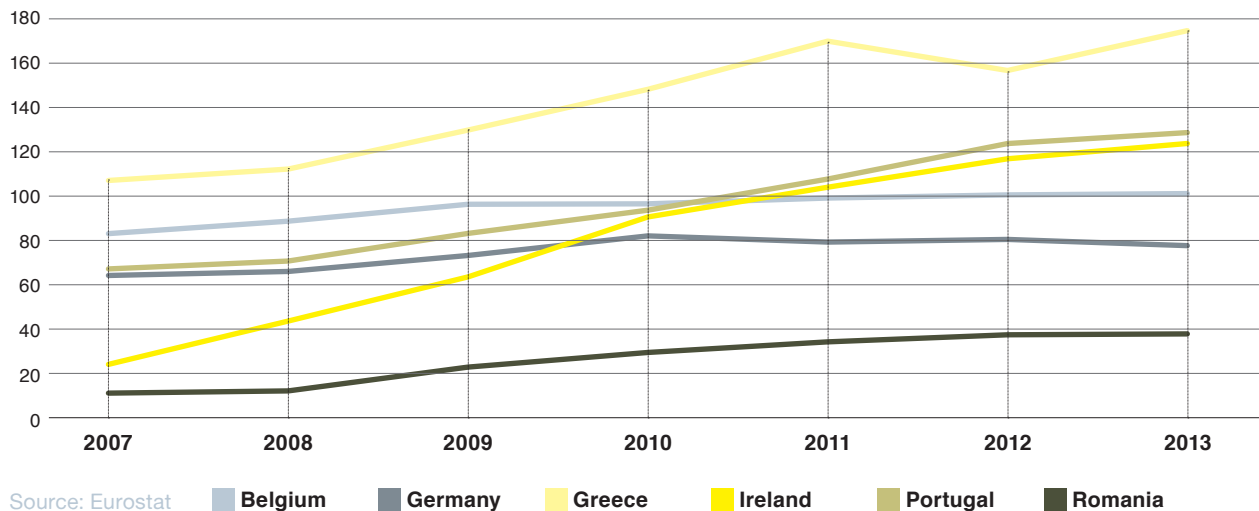
² The general government sector comprises the central government, the state government, local governments and social security funds.



accompanied by rapidly increasing levels of government debt. By 2013, debt levels in Greece and Portugal had reached 175.7% and 129%, respectively.

During the 2007–13 period, Belgium continued to experience relatively small, but recurring, increases in its debt-to-GDP ratio.³ Romania entered the crisis in 2007 with the smallest government debt-to-GDP ratio of all six countries. However, its overheated domestic economy left it particularly vulnerable to the impact of the global economic crisis in 2009 and 2010. As a result, its debt-to-GDP ratio more than tripled, rising from 12.8% in 2007 to 38.9% in 2013—although its overall government debt-to-GDP level remained one of the lowest in the EU.⁴

Figure 2 General government gross debt as percentage of GDP, 2007–13



³ To prevent any potential contagion from the wider financial crisis, Belgium provided extensive guarantees and direct support to three of the largest financial institutions operating in Belgium: Fortis, Dexia and KBC. Public guarantees to these financial institutions totalled 16% of GDP at the end of 2012.

⁴ Romania's gross external debt has also fallen, from over 77% of GDP in 2011 to under 69% in 2013. The IMF views Romania's overall public debt position as sustainable. See IMF, *First and Second Reviews under the Stand-By Arrangement*, IMF Country Report no. 14/87 (1 April 2014), 48–9, accessed at <https://www.imf.org/external/pubs/cat/longres.aspx?sk=41442.0> on 3 June 2014.



Ireland experienced the largest proportionate increase in general government debt: from under 25% of GDP in 2007 to over 123% in 2013. This is attributable to a combination of the direct costs of supporting its banking system (€64 billion) and a dramatic fall in tax revenues resulting from the collapse of an unsustainable property boom.

Budgetary position

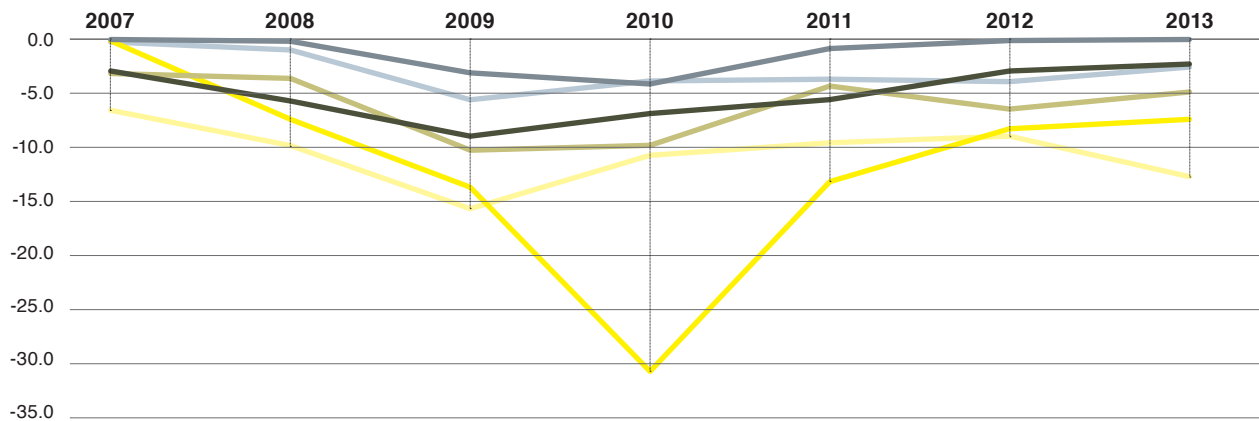
A country's budgetary position is the general government balance expressed as a percentage of GDP. This indicator measures whether a budgetary surplus or deficit is being maintained on an annual basis. Figure 3 shows that in 2007 Germany and Ireland were alone among the six states in running a budgetary surplus (0.2% in both cases). However, starting in 2008 the full impact of the economic crisis was felt, and deficits increased across all six countries—although the level and permanence of these deficits varied greatly.

Belgium has continued to have a small, but recurring, budget deficit. This is consistent with the rise in its overall debt burden, which is highlighted in Figure 2. Romania successfully reduced its deficit from 9.0% in 2009 to 2.2% in 2013. Given that the gap between revenue and expenditure in 2013 takes into account the significant co-financing expenditure required to support the absorption of EU structural funds, Romania's budgetary position can be considered relatively positive. That an increase in the budget deficit is forecast for 2015 does not change this evaluation.⁵

⁵ European Commission, *European Economic Forecast Autumn 2014* (November 2014), 102–3, accessed at http://ec.europa.eu/economy_finance/eu/forecasts/2014_autumn_forecast_en.htm on 5 November 2014.



Figure 3 General government balance as percentage of GDP, 2007–13



Source: Eurostat and European Commission

■ Belgium ■ Germany ■ Greece ■ Ireland ■ Portugal ■ Romania

Although Greece's deficit increased from 8.6% in 2012 to 12.2% in 2013, its overall budgetary position has continued to improve. The far greater part of this increase was due to one-off costs associated with the recapitalisation of the Greek banking system rather than to any deterioration in economic fundamentals.⁶ Greece's deficit in 2014 is forecast at only 1.6% of GDP.⁷ Similarly, Portugal's budget deficit continues to be impacted by the terms of its previous support programmes with the EU/ECB and IMF. These include the maintenance of large cash balances to provide an additional buffer for independent financial market transactions in 2015.

From a common starting point in 2007, Germany's and Ireland's budgetary positions diverged significantly in the period to 2013. The return of economic growth in Germany has restored equilibrium with a balanced budget forecast for the entire 2014–16 period.⁸ However, Ireland's deficit peaked at over 30% in 2010 as a result of the direct costs of recapitalising its banking system, combined with the impact of the economic

⁶ Ibid., 72–3.

⁷ Ibid., 73.

⁸ Ibid., 67.

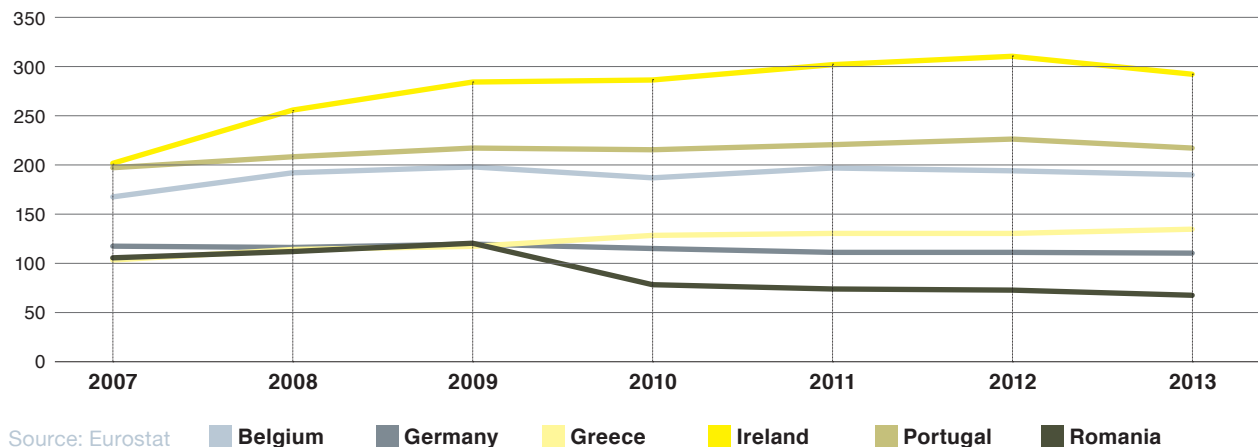


downturn. Nevertheless, Ireland has made significant progress in reducing its deficit and is forecast to run a budget deficit of 3.7% in 2014 and 2.9% in 2015.⁹

Private sector and household debt levels

The level of private sector and household debt in an economy is an important measure for forecasting the potential for future financial crises. The academic literature is clear in linking the accumulation of high levels of private and household debt with an increased prevalence of financial instability.¹⁰ Figure 4 sets out private debt—the debt of non-financial corporations and households—as a percentage of GDP for the member states under consideration.

Figure 4 Private sector and household debt as percentage of GDP, 2007–13



⁹ Ibid., 71.

¹⁰ A. M. Taylor, *The Great Leveraging*, National Bureau of Economic Research, NBER Working Paper 18290 (August 2012), accessed at <http://www.nber.org/papers/w18290> on 5 February 2014.



Figure 4 shows that in 2013 there was a clear difference between Germany and Romania, on the one hand, and all the other states under discussion, on the other. Romania's dramatic reduction in private debt—from 120.8% of GDP in 2009 to 78.8% in 2010—was an indirect consequence of its overheated domestic economy, which resulted in its being highly exposed to the global economic events of 2008–9. The subsequent consolidation measures (required to remedy the increasing difference between government revenue and spending) included the provision of a €20 billion stand-by financial arrangement with the IMF and other international organisations.¹¹

Germany also succeeded in reducing its total private debt levels, which fell from 118.1% of GDP in 2007 to 110.0% in 2013. However, a similar decrease in debt levels was not evident in Belgium, Ireland, Portugal or Greece over the same time period. While Portugal, Ireland and Belgium had succeeded in stabilising debt levels by 2013, Greece continued to experience continuous increases in the 2007–13 period, albeit at a significantly lower level than those evident in Portugal, Ireland and Belgium.

Unemployment

The level of unemployment is a key indicator of the level of activity taking place in an economy. Figure 5 shows that unemployment levels in the member states under examination have diverged significantly in the period since 2007. In that year unemployment rates were under 9% in all six countries, but by 2013 they ranged from a low of just over 5% in Germany to a high of nearly 28% in Greece.

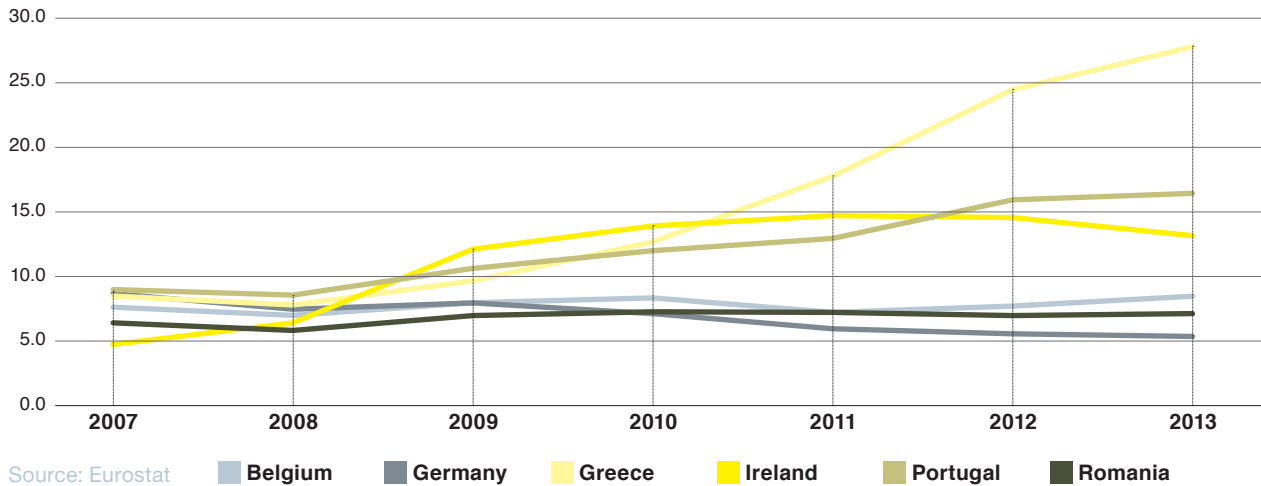
Unemployment rates in Belgium and Romania rose slightly in the 2007–13 period: from 7.5% to 8.4% in Belgium and from 6.4% to 7.2% in Romania. In Germany, however, a sound budgetary position has underpinned the country's remarkable labour market performance, with unemployment declining significantly, from 8.7% in 2007 to 5.3% in 2013. Although buttressed by the country's position as a leading global exporter and a revival in domestic demand, Germany's robust labour market performance was further strengthened

¹¹ IMF, 'Executive Board Approves 12.9 Billion Stand-By Arrangement for Romania', Press Release 09/148 (4 May 2009), accessed at <http://www.imf.org/external/np/sec/pr/2009/pr09148.htm> on 5 February 2014.



by the 'Hartz Reforms' of 2003–5. These reforms increased flexibility in the labour market while simultaneously reducing structural unemployment.¹² While these reforms did not produce results immediately, the performance of the German labour market in the period since 2008 highlights their long-term effectiveness.

Figure 5 Unemployment rate, 2007–13 (%)



The situation in Greece and Portugal is quite different. With the countries operating within the framework of the adjustments required under their external assistance programmes, unemployment has increased significantly. For Greece, the required structural adjustments have resulted in unemployment rising from 12.6% in 2010 to 27.8% in 2013. For Portugal a similar, but less pronounced, pattern is evident, with unemployment rising from 12.0% to 16.5% over the same period. The unemployment rates in both countries remain significantly above the EU28 average of 10.1% (as of September 2014).¹³

¹² OECD, *Economic Surveys: Germany* (Paris, May 2014), 87, accessed at http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-germany-2014_eco_surveys-deu-2014-en#page1 on 26 November 2014.

¹³ Eurostat, *Harmonised Unemployment Rate by Sex* (30 October 2014), accessed at <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=teilm020&tableSelection=1&plugin=1> on 26 November 2014.

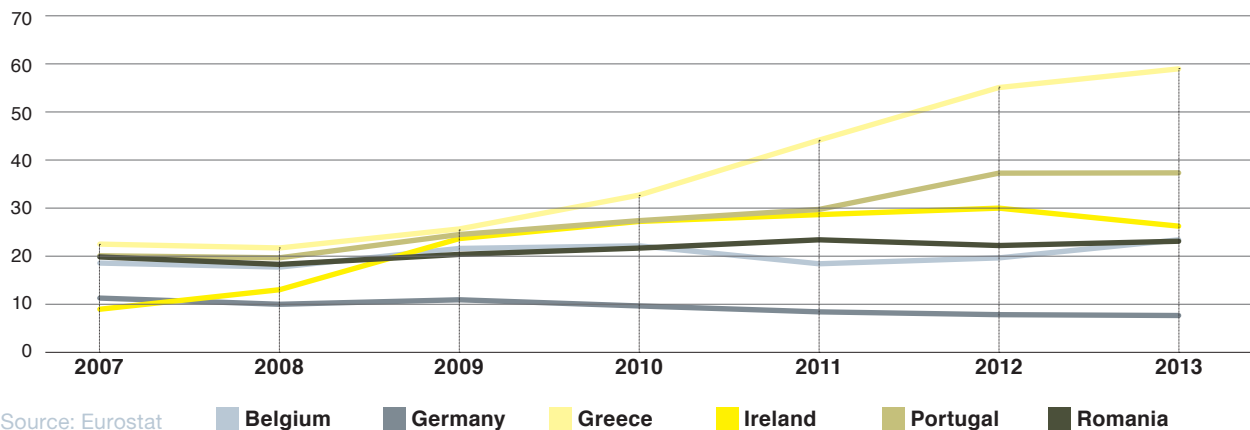


During this period Ireland experienced very significant economic shocks and was the recipient of an external assistance programme. All the same, it has succeeded in reversing the increase in unemployment which characterised the period from 2007 to 2011. Unemployment declined from 14.7% in 2011–12 to 13.1% in 2013. This positive trend has continued, with the Irish unemployment rate standing at 11.2% in September 2014.¹⁴

Youth unemployment

Figure 6 highlights three distinct patterns in the levels of youth unemployment in 2007–13.¹⁵ These divergent trends are evident even though Belgium, Portugal, Greece and Romania all entered the economic crisis in 2007 with youth unemployment levels of around 20%. Such high levels of youth unemployment in a pre-crisis setting illustrate the long-term nature of the EU's youth employment crisis.

Figure 6 Youth unemployment rate, 2007–13 (%)



¹⁴ Ibid.

¹⁵ 2013 data for Greece is from October of that year.



First, the youth unemployment level has declined consistently in Germany in the period since 2009. It stood at under 8% in 2013. This is a remarkable achievement in the context of an overall German unemployment rate of 5.3% in 2013. Second, both Belgium and Romania have experienced relatively small, but significant increases in their levels of youth unemployment since 2007, with their 2013 levels being approximately three times higher than their overall rates of unemployment (see Figure 5).

Third, the rise in youth unemployment has been most pronounced in Ireland, Portugal and Greece, with levels reaching 26.8% in Ireland, 37.7% in Portugal and 59.2% in Greece in 2013. For Ireland, however, this represents a drop in its youth unemployment rate from a high of 30.4% in 2012. Overall, these levels of youth unemployment are economically unsustainable and present a serious challenge to the stability of these economies. These levels also represent a significant drag on shorter-term growth prospects and, if not alleviated, have the potential to translate into a long-term unemployment crisis.

Summary

The macroeconomic overview shows how the economic and financial crises have had a different impact on each of the economies under consideration. This is particularly apparent given the relatively positive fundamentals evident in all these economies in 2007 (i.e. GDP growth over 2.4% and unemployment of less than 9%).

The reduction in German unemployment in 2007–13 runs contrary to the Europe-wide rise in unemployment over the same period. Moreover, it was accompanied by a steadily declining youth unemployment rate. The limited divergence between the overall and youth unemployment rates is an important characteristic of the German economy in 2014. As noted, the robust nature of the German labour market since 2008 has been underpinned by the structural reforms implemented before 2007. In addition to supporting a sound budgetary position since 2011, the reduction in unemployment levels has helped stabilise debt levels (both



public and private). However, growth prospects remain sluggish with annual GDP growth not expected to exceed 1.8% in the period to 2016.¹⁶

Romania's economic performance—across all indicators—has also been robust. This is all the more striking given the events of 2009–10 when the onset of the financial crisis necessitated the provision of external financial assistance and the implementation of significant consolidation measures.¹⁷ In 2013 Romania had the highest level of GDP growth and the lowest level of debt relative to GDP (both public and private) of all the states being considered. The structural reforms implemented in 2009–10 have underpinned a return to strong economic growth in 2013 and 2014. While the consolidation and deleveraging processes are continuing, overall unemployment levels have stabilised at just over 7%—although wide regional variations remain. However, even though youth unemployment has risen from its 2008 lows, its 2013 level of 23.6% remains practically unchanged from its 2011 level (23.7%).

The Belgian economy was also resilient throughout the 2007–13 period, with unemployment increasing less than in many other European states. However, the ability of the Belgian economy to reduce its general and youth unemployment levels is constrained by continued weaknesses in real disposable income, high levels of household debt and a loss of cost competitiveness relative to Germany. The marginal levels of economic growth evident in 2013 and projected for 2014 have resulted in a continued increase in Belgian public debt, notwithstanding a fiscal consolidation programme totalling nearly 2% of GDP in 2012 and further measures proposed by the new federal government in October 2014.¹⁸ In the longer term, the reduction of public debt levels will be a priority given the potential of higher debt levels to make economies more susceptible to financial crisis.

The Belgian economy was also resilient throughout the 2007–13 period.

As with Romania and Greece, the onset of the financial crisis in 2008 exposed underlying weaknesses and imbalances in the Portuguese economy. Low growth levels, combined with rapidly rising levels of public

¹⁶ European Commission, *European Economic Forecast Autumn 2014*, 67.

¹⁷ In 2013 Romania agreed an additional €2 billion stand-by arrangement with the IMF. In this same year, it also obtained from the EU a precautionary €2 billion credit line to support its balance of payments.

¹⁸ OECD, *Economic Surveys: Belgium* (Paris, May 2013), 13, accessed at <http://www.oecd.org/eco/surveys/economic-survey-belgium.htm> on 5 February 2014.



and private debt, forced Portugal to obtain a three-year programme of assistance from the EU/ECB and IMF in May 2011. The successful completion of this programme in 2014 has resulted in a rebalanced and more efficient Portuguese economic model. However, Portugal faces real challenges to achieving stronger long-run economic growth. And it needs this growth to reduce its public debt levels, which more than doubled (as a percentage of GDP) over the 2007–13 period. Unemployment remains a critical issue in Portugal, with both the overall unemployment rate (16.5%) and the youth unemployment rate (37.7%) continuing to highlight the potential for long-term social dislocation.

Greece's difficult economic experience in the period since 2008 has been well documented in the existing research. However, 2014 data supports expectations that its economy has now stabilised, with a recovery expected to gain strength in the medium term. Although GDP growth of up to 2.9% is forecast for 2015, real budgetary and employment challenges remain to be confronted.¹⁹ Current levels of general and youth unemployment are economically unsustainable in the medium term and, if not tackled successfully, could translate into a structural unemployment crisis.

Ireland entered into the crisis in 2007 with a very low government debt-to-GDP ratio, a balanced budget and an unemployment rate of under 5%. But the combined economic, financial and banking crises of the 2007–12 period resulted in a dramatic deterioration in the country's key economic indicators. For example, Ireland's debt-to-GDP ratio increased from under 25% in 2007 to over 120% in 2013. However, the prospects for a return to long-term growth are good, with GDP expansion of 4.6% and 3.6% forecast for 2014 and 2015, respectively.²⁰ Although Ireland has successfully exited its external assistance programme, it still faces very significant challenges in its attempt to sustain the level of economic growth required to reduce its very large public and private debt.

¹⁹ European Commission, *European Economic Forecast Autumn 2014*, 72–3.

²⁰ *Ibid.*, 71.





Belgium: recognising the increasing challenges

Strengths

Our fieldwork makes it clear that the primary strength of the Belgian labour market is its highly skilled labour force. The latest results from the OECD Programme for International Student Assessment 2012 (PISA) show that Belgium ranks above average in reading, mathematics and science.²¹ However, Belgium's high overall performance hides significant regional differences, with the Flemish community performing markedly better than the French-speaking community (Wallonia) across all disciplines. It is notable that Wallonia scores below the OECD average in science. This data supports the view expressed in our interviews that the Belgian labour market can be characterised as three distinct sub-markets: Flanders, Wallonia and Brussels.

The second key strength highlighted by our interviewees relates to Belgium's high levels of productivity. Traditionally Belgium has scored highly on all measures of labour productivity. In 2012 it had the second highest labour productivity per hour worked in the EU (after Luxembourg) with 134% of the EU average.²² However, in recent years, the country's productivity growth has decreased, narrowing its leading position vis-à-vis competing economies. Real GDP per employed person decreased by 0.3% per annum in 2007–12 (this can be compared to the 1.3% annual increase in the US in the same period).²³

A further strength of the Belgium employment market is the degree of flexibility that has been introduced during the course of the crisis since 2008. As highlighted in the macroeconomic overview, the relatively be-

²¹ OECD, 'Programme for International Student Assessment (PISA) 2012: Country Note Belgium' (Paris, 3 December 2012), accessed at <http://www.oecd.org/pisa/keyfindings/PISA-2012-results-belgium.pdf> on 18 March 2014.

²² Eurostat, 'Labour Productivity per Hour Worked' (3 March 2014), accessed at <http://epp.oecd.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00117> on 18 March 2014.

²³ Conference Board, 'International Comparisons of Manufacturing Productivity and Unit Labor Costs Trends 2012' (New York, 17 December 2013), Table 2b, accessed at <https://www.conference-board.org/ilcprogram/index.cfm?id=20992> on 18 March 2014.



nign impact of the crisis on the overall unemployment rate is due to certain crisis measures introduced. The most important of these relates to reduced-time employment schemes, which expanded rapidly during the crisis. Employers facing adverse conditions could reduce their employees' working hours and enrol them in an unemployment scheme where they received unemployment benefits for non-worked hours along with payments from the employer for hours worked.

The crisis measures introduced in Belgium also sought to strengthen job search incentives. For example, Wallonia introduced payments to cover childcare and travel costs for low-income workers, while Flanders created a work experience programme for the young long-term unemployed. The youth employment plan created 10,000 training jobs for young people, with the employer paying no social security contributions during the contract period. The social dialogue model, which historically has managed the labour market on a sectoral basis in Belgium, was also highlighted in the interviews as a traditional strength of the Belgian labour market. On the other hand, it was noted that the existence of different sectoral organisations could create wage disparities between sectors, which, in turn, could endanger sectoral mobility.

Weaknesses

The strengths identified in the Belgian system are matched by a considerable number of weaknesses, whose combined effect is to hinder attempts to reduce unemployment levels. In the period since the completion of our fieldwork, the social partners in Belgium (supported by the government) have reached an agreement on single dismissal and notice procedures for both blue- and white-collar workers.²⁴ As noted by several of our interviewees, such an agreement will actually increase the inflexibility of the labour market by generalising the requirement for employers to explain the reasons behind each dismissal and increasing notice periods.²⁵ Most interviewees considered the reform process in Belgium to be dictated by external market pressures rather than by any national movement for reform.

²⁴ An overview of the agreement, which came into force in January 2014, is available in M. Ajzen and C. Vermandere, 'Agreement Gives Equal Status to Blue- and White-Collar Workers', European Industrial Relations Observatory (Brussels, January 2014), accessed at <http://www.eurofound.europa.eu/eiro/2013/10/articles/be1310011i.htm> on 18 March 2014.

²⁵ See also OECD, *Economic Surveys: Belgium*, 20.



The other weaknesses in the Belgian labour market relate to longer-term structural issues, the most important of which are the following:

1. Labour costs.

The cost of labour in Belgium is a very important issue and was highlighted by several interviewees. Labour costs are high because of (a) the total taxes on labour (i.e. high personal tax rates combined with very significant employer social security contributions) and (b) the absence of any link between seniority and productivity due to an entrenched system of automatic indexation.

2. Skills mismatch.

There is a clear disparity between job vacancies (which are mostly for positions requiring highly skilled workers) and jobseekers (who are mostly low or medium skilled). This was identified as part of a wider societal issue: the need to bring the labour market closer to the educational system (i.e. to use the education system to produce workers for industries in which vacancies actually exist).

3. Labour activation mechanisms.

A further weakness identified by several respondents concerns how the traditional structure of unemployment benefits in Belgium (i.e. unlimited time duration) results in poor labour reactivation mechanisms. This system has been reformed in the period since 2012 with unemployment assistance now declining gradually between 16 and 48 months. However, these reforms have thus far done little to tackle the problem of labour reactivation among those with poor educational attainment levels. They have also been ineffective in solving this problem as it concerns those over 58 years of age, since this group remains exempt from standard job search requirements. These are key weaknesses given Belgium's limited use of lifelong learning resources (as highlighted by several interviewees), weak retraining programmes and one of the lowest employment rates internationally for those over 50.²⁶

²⁶ Ibid., 19.



4. Geographical segmentation.

The weaknesses identified above are set in the context of three distinct labour markets: Brussels, Flanders and Wallonia. The segmentation of the Belgian labour market makes a coordinated and consistent employment strategy even more difficult to formulate. The degree of segmentation in the Belgian labour market context should not be underestimated. For example, average youth unemployment in 2002–12 was 13.5% in Flanders, but 29.6% in Wallonia and 35% in Brussels.²⁷

Opportunities

A limited number of opportunities were identified in our interviews. The primary opportunity is linked to the possibility of using the results of the recent crisis to increase the effectiveness of Belgian public employment services. More specifically, the idea is to use established structures to further develop policies on

- improving labour market activation, particularly for early school leavers and those older than 55;
- ensuring better access to employment services for migrants and non-EU nationals;
- improving the relevance of the education system for the labour market;
- promoting lifelong learning resources more actively; and
- tackling early school leaving more aggressively.

Threats

Our interviewees highlighted a number of threats. As noted, it was recognised that the temporary employment schemes introduced since 2008 have been successful in limiting the impact of the crisis on overall unemployment levels. However, the potential permanence of these measures was viewed as a clear threat to the equilibrium of the Belgian labour market. This is primarily due to the disruptive long-term impact of

²⁷ B. Cockx, 'Youth Unemployment in Belgium: Diagnosis and Remedies', paper prepared for the CEPS conference 'Youth Unemployment after the Great Recession: Evidence and Lessons of National Policies', Brussels, 21 June 2013, accessed at <http://ideas.repec.org/p/iza/izapps/pp66.html> on 5 May 2014.



these schemes on real wage flexibility and overall productivity.²⁸ This significant threat involves the high labour costs and productivity trends highlighted in our strengths and weaknesses assessment above.

A further threat that was identified is linked to the perceived decline in standards in the Belgian education system: various interviewees were of the opinion that Belgium was losing its lead compared to neighbouring states. This decline in educational quality was viewed as having a direct impact on the loss of productivity in the Belgian labour market. Interviewees considered the overall maintenance of employment levels in the period since 2008 to be based disproportionately on jobs created by the public sector at federal, regional and local levels. The focus on public sector job creation has masked declining levels of job creation in more productive economic sectors.

Interviewees noted that the significant use of temporary employment contracts has also resulted in many of the structural weaknesses of the Belgian labour market remaining in place, notwithstanding the recent reforms. For example, the percentage of those aged 50 and over who are employed remains very low, as does the percentage of migrants integrated into the labour force. The focus on *pension* rather than *work* for those over 50 is also reflected in relatively high disability rates for this age group, a continuing loss of senior skilled workers and still generous mechanisms for guaranteeing pension rights.

Conclusions and recommendations

Our SWOT analysis reveals that the traditional strengths of the Belgian labour market—high productivity backed by a quality education system—are both facing increasing challenges in the post-2008 environment. These challenges are aggravated by longer-term structural weaknesses including high labour costs, wage rigidity, a generous system of unemployment benefits and a focus on retirement at a very early age. The relative success that temporary employment schemes have had since 2008 in maintaining overall employment levels should not be allowed to mask the underlying weaknesses and threats. These require a coordinated and long-term policy response.

²⁸ See also OECD, *Economic Surveys: Belgium*, 21–2.



For Belgium in particular, we offer the following recommendations, which take into account the additional labour market modernisation proposals launched by the Belgian federal government in October 2014:

- The link between the education system and the labour market should be strengthened. This should include the further development of the vocational educational model. Moreover, consideration could be given to introducing a more coordinated system of vocational training supplemented by a traditional university approach. Educational bodies should provide students with a greater awareness of job opportunities and wage expectations. Targeted policies should be developed to tackle early school leaving and the integration of migrants into the wider education system.
- Labour costs need to be reformed, as does the automatic indexation system. The tax wedge (i.e. total employee and employer labour taxes) in Belgium is the highest in the EU.²⁹ Where taxes are so high, employers are as disinclined to create relatively low-paid jobs as workers are to take them up. Overall labour taxes should be reduced for new jobs created in private sector industries as part of a wider policy to encourage employment growth outside of the public sector.
- Although reforms have taken place, further work needs to be undertaken to encourage those without employment to engage with employment services. This is particularly relevant for those under 25 and over 55. The period during which unemployment benefits are reduced should be further shortened; the period from unemployment to first contact with employment services should be further minimised; and the automatic exclusion of any workers (such as those over 58 years) from normal job search requirements should be eliminated. People over 55 should be specifically targeted through the increased use of lifelong learning measures as a standard requirement for assessing employment services.
- The previous recommendation should be supplemented by a reform of the public pension system to help combat the significant future costs associated with an ageing population.³⁰ Workers need to have an incentive to work longer. The number of years one must work to gain a full state pension should depend

²⁹ European Commission, 'Tax Burden on Labour', 2020 Strategy, accessed at http://ec.europa.eu/europe2020/making-it-happen/key-areas/index_en.htm on 9 May 2014.

³⁰ These costs are projected to rise by more than 8% of GDP between 2010 and 2060. See European Commission, *Recommendation for a Council Recommendation on Belgium's 2014 National Reform Programme*, COM (2014) 402 final (2 June 2014), 5 accessed at http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_belgium_en.pdf on 1 December 2014.



on prevailing life expectancy trends. Retirement incomes before the age of 65 should be subject to higher levels of taxation, and it should be made easier for retirees to work part-time.

- The geographical segmentation of the Belgian employment market reduces inter-regional mobility and restricts employment growth. National-level policies should be developed that will facilitate the movement of workers to avail of employment opportunities outside of their own region.

Germany: building long-term sustainability

Strengths

The first strength identified in this case study is related to the structure of the education system (Germany has a dual education system that incorporates apprenticeship and vocational training elements) and its direct link to the high quality of the German labour force. Germany ranks above average in all subjects in the 2012 OCED PISA assessment; and since 2003 it has succeeded in continuously improving its performance in mathematics.³¹ The close link between the education system and private industry has resulted in a well-trained and highly skilled workforce, in both the manual and non-manual sectors. This workforce ensures high productivity and innovation which, in turn, provide the German economy with a clear advantage.³²

Our interviewees identified as the second important strength of the economy the German model of social partnership or 'co-determination' (*Mittbestimmung*). During the recent crisis, the stable structure of this process (i.e. there is generally only one union per economic sector or sub-sector) made it easier for

³¹ OECD, 'Programme for International Student Assessment (PISA) 2012: Country Note Germany' (Paris, 3 December 2012), accessed at www.oecd.org/pisa/keyfindings/PISA-2012-results-germany.pdf on 18 March 2014.

³² European Commission, *Innovation Union Scoreboard 2014*, accessed at http://ec.europa.eu/enterprise/policies/innovation/policy/innovation-scoreboard/index_en.htm on 3 June 2014. Germany is ranked an 'innovation leader', along with Finland, Denmark and Sweden.



employers and unions to adopt a common approach. The agreed goal—the maintenance of employment levels—enabled the introduction of flexible working systems, and this resulted in a very low level of compulsory job losses.³³ A longer-term policy of wage moderation has been a key driver of German economic competitiveness since the turn of the century.³⁴

The third strength of the German economy that was identified relates to the ‘Hartz Reforms’ undertaken by Chancellor Schröder between 2002 and 2005. These reforms transformed the German labour market from one based on inflexible permanent labour contracts into a more flexible system better able to respond to economic shocks. This flexibility (most evident in the increased use of temporary agency work and fixed-term and part-time work arrangements) enabled many unemployed workers to re-enter the labour market. It also helped make it possible to create new positions across the service industries in particular. The Hartz Reforms also reformed the Federal Employment Agency, which is now widely recognised for its effectiveness and efficiency in matching jobseekers and employers.

The fourth strength of the German labour market is related to the diversified economic structure of the country’s exporting sector. Germany is characterised by a significant SME sector with a global reputation for producing high-quality goods and services. In terms of sectoral distribution, this sector closely resembles the EU average, with one important exception: hi-tech manufacturing SMEs play a much more important role in Germany than they do in the EU as a whole.³⁵

³³ Under the *Kurzarbeit* system, the working hours of all or most of the employees were reduced, with the government making up some of the employees’ lost income. Under the ‘labour account’ system, overtime hours worked during busy work periods are accumulated to compensate for fewer hours worked during less busy periods.

³⁴ U. Dadush and V. Eidelman, ‘Germany: Europe’s Pride or Europe’s Problem?’, Carnegie Endowment for International Peace (2 June 2010), accessed at <http://carnegieendowment.org/2010/06/02/germany-europe-s-pride-or-europe-s-problem/1m8f> on 14 May 2014. Unit labour costs rose only 7% in Germany between 2000 and 2009, compared to 31% in the GIIPS member states (Greece, Ireland, Italy, Portugal and Spain).

³⁵ European Commission, ‘Small Business Act Fact Sheet: Germany 2013’, accessed at http://webcache.googleusercontent.com/search?q=cache:O8M7sfAUfolJ:ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/germany_en.pdf+&cd=1&hl=en&ct=clnk&gl=ie on 14 May 2014.



Weaknesses

The weaknesses identified by our interviewees relate primarily to certain longer-term characteristics of the German labour market:

1. The level of female employment in full-time jobs is low relative to overall employment rates.

Women are currently over-represented in part-time or ‘mini/midi’ jobs as this allows families to earn extra income while ensuring sufficient care for the family. Although this may represent a cultural choice, research has shown that framework conditions could be more supportive, particularly the provision of a more comprehensive system of affordable childcare.³⁶

2. Difficulties faced by older workers in returning to employment.

Feedback from the interviews indicates that workers over 50 years of age experience significantly more difficulties in returning to employment. Age discrimination, higher labour costs and mismatches in skills were all mentioned as being factors. Interviewees also pointed out that the successful re-integration of older workers into the labour market was being constrained by their relatively poor access to training and lifelong learning programmes.³⁷

3. Low employment rates of immigrants.

Our interviewees considered the *low employment rates of immigrants* (compared to those of native Germans) to be a significant weakness which required further proactive policy initiatives. The existing research is clear in highlighting the link between the higher levels of unemployment among immigrants and lower levels of educational attainment and language skills.³⁸

³⁶ OECD, *Germany – Keeping the Edge: Competitiveness for Inclusive Growth, ‘Better Policies’ Series* (February 2014), 17–18, accessed at www.oecd.org/about/publishing/Better-policies-germany.pdf on 14 May 2014.

³⁷ Ibid., 20.

³⁸ W. Geis, *High Unemployment in Germany: Why Do Foreigners Suffer Most?* Ifo Working Paper 90 (Munich, August 2010), accessed at http://ideas.repec.org/p/ces/ifowps/_90.html on 14 May 2014.



Opportunities

The most important opportunity identified in our fieldwork relates to the potential of the EU single labour market to increase the flow of labour into Germany. As highlighted in the ‘Threats’ section below, Germany is facing a very significant demographic challenge. This is attributable to a declining population, which is caused by both an ageing labour force and a current birth rate well below that required to ensure a stable or rising population level in the future. The interviewees’ references to the opportunity afforded by increased labour flows were balanced by an acknowledgement that, notwithstanding recent reforms, further work is required in easing the administrative and legal burdens of working as a non-German in German society. Key language and cultural barriers were also identified as minimising the success of previous attempts to increase migration into Germany.

Threats

As noted, the most important challenge for the German labour market is to counter the dynamics of an ageing population. Ageing affects an economy negatively since it reduces the labour supply; moreover, it can decrease domestic demand. The scale of this demographic threat should not be underestimated. Recent research estimates that by 2050 the working age population of Germany (15–64 years) will have declined by 14.8 million with further negative consequences for the sustainability of state pension and health-care systems.³⁹

Although interviewees considered the Hartz Reforms a fundamental strength of the German labour market, they also stated that the reforms had introduced certain threats to the long-term viability of the German welfare model. The growth of part-time and ‘mini’ jobs challenges a contribution-based social security system traditionally based on the number of years of full-time employment. Moreover, interviewees identified an increasing segmentation that is creating a dual labour market made up of those on permanent employment contracts, on the one hand, and those on more flexible, and less protected, employment contracts, on the other.

³⁹ OECD, *Germany – Keeping the Edge*, 17–18.



Although the introduction of non-permanent employment contracts was recognised as having been successful in reducing unemployment, several interviewees noted that almost all new hires involve a non-permanent work arrangement. Such arrangements are increasingly replacing regular employment contracts and becoming an integral part of strategic personnel planning rather than a short-term solution. In addition, the interviewees indicated that mobility between the different contract types could be significantly improved.

Several interviewees also mentioned the possibility of a minimum wage being introduced. (It should be noted that in the period since this fieldwork was carried out, the German government has introduced a national minimum wage of €8.50, to be phased in during the period to January 2017.) They noted that introducing a minimum wage could result in low-skilled labour being pushed out of the labour market and into unemployment. Conversely, it was also noted that real wages in Germany have been largely stagnant for a considerable period, even before the onset of the crisis in 2008. Between 2000 and 2007, real wages grew by just 1.2%, compared to 14% in the UK, 11% in Canada and 9% in the US.⁴⁰

Conclusions and recommendations

The consensus view which emerged from our fieldwork is that the German labour market is robust and has weathered the economic crisis particularly well compared to other major economies. However, despite this strong performance, several weaknesses were identified. In particular, participation levels of women, older workers and migrants in the workforce could be improved. A further threat relates to the increasing segmentation between the full-time and part-time labour markets.

Our specific recommendations for Germany are as follows:

- Targeted policies should be developed to increase the participation of women in the labour market. Recent improvements concerning the increased provision of universal childcare facilities should be further developed. In this context, it is important to ensure that the design of the taxation system, when combined

⁴⁰ Office for National Statistics, 'How Have Labour Markets Changed Across the G7 Countries' (3 June 2014), accessed at <http://www.ons.gov.uk/ons/rel/elmr/gdp-and-the-labour-market/q1-2014--may-gdp-update/sty-g7-labour-market.html> on 1 December 2014.



with societal norms and established cultural patterns, does not automatically lead to a negative bias against mothers in the labour market.⁴¹

- To maintain the high skill and productivity levels of the German labour force, greater emphasis should be placed on the role of lifelong learning within every career path. The greater use of temporary employment contracts, an increased retirement age and a declining population all mean that in the future much more weight must be given to ensuring an adaptable and flexible workforce across all economic sectors.
- Although it would face many political and social challenges, introducing more flexibility into permanent employment contracts would help address the increasing segmentation of the labour market between those on permanent contracts and those with shorter-term work arrangements. Such policies could also contribute to increasing the number of employees that make the transition from atypical to regular, permanent contracts. Both operational incentives and legal mechanisms should be explored to make transferability possible along a more clearly defined path.
- The ongoing decline in the size of the labour force poses long-term threats to the health of the labour market. Intra-EU migration into Germany could be enhanced by increasing the transferability and transparency of health-care insurance, unemployment benefits and pensions. Existing programmes encouraging migration into Germany should be further expanded and financially supported on a long-term basis.⁴² Given the scale of the labour shortages projected for the coming decades, the development of a coordinated and proactive approach to this issue should become a top priority.

⁴¹ For a non-European, popular media perspective, see S. Daley and N. Kulish, 'Germany Fights Population Drop', *New York Times*, 13 August 2013, accessed at http://www.nytimes.com/2013/08/14/world/europe/germany-fights-population-drop.html?pagewanted=all&_r=0 on 14 May 2014.

⁴² The Job of My Life Programme, which aims to attract trainees and unemployed skilled workers from Europe (between the ages of 18 and 35), suspended applications for its 2014 intake in April 2014 owing to budgetary constraints.



Greece: a cultural transformation

Strengths

Our fieldwork confirms that the poor performance of the Greek economy since 2008 was caused by inherent weaknesses in its economic structure, coupled with deeply established rigidities in the labour market. Given the scale of the challenges faced by Greece in recent years, it is no surprise that our interviewees focused primarily on weaknesses and potential opportunities.

However, one strength identified was the relatively high education and skill level of those under 35 years. The interviewees pointed out that younger Greeks have more developed ICT skills than those from earlier generations. However, this increase in skill levels needs to be set in the wider context of EU trends. Then it can be seen that a tertiary educational attainment level of 34.6% in 2012 for those aged between 30 and 34 years, although slightly below the EU average of 36.8%, does represent a significant improvement on the levels in Greece up to the early 2000s.⁴³

In the period since our fieldwork was carried out, the budgetary position of the Greek economy has continued to stabilise, although this has yet to be reflected in employment indicators. In 2013 Greece achieved a primary budget surplus (i.e. surplus before interest payments on outstanding debt) of 0.8% of GDP, with a surplus of 3.0% projected for 2015.⁴⁴ The strength of the ongoing economic transformation in Greece should be assessed not only in the context of important societal concerns such as unemployment, but also in the light of the scale of the country's economic decline: the 20% fall in GDP since 2008 is comparable to some of the worst global financial crises in the twentieth century.⁴⁵

⁴³ In 2003 the figure for Greece stood at only 22.8%. See Eurostat, 'Tertiary Educational Attainment by Sex, Age Group 30–34' (4 May 2003), accessed at http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_41 on 19 May 2014.

⁴⁴ European Commission, *European Economic Forecast Autumn 2014*, 73.

⁴⁵ P. Liargovas and S. Repousis, 'Greece's Way Out of the Crisis: A Call for Massive Structural Reforms', in P. Sklias and N. Tzifakis (eds.), *Greece's Horizons: Reflecting on the Country's Assets and Capabilities* (Berlin: Springer, 2012), 81.



Weaknesses

Our interviewees identified many weaknesses in the Greek economy. These weaknesses were highlighted as reflecting the fragmentation of the Greek labour market into three distinct parts, each of which adheres to existing labour laws and regulations to a different extent. The first part is made up of small-scale private-sector businesses (predominantly family owned), which are broadly characterised by low productivity and high levels of informal or undeclared work. This segment underpins the high level of self-employment in Greece and includes many traditionally protected professions.⁴⁶

The second part is a parallel private sector comprised of a limited number of very big corporations, many of which work closely with the Greek public service. Within this sector there is an adherence to labour laws and enforcement of existing labour legislation. The third part is the public sector. Before the recent reforms, it was characterised by very high remuneration, permanent work contracts and the least use of performance assessments of all OECD members.⁴⁷

Regarding labour relations, our fieldwork revealed that Greece has no constructive culture of social partnership. The fragmented nature of the labour market has created a system of patronage between the public administration, politicians and citizens (i.e. in exchange for employment there was the implicit guarantee of political support). The propagation of this system over several decades has resulted in the high level of distrust evident among the social partners since 2008.

With regards to the educational system, the feedback we received focussed on the existing gap between it and the labour market. While our fieldwork revealed that the overall level of tertiary educational attainment has improved in Greece over the past decade, underlying structural weaknesses limit the extent to which the country can benefit from this positive trend. Weaknesses highlighted in the educational sector related to

⁴⁶ In 2011, nearly 30% of all Greeks aged between 20 and 64 years who were employed were classified as 'self-employed', compared to an EU average of 15%. See Eurostat, 'Share of Self-Employed Persons among All Employed by Groups of Country of Birth, Age Groups and Sex 2011', accessed at http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_social_policy_equality/migrant_integration/indicators on 19 May 2014.

⁴⁷ OECD, 'Human Resources Management Country Profiles: Greece' (Paris, December 2012), accessed at <http://www.oecd.org/gov/pem/OECD%20HRM%20Profile%20-%20Greece.pdf> on 19 May 2014.



the traditional absence of collaboration between private companies and public universities and continuing demand–supply mismatches (which are in evidence in, e.g., the high number of health-care graduates who emigrate annually to work in other European countries).

The segmentation of the labour market—and especially the prevalence of small, self-sustaining enterprises—mitigates against the development of a dynamic and export-led SME sector. Compared to EU averages, the Greek SME sector remains characterised by a poorly developed innovation culture, limited investment in technology and a small high-tech manufacturing sub-sector.⁴⁸ The segmentation of the labour market between small and large enterprises has also helped facilitate annual tax evasion of up to 1.75% of GDP.⁴⁹

Two further weaknesses of the Greek labour market were also identified. First, the reforms implemented under the external assistance programme provided by the IMF and EU/ECB have resulted in an increase in the total tax wedge in Greece, particularly with regard to employers' social security contributions. However, the overall cost of labour in Greece remains below that in Spain and Ireland.⁵⁰ Second, long-term and youth unemployment are long-standing characteristics of the Greek labour market. Although much more pronounced in the current crisis, they have traditionally existed at levels higher than prevailing EU averages.

Opportunities

Our interviews confirmed that the current reform process being undertaken in Greece offers real opportunities to restructure many entrenched elements of the country's labour market. Interviewees repeatedly stressed that these opportunities for change should not be wasted. Reforms undertaken since 2010, such as the revision of the minimum wage and the more flexible use of collective and individual dismissal procedures, were specifically highlighted in the interviews as having the longer-term potential to introduce more flexibility into the labour market.

⁴⁸ European Commission, 'Small Business Act Fact Sheet: Greece 2013' (January 2014), accessed at http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/greece_en.pdf on 19 May 2014.

⁴⁹ N. T. Artavanis, A. Morse and M. Tsoutsoura, *Tax Evasion across Industries: Soft Credit Evidence from Greece*, Chicago Booth Research Paper no. 12-25 (September 2012), 29–30, accessed at <http://stat-athens.aueb.gr/~jpan/SSRN-id2109500.pdf> on 19 May 2014.

⁵⁰ OECD, *Taxing Wages 2014* (March 2014), accessed at <http://www.oecd.org/tax/tax-policy/taxing-wages.htm> on 20 May 2014.



Our fieldwork also identified certain ‘natural’ economic sectors (shipping, agriculture, tourism and ICT) on which further employment growth in Greece could be based. However, it was recognised that these sectors require significant additional investment to boost standards and improve productivity. Further opportunities were also identified in the ongoing reform of the product markets. These opportunities included increasing the efficiency of the legal system, reducing administrative burdens for business and continuing to liberalise state-owned enterprises.⁵¹

Threats

Our interviewees singled out several issues as having the potential to seriously threaten the successful long-term restructuring of the Greek economy. The main issue centres on how the short-term consequences of economic reform (i.e. higher taxes, lower wages and pensions, and high unemployment) have affected the structure of Greek society. Indicators show that worsening social conditions since 2008, particularly in relation to increased mortgage arrears and greater vulnerability to relative poverty and homelessness, have had a negative impact on quality of life indicators.⁵² Moreover, interviewees believed that the ability of the population to endure more reforms had declined significantly, especially regarding wages and pensions and the provision of public services (i.e. health and education).

The interviewees also pointed to the embedded nature of much of the rigidity in the economy as posing a threat to any future increase in Greek employment levels. However, most of these restrictive practices are strongly rooted in Greek society; institutions have been created around them. This means there are groups with deeply vested interests that are resisting change. As a consequence, reform plans can be weakened during the legislative process; and where reforms are approved, their implementation is sometimes delayed or obstructed.

A further threat is related to the high levels of unemployment, particularly youth unemployment, and the concomitant ‘brain drain’ as young educated Greeks emigrate to other EU states. Although this movement

⁵¹ The issues raised here are consistent with those mentioned in OECD, *Economic Surveys: Greece* (November 2013), 21–5, accessed at www.oecd.org/economy/surveys/GRC_Overview_Eng_2013.pdf on 20 May 2014.

⁵² Ibid., 26.



brings short-term relief for the Greek social security system, it leads to an absence of skills in the Greek economy, and this endangers the recovery in the medium term. Allied to the issues of unemployment and emigration is the absence of sufficient credit in the economy to stimulate economic activity and provide the necessary credit facilities for Greek companies to continue to trade and expand.

Conclusions and recommendations

Our SWOT analysis clearly indicates the seriousness of the economic and social crises which Greece has experienced in the period since 2008. Although medium-term growth prospects are good, this has not yet been reflected in employment levels. Our fieldwork confirms a continuing weakness in the Greek labour market. However, such a weakness should not overshadow the potential of the current reform process to act as a major driver of structural and cultural change in the Greek economy.

With a view to ensuring that the current reform process benefits Greek society in the future, we make the following recommendations:

- Continuing efforts should be made to develop a constructive model of social dialogue involving all of the social partners. The overall objective of this dialogue should be to ensure that the economic and social costs associated with the reform process are shared as equally as possible among all segments of the labour market. Such an approach would challenge the existing segmentation and confront established patterns of patronage.
- To make the labour market more flexible, the public service should be further reformed so that it can act as a reform leader. The focus should remain on improving the efficiency of services, introducing sustainable wage levels based on regular performance reviews, reducing unproductive work practices and setting hiring policies based on objective criteria.
- In tandem with these specific labour market reforms, macroeconomic policies should continue to be established with the goal of effectively implementing product market reforms. Specific goals should include improving the efficiency of the legal system, introducing competition into traditionally protected service



industries and reducing the administrative burdens on private companies. Such reforms would improve the overall business climate and create an environment more conducive to employment growth.

- Unemployment rates in Greece remain at unacceptably high levels. As the Greek economy returns to growth, further specific measures will be required to boost employment. Smart investment strategies should be developed to increase employment levels in sectors with high potential: shipping, agriculture, tourism and ICT. These strategies should be supported by a continuing focus on the need to develop a more effective export-led SME sector underpinned by continuing investment in the education system.

Ireland: a return to long-term growth?

Strengths

The consensus view expressed in our fieldwork was that the economic crisis had had a significant and highly negative impact on the Irish labour market. However, our interviewees were consistent in viewing the Irish employment market as distinct from the labour markets in other external assistance states such as Greece, Portugal and Spain. It was also highlighted that the longer-term strengths of the Irish market remain intact, notwithstanding the dramatic increase in unemployment arising from the collapse of the Irish property bubble in 2008 and the subsequent cost to the Irish government of supporting the banking sector.⁵³

The first core strength identified relates to Ireland's flexibility as a business environment. This strength encompasses several elements, including an ability to develop traditional manufacturing industries into higher value employment opportunities and the flexibility of both government and the public in implementing fiscal consolidation measures in the period since 2008 (e.g. tax rises, pay cuts and reductions in social

⁵³ As of June 2014, the total direct cost stands at €64 billion. The overall cost is significantly higher (€93 billion) if total shareholder losses are included. See P. McArdle, *The Euro Crisis: Refinancing the Irish Bailout – The Options Post the June 2012 Summit*, IIEA Working Paper 12 (July 2012), 1, accessed at <http://www.iiea.com/publications/the-euro-crisis-refinancing-the-irish-bailout--the-options-post-the-june-2012-summit> on 30 May 2014.



security benefits) without compromising social cohesion. Interviewees also linked this flexibility to the relatively low level of bureaucracy in Ireland, which further improves the country's attractiveness for international investment.

As with Belgium, a high standard of education and productivity are two established strengths. Data for 2012 indicates Ireland possessed the third highest hourly productivity level in the OECD (after Norway and Luxembourg).⁵⁴ Interviewees pointed out that these strengths are supplemented by a continuing focus on human capital enhancement, which was seen as reflective of Ireland's high level of educational attainment. Ireland ranked highest among all EU member states for the proportion of 30 to 34 year olds with a tertiary education (52.6% in 2013, compared to an EU28 average of 36.8%).

Ireland was also viewed as being distinct from most other member states owing to its position within the global anglophone labour market, which is made up primarily of the UK, the US, Canada, Australia and New Zealand. This provides an established pattern for increased labour market mobility, a point evidenced by the attractiveness of these locations for Irish emigrants in the period since 2008. In 2013, 48.8% of Irish emigrants relocated to the UK, the US, Australia or Canada. In contrast, just 11.5% moved to the original EU15 member states.⁵⁵ While the negative impact of emigration was noted, this distribution of labour mobility was viewed as a strength owing to the enhanced skills that returning emigrants bring to the Irish labour market in the long term.

Weaknesses

One specific weakness was identified by all those interviewed. This is related to ongoing issues in the organisation and effectiveness of public employment services. The dissolution of the Employment and Training Authority in 2011 followed a long-standing controversy over the misallocation of public funds. However, interviewees did not believe that the development of new public employment bodies had made a significant

⁵⁴ S. Gordon, C. Jones and P. Wise, 'Labour Pains', *Financial Times*, 7 July 2014, accessed at <http://www.ft.com/intl/cms/s/2/b5c910ba-e29d-11e3-a829-00144feabdc0.html#axzz36rnV839n> on 8 July 2014.

⁵⁵ Irish Central Statistics Office, 'Population and Migration Estimates' (April 2013), accessed at <http://www.cso.ie/en/releasesandpublications/er/pme/populationandmigrationestimatesapril2013/> on 8 July 2014.



improvement in the quality of services offered.⁵⁶ The legacy of a historically ad hoc approach to providing employment support was highlighted as being partially responsible for the disjointed response to the initial surge in unemployment in 2008.

Interviewees recognised the benefits of adopting Active Labour Market Policies (ALMPs) but generally believed them to be used with limited effectiveness in the Irish context. This was primarily attributable to poorly developed processes for candidate profiling, uneven allocation of training courses and a very cumbersome decision-making process. During our fieldwork the issue of over-reliance on the short-term outputs of ALMPs (e.g. the number of people engaged in these programmes) as a basis for judging their true effectiveness was also raised.

Another legacy of the recent crisis is the continuing vulnerability of the Irish banking sector. This affects the labour market in two ways. First, in order to rebuild their capital reserves (and avoid the need for further injections of public money), the banks have been focussing on low-risk lending. This leads to limited fi-

Ireland has the highest private debt (as a proportion of GDP) of all the member states under consideration.

ancing of SMEs, high rejection rates and widening interest rate margins.⁵⁷ Second, at a more individual level, entrepreneurs and small start-up companies are finding it increasingly difficult to access the capital necessary for business and service expansion. As a result, employment creation is impeded.

Allied to the banking issue is the weakness constituted by legacy debt, at both the microeconomic and macroeconomic levels. As mentioned earlier, Ireland has the highest private debt (as a proportion of GDP) of all the member states under consideration and a national debt of over 120% of GDP. Our fieldwork made it clear that this has resulted in a very high level of non-performing loans and the inability to make use of investment projects as employment generators due to a lack of suitable financing.⁵⁸ Interviewees also stated

⁵⁶ In July 2011 the Minister for Education and Skills announced that the Employment and Training Authority would be replaced by a new agency called the Further Education and Training Authority (SOLAS), which would be responsible for all public funding of further education and training. The training function of the Employment and Training Authority was absorbed into the restructured local Vocational Education Committees, which were renamed Education and Training Boards in July 2013.

⁵⁷ See also OECD, *Economic Surveys: Ireland* (September 2013), 10–11, accessed at http://www.oecd.org/eco/surveys/2013%20Economic%20Survey%20IRELAND_Overview_Eng_FINAL%2030%20Aug.pdf on 8 July 2014.

⁵⁸ Ibid., 11–14.



that given the long-term requirement of Ireland's fiscal adjustment process, a return to normalised levels of investment cannot be expected in the medium term.

Opportunities

A key opportunity for the Irish labour market is linked to the reduction in labour costs brought about by the recent crisis. Ireland's labour costs declined by 3% in 2010–11, and since then they have risen much more slowly than EU averages.⁵⁹ This trend has helped restore Ireland's overall competitiveness and increase its attractiveness as a global business location. Another opportunity identified by our interviewees—and one Ireland shares with Belgium—is to undertake a more comprehensive reform of public employment services, particularly in the context of re-training mechanisms and the more effective implementation of ALMPs.

A further range of opportunities were noted which, if developed, could create additional employment in Ireland in the medium to long term. Several interviewees singled out Ireland's agricultural and food industries as having the potential to develop as global leaders. In addition, the country's well-established tourist industry was identified as having the potential to attract considerably more visitors from China and Asia.

Threats

The first threat uncovered by our fieldwork relates to the potential impact on the Irish economy should the UK leave the EU. Notwithstanding Ireland's position as a small open economy, the Anglo-Irish trading relationship remains very important to the Irish labour market. The UK is Ireland's most important trading partner, accounting for over 32% of Ireland's imports and more than 16% of its industrial exports.⁶⁰ Ireland's close links to non-EU anglophone countries have already been mentioned. While these links are generally

⁵⁹ National Competitiveness Council, *Costs of Doing Business in Ireland 2014* (April 2014), 23, accessed at <http://www.forfas.ie/publications/2014/title,12040,en.php> on 14 July 2014.

⁶⁰ PM Consulting, *Evaluating the Value of the Economic Relationship between the United Kingdom and Ireland* (June 2013), 3, accessed at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/223745/13-1069-value-of-relationship-between-uk-and-ireland-volume-1.pdf on 14 July 2014.



regarded as a strength, they are dependent on prevailing macroeconomic conditions. In this context, any further slowdown in global economic growth will threaten the nascent recovery in the Irish labour market.

A further threat identified relates to the ongoing discussion at EU level on harmonising corporate tax rates. Ireland has been very successful in utilising its low rate (12.5%) to attract high-quality foreign direct investment, particularly from the US. However, it was reiterated during our fieldwork that the corporate tax rate is only one of many reasons to invest in Ireland.⁶¹

Unlike Germany or Portugal, a cohesive system of social partnership was not identified as being a particular strength or weakness of the Irish labour market. This is primarily attributable to the questionable role played by social partnership in the decade to 2008, particularly in facilitating wage increases well in excess of both inflation and productivity gains. In this context, it was noted that if the return to social partnership were based on the historic 'Celtic Tiger' model, this would threaten the core reforms implemented in the period since 2008.

Conclusions and recommendations

Our SWOT analysis demonstrates that Ireland is continuing to rebuild its competitiveness and that the consolidation process it embarked on in 2008 is beginning to have a positive impact on the labour market. Our fieldwork also shows that the recent crisis was not caused by long-standing structural deficiencies, but rather by the collapse of an unsustainable property boom that had been facilitated by reckless bank lending. The current weaknesses and threats facing the Irish labour market (e.g. the high legacy debt) are balanced by a number of strengths, including high levels of educational attainment and productivity.

⁶¹ This point is supported by independent research which highlighted the primary importance of the EU single market, legal stability and a well-educated workforce. See Economist Intelligence Unit, *Investing in Ireland: A Summary of Foreign Direct Investment* (2012), 7, accessed at http://webcache.googleusercontent.com/search?q=cache:C1PNnculeLkJ:www.idaireland.com/news-media/publications/library-publications/external-publications/Investing_in_Ireland_-_A_survey_of_Foreign_Direct_Investors.pdf+&cd=1&hl=en&ct=clnk&gl=ie on 14 July 2014.



Our specific recommendations for Ireland are as follows:

- The Irish banking system has been stabilised in the period since 2008; however, the absence of adequate financing for businesses is impeding job creation, particularly among SMEs. Although the government has taken several proactive measures to encourage lending to SMEs, the lack of liquidity in this sector remains the main barrier to growth. Additional policies should be developed to help SMEs access required financing on competitive terms. This would support existing jobs and create the framework for increased employment in the future.
- The reform of Ireland's public employment services should be continued. Further work remains to be done to ensure that jobseekers have access to job support and education mechanisms. In particular, training schemes offered by public employment services must be targeted better and offer a real pathway to employment. Given the scale of the rise in unemployment in Ireland since 2008, it is imperative that public services should be designed with the explicit aim of reducing the drift of jobseekers into long-term unemployment.
- As part of the reform of employment services, a more coordinated approach to designing and implementing ALMPs is required. The impact of existing ALMPs has been restricted owing to their limited scope and to delays in implementation. Operational ALMPs need to be targeted more effectively and evaluated better. Moreover, decisions to end or expand programmes should be based on these evaluations alone, and not on broader political considerations.
- As noted, the Irish labour force is characterised by one of the highest educational attainment levels in the EU. However, the link between the labour market and the education system needs to be further strengthened. The ongoing move away from the traditional vocational element of the Irish tertiary education model (provided by institutes of technology) towards a more university-based model should be carefully implemented to ensure that the vocational element is not downgraded.



Portugal: facilitating a flexible labour market

Strengths

Our SWOT analysis of the Portuguese labour market identified four principal strengths. The first of these is the constructive dialogue that exists between the social partners and government. This dialogue has reinforced the credibility of recent reforms as many of the measures proposed in the external assistance programme in 2011 had already been agreed between government and trade unions. However, it was also highlighted that the relationship between the government and the social partners is a balancing act

The high level of participation of women in the labour market relative to other member states was also considered a strength of the Portuguese labour market.

which can change due to wider political or economic considerations. The involvement of the Portuguese Supreme Court in 2013, in finding that certain proposed fiscal consolidation measures were unconstitutional, provides an indication of how the social

partnership model is also dependent on broader constitutional concerns.⁶²

The second strength, which was mentioned repeatedly during the interviews, is the pragmatic attitude of the Portuguese public towards the reform process. The relative absence of civil unrest in Portugal, in comparison to other peripheral member states, highlights this flexible attitude. However, it was also identified that there remains a reticence among jobseekers to move to lower-paid alternative positions even in cases of recent unemployment.

Our interviewees singled out ALMPs as the third strength. A number of measures have been introduced to tackle youth unemployment, including vocational training, traineeships and on-the-job training. It should be

⁶² An overview of wider industrial relations issues in Portugal can be found in R. Naumann, 'Portugal Industrial Relations Profile', European Industrial Relations Observatory (Brussels, January 2014), accessed at http://www.eurofound.europa.eu/eiro/country/portugal_2.htm on 16 May 2014.



noted that these vocational education measures are not comparable to the German system of dual education as they are not as deeply embedded in the educational system and serve far fewer beneficiaries. However, despite some negative commentary, our interviewees generally considered the initiatives to have been a qualified success. These initiatives have had significant uptake and enabled productive collaboration between training organisations and employers in the development of transferable skills in young people.

The high level of participation of women in the labour market relative to other member states was also considered a strength of the Portuguese labour market. Increased female participation widens the public finance base, increases living standards and relieves pressure on labour supply.⁶³ Labour market participation rates for women are markedly higher in Portugal (62.4%) than in other southern European states, including Greece (45.2%) and Spain (53.1%).⁶⁴

Weaknesses

As with Greece, a significant number of weaknesses were identified. The most important of these are the following:

1. Low educational attainment.

Our interviews revealed long-established weaknesses in levels of educational attainment. Portugal is among the three OECD countries with the lowest proportion of adults with a tertiary educational qualification (17%, compared to an OECD average of 32%).⁶⁵ One of the reasons identified for this historically weak performance is the lack of competition in the education system, which does not adequately reward better

⁶³ A good summary of the importance of female participation in the labour market is provided in F. Jaumotte, *Female Labour Force Participation: Past Trends and Main Determinants in OECD Countries*, OECD Working Paper 376 (2003), accessed at <http://www.oecd.org/social/labour/31743836.pdf> on 26 May 2014.

⁶⁴ Eurostat, 'Employment Rate by Sex, Age Group 20–64' (15 March 2014), accessed at http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=t2020_10&language=en on 19 May 2014.

⁶⁵ OECD, 'Country Note: Portugal – Education at a Glance 2013' (February 2014), accessed at www.oecd.org/edu/Portugal_EAG2013%20Country%20Note.pdf on 26 May 2014.



performance. However, since the mid-2000s specific policies have been implemented to improve skill levels, and overall educational attainment levels have increased significantly.⁶⁶

2. Rigidities in working conditions.

Labour market reform is central to the ongoing reform process in Portugal. The external assistance programme identified excessive employment protection as a barrier to job creation and mobility.⁶⁷ Our fieldwork revealed that Portugal's labour market is characterised by low dismissal rates and a high level of fixed-term contracts due to more stringent criteria for permanent employees. Amendments to the labour code in 2011 and 2013 marked the beginning of a process of introducing a single work contract through reducing the differences between permanent and fixed-term contracts.

3. Cost of doing business.

Although not directly related to the Portuguese labour market, the hidden costs associated with doing business in Portugal were also highlighted as impediments to employment growth. Our fieldwork showed that the slow judicial system and high energy and telecommunication costs prevent many SMEs from growing. Our interviewees indicated that the high costs of energy and telecommunication are the result of a weak competitive environment in the Portuguese economy generally, a view supported by the available research.⁶⁸

4. ALMPs.

The external assistance programme required the use of ALMPs to strengthen job search efforts and improve the employability of young workers. That the interviewees viewed the ALMPs implemented in Portugal as a strength has already been mentioned. But they also saw them as a weakness: there is a ten-

⁶⁶ Ibid.

⁶⁷ European Commission, Directorate-General for Economic and Financial Affairs, *The Economic Adjustment Programme for Portugal*, Occasional Paper Series 79 (June 2011), 61, accessed at http://ec.europa.eu/economy_finance/publications/occasional_paper/2011/op79_en.htm on 26 May 2014.

⁶⁸ OECD, *Economic Surveys: Portugal* (October 2014), 10, accessed at http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-portugal-2014_eco_surveys-pri-2014-en#page1 on 26 November 2014.



gency to develop too many policies and rules as part of the ALMP process. This creates a situation where employers are without the transparency they require, and the measures fail to sufficiently target those most in need.

Opportunities

As with Greece, the current consolidation process was viewed as an opportunity to modernise the Portuguese economy. The reforms introduced to date are seen as steps in the right direction, but our interviewees acknowledge that there is scope for further flexibility. This is particularly relevant given that, notwithstanding a more positive macroeconomic outlook, unemployment in Portugal is still forecast to remain stubbornly high in 2015 (13.6%).⁶⁹ Several other opportunities for the broader Portuguese economy were identified:

- Portugal could develop its profile as a cost competitive manufacturing location. Portugal's hourly labour costs are very competitive relative to those in member states such as Ireland or Spain. Indeed, hourly labour costs actually declined by 5.1% in 2008–13, while in the EU as a whole, they increased by an average of 10.2% during the same period.⁷⁰
- Market rigidities and administrative burdens, particularly for SMEs, could be further relaxed to stimulate competitiveness and reduce the cost of doing business in Portugal.
- The market for Portuguese goods and services could be expanded abroad, particularly in Africa and Latin America. Several sectors were highlighted as providing opportunities for future employment growth: agriculture and the agri-food industry, manufacturing (particularly relating to clothing, footwear, wood and cork), and hospitality and tourism.

⁶⁹ European Commission, *European Economic Forecast Autumn 2014*, 101.

⁷⁰ Eurostat, 'Labour Costs in the EU28' (27 March 2014), accessed at http://europa.eu/rapid/press-release_STAT-14-49_en.pdf on 26 May 2014.



Threats

The primary threat identified by our fieldwork is a reliance on the economic growth of the wider eurozone area, and in particular, of Spain. The current crisis (and the resultant improved competitiveness of Portuguese exports) has reinforced existing trade patterns with Spain, which in 2011 accounted for nearly 25% of exports and over 30% of imports.⁷¹ The fragile medium-term growth projected for both the Spanish and wider eurozone economies renders the Portuguese economy particularly vulnerable.

As noted, challenges to reforms that the Portuguese parliament introduced in compliance with the external support programme have been brought before the Portuguese Supreme Court. The court has ruled on several occasions that specific consolidation measures violate constitutional rights. While not all cases brought before the court have been successful, the annulments have been an obstacle for the Portuguese government, and the threat remains that further reforms in the post-bailout period may be subject to similar legal challenges.⁷²

Our interviewees identified weak labour law inspection as another threat. An example given in our fieldwork was the increasing number of self-employed people registered as employees (in gyms, law firms, architectural firms and small retailers). Undeclared work is also an issue in Portugal and has a negative impact on tax revenues and social security spending. Should these problems go unresolved, they will pose a serious threat to the long-term recovery of employment levels.

Conclusions and recommendations

As with Ireland, Portugal has implemented significant reforms in recent years and has successfully exited the external support programme provided by the EU/ECB and the IMF. A sound basis for medium-term employment growth is provided by the strengths identified in our SWOT analysis: a flexible attitude

⁷¹ European Commission, *Single Market Governance: Portugal 2012* (2012), 4, accessed on 9 May 2014 at http://ec.europa.eu/internal_market/top_layer/monitoring/governance_en.htm on 28 May 2014.

⁷² The latest challenge was launched within weeks of when Portugal left the external assistance programme in May 2014. See P. Wise, 'Court Ruling Risks Tax Rises', *Financial Times*, 2 June 2014, accessed at <http://www.ft.com/intl/cms/s/0/217c36f8-e99b-11e3-bbc1-00144feabdc0.html#axzz33UqRHRNE> on 3 June 2014.



to reform on the part of the social partners, high levels of female participation in the labour market and an emerging focus on competitiveness. However, there is a danger that, freed from any binding external commitments, the reform process could stall, particularly if the wider macroeconomic outlook improves. That this poses a significant threat becomes clear when one considers that many of the weaknesses identified in our analysis stem from the failure to reform the Portuguese labour and education systems in the decade to 2008.⁷³

In light of these issues, our specific recommendations for Portugal are as follows:

- Although Portugal is a cost competitive location, more work remains to be done on encouraging investment in projects which would develop the country as an employment location. Specific labour market reforms should include the introduction of a new employment contract which is more flexible than the current permanent contract but offers better security to those employed on shorter, fixed-term agreements.
- In tandem with providing greater clarity on employment conditions, a more broadly based reform programme should be continued in the Portuguese economy with the overall goal of improving the ability of firms—both existing and start-up—to create opportunities for employment expansion. This could be achieved by conducting more targeted evaluations of existing ALMPs, cutting costs in traditionally sheltered areas of the economy (e.g. energy and telecommunications) and providing more financing opportunities to encourage the establishment of start-up firms (e.g. seed capital, venture capital or other non-bank financing mechanisms).
- Notwithstanding the current process of fiscal consolidation, long-term structural rigidities in the Portuguese education system should be addressed. Measures should be taken to boost tertiary educational attainment levels, support the take-up of vocational and technical training opportunities and establish lifelong learning and upskilling as tools for combating youth and long-term unemployment.

⁷³ A similar point is made in A. Sapir et al., *The Troika and Financial Assistance in the Euro Area: Successes and Failures*, Study on the request of the Economic and Monetary Affairs Committee of the European Parliament (Brussels, February 2014), 58, accessed at <http://www.bruegel.org/publications/publication-detail/publication/815-the-troika-and-financial-assistance-in-the-euro-area-successes-and-failures/> on 28 May 2014.



- Unemployment rates in Portugal remain at very high levels. As with Greece, further specific measures will be required to boost employment. Smart investment strategies should be developed to increase employment levels in sectors with high potential (e.g. agriculture, tourism, and footwear and clothing manufacturing). These strategies should be supported by a continuing focus on ensuring that indigenous SMEs have access to adequate financing to expand and develop.

Romania: managing the transition

Strengths

Romania provides the last of our case studies and is the most recent member of the EU to form part of our study. It also differs from the other member states under discussion in that it had a Communist system of government up to 1989. Thus it provides an interesting case study of how a transitioning economy has responded to the economic crisis of recent years, particularly with regard to the development of labour market policies.

Our interviewees identified the mobility of the younger generation of workers and students as one of Romania's important strengths. They emphasised the younger generation's flexibility in relocating abroad for employment opportunities. However, as set out in the 'Weaknesses' section below, this adaptability is partially attributable to lower wages and more limited opportunities in the domestic economy. The rise of labour mobility is supplemented by improving levels of educational attainment. Romania has significantly increased the proportion of its working age population with an upper-secondary or tertiary educational qualification.⁷⁴ In 2000–13 the percentage of its 30 to 34 year olds with a tertiary education level nearly tripled, from 8.9% to 22.8%, although this still lags significantly behind the EU average (36.8%).⁷⁵

⁷⁴ Eurostat, 'Tertiary Educational Attainment by Sex, Age Group 30–34' (21 April 2014), accessed at <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00065&plugin=1> on 26 May 2014.

⁷⁵ Eurostat, 'Tertiary Educational Attainment by Sex, Age Group 30–34'.



Our fieldwork revealed that the long-term strengths of the labour market are linked to the overall potential of the Romanian economy. As noted in our macroeconomic review, the severe crisis of 2009–10 has resulted in a restructured and more balanced economic structure. The structural reforms implemented in 2009–10 have underpinned a return to strong economic growth in 2013 and 2014. Overall, the medium- to long-term outlook for the Romanian economy remains positive.⁷⁶ Our interviewees also highlighted the increasing attractiveness of Romania as a business location, particularly for the manufacturing operations of multinational companies.

Our interviewees singled out the IT sector as a core strength: Romania is one of the leading outsourcing destinations globally and home to many multinationals, including Microsoft, Google, IBM and Siemens. Between 2003 and 2009, the number of software and IT service companies in Romania increased by 8,000.⁷⁷ Our respondents viewed the establishment of large multinationals as generating confidence domestically and driving local investment and SME growth. Although start-ups and SMEs face numerous obstacles, the entrepreneurial culture is viewed as being well established.⁷⁸

ALMPs were further identified in our fieldwork as having a positive impact on the labour market. Measures highlighted include tax incentives to hire graduates if they are retained for a minimum of three years. To tackle labour market segmentation, companies can also receive a grant to hire people over the age of 40 on the condition that they are employed for a minimum of 12 months. However, the effectiveness of the latter scheme has thus far been limited. As noted below, the current segmentation of the labour market between younger and old workers is a characteristic of this market.

Weaknesses

Our interviewees identified a range of weaknesses which act as significant impediments to the further development of Romania's labour market. The most important of these are the following:

⁷⁶ IMF, *First and Second Reviews under the Stand-By Arrangement*, 4–9.

⁷⁷ K. Gareis et al., *E-Skills for Jobs in Europe: Measuring Progress and Moving Ahead* (February 2014), 3, accessed at <http://ec.europa.eu/DocsRoom/documents/4398/attachments/1/translations/en/renditions/pdf> on 3 June 2014.

⁷⁸ European Commission, 'Small Business Act Fact Sheet: Romania 2013', accessed at http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2013/romania_en.pdf on 3 June 2014.



1. Low levels of internal mobility.

Despite younger Romanians' flexibility in seeking work in other EU member states, the relatively poor levels of internal mobility (i.e. from one part of Romania to another) was repeatedly emphasised as a weakness. Our fieldwork identified the very high level of home ownership as a key factor in deterring workers from seeking new employment opportunities outside of their local town or city. This low level of labour mobility has increased the regional divergence between low unemployment areas in the west of the country and higher unemployment areas in the east. It has also widened the wealth gap between urban areas (where the majority of employment opportunities are located) and more rural areas, which are dependent on small-scale agricultural enterprises.

2. Age segmentation.

A clear segmentation exists between younger workers (generally up to 40 or 45 years) and those who are older. The former tend to be higher skilled, better educated and more flexible when it comes to work opportunities. More established workers, on the other hand, are likely to value job security above all, and as a result they often eschew other job opportunities and more modern skills and technologies.

3. Conservative work culture.

Linked to the above is the broader issue of how Romania's past as a centrally planned economy still affects workers' attitudes to employment structures. Interviewees stated that some Romanians had a conservative view of work with high expectations regarding job security and the associated benefits. An example given was that there is no tradition of part-time or fixed-term employment contracts in Romania. However, it was noted that this situation is slowly changing as a result of the economic crisis.⁷⁹

⁷⁹ The share of fixed-term contracts in the labour market increased marginally from 8.2% in 2012 to 8.4% in 2013. See IMF, *First and Second Reviews under the Stand-By Arrangement*, 77.



4. Wage levels.

Our fieldwork revealed that low wages are one of the primary reasons for the high levels of emigration of young people from Romania. Our interviewees mentioned that this also holds for professionals such as doctors and dentists.⁸⁰ Also mentioned was the significant rise in the minimum wage planned for 2014 (from around €180 to €205 per month).⁸¹ However, this is still below the minimum wages in other emerging EU member states such as Croatia and Slovakia.

5. Barriers to indigenous job creation.

A variety of issues were highlighted as impeding job creation by indigenous companies. These included the lack of a tradition of innovation among SMEs, public administration problems and the existence of high levels of undeclared work. It was noted that many employers top up official wages with a cash payment to avoid tax liabilities. In 2013 the shadow economy was estimated to be a very significant 28.4% of GDP (the EU average is 18.5%).⁸²

Opportunities

Notwithstanding the progress evidenced in Romania in recent years, several opportunities were identified which, if capitalised upon, could further stimulate job creation and strengthen the labour market. These opportunities include the following:

- It is possible for both multinational and domestic companies to move from relatively low-tech manufacturing operations to higher value (medium- and higher-tech) manufacturing.

⁸⁰ J. Fontanella-Khan, 'Romanians Despair that Wealthy Britain is Taking All Their Doctors', *Financial Times*, 14 January 2014, accessed at <http://www.ft.com/intl/cms/s/0/f4c0b734-7c70-11e3-b514-00144feabdc0.html#axzz33rTb4MPq> on 6 June 2014.

⁸¹ This rise was implemented in two steps and came into effect from 1 July 2014.

⁸² European Commission, *Annex to the Anti-Corruption Report: Romania*, COM (2014), 2, accessed at http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/docs/2014_acr_romania_chapter_en.pdf on 3 June 2014.



- SMEs offer an opportunity for further employment creation if the relevant state authorities provide more support in the areas of skills, innovation, financing and markets.
- Romania should take better advantage of its increasing levels of educational attainment as a highly skilled and adaptable workforce is a fundamental feature of an efficient labour market. Our interviewees specifically identified the areas of lifelong learning and on-the-job training.
- The country could use the available EU funds to fund rural development and infrastructure improvements. The better absorption of EU funds was noted as being an opportunity to support a more robust recovery in investment.

Threats

The return of economic growth was identified as potentially diminishing the political appetite to engage in further structural reforms. Interviewees pointed out the period prior to 2007 as a time when strong economic growth—largely fuelled by domestic demand and frequent budgetary deficits—masked the absence of any significant reform process. The threats identified in our fieldwork are closely associated with the weaknesses set out above. One issue that our interviewees repeatedly highlighted is the danger posed by the perception of widespread corruption in the Romanian economy. The vast majority of the population (93%) believe that corruption is widespread, while only 27% believe that government efforts to combat corruption are effective.⁸³ Although international assessments of the free market basis of Romania's economy are increasingly positive, the issues of corruption and judicial inefficiency continue to threaten the country's ability to generate long-term economic growth.⁸⁴

A further key threat is related to wage levels within the domestic economy. A balance needs to be struck between the unsustainable practice of supplementing low official wages (through social welfare and/or untaxed cash payments) and keeping taxes low to encourage business growth and development. While low wages are a factor in driving emigration (particularly among the young), the threat remains that further

⁸³ Ibid.

⁸⁴ T. Millar, K. Holmes and E. Feuler, '2014 Index of Economic Freedom', Heritage Foundation (February 2014), accessed at <http://www.heritage.org/index/country/romania> on 6 June 2014.



rapid rises in the minimum wage could limit employment options for low-skilled, short-term and young workers. This challenge is further complicated by the emergence of various non-European states as centres for multinational manufacturing operations, in direct competition with countries such as Romania and Bulgaria.

The scale of demographic change poses another threat to the long-term sustainability of the Romanian labour market. As in most European countries, Romania has an ageing population. In combination with the emigration of many professionals and young people, this is giving rise to long-term sustainability issues in the provision of social security and health care.

Conclusions and recommendations

It is clear from our SWOT analysis that, notwithstanding the relative stability of the Romanian labour market since the peak of the economic crisis in 2009–10, significant threats and weaknesses still exist which constrain growth prospects over the longer term. What is required is a multi-dimensional approach to improving labour mobility and the employment environment in Romania.⁸⁵ Although this would involve confronting established cultural norms, it is necessary if Romania is to fully capitalise on its overall potential. The effects of such an approach would spill over to other areas of the economy. This approach should include the following key elements:

- A stronger link must be created between the education system and the labour market. There is a clear correlation between low student mobility and educational attainment, on the one hand, and low employment mobility, on the other. The education system should promote mobility as a means of attaining career goals and provide students with a greater awareness of job opportunities outside their local areas. As with Greece, *flexibility* should become a fundamental principle in the Romanian labour market.
- Public employment services should be transformed into 'one-stop shop' providers where jobseekers can access available job opportunities for the entire country, as well as information on further training and affordable accommodation. The transformation of public employment services to include the provision of

⁸⁵ For an interesting comparison, see L. Vagac, 'Internal Labour Mobility in Slovakia', European Employment Observatory (June 2013), accessed at <http://www.eu-employment-observatory.net/resources/reports/Slovakia-adhocrequestResponse-InternalLabourMobility-final.pdf> on 5 June 2014.



more lifelong training resources is particularly important for more established jobseekers, who may require significant additional skills training before gaining employment.

- Shorter-term and fixed-term contracts should continue to be used as a means of increasing the flexibility and mobility of the workforce. At the same time, adequate employment protection needs to be ensured, particularly regarding social security benefits and pensions. As with Belgium, policies should be developed which will facilitate the movement of workers outside of their region of origin in order to avail of employment opportunities.
- With a view to encouraging employment growth, the high level of entrepreneurship evident in SMEs should be supported through government initiatives. Possible policy actions include limited corporation tax holidays and reduced employer social security obligations for new hires.
- On the macroeconomic level, further work remains to be done in tackling the problem of unnecessary bureaucracy (e.g. in labour activation policies), eliminating corruption and improving the monitoring of the assessment and collection of both direct and indirect forms of taxation. Resolving these long-standing issues would significantly improve the perception of Romania as a place to do business, particularly for non-Romanian corporations.





Before setting out specific recommendations on how to support and enhance job creation policies at EU level, it is important to establish a framework of key conclusions. These conclusions reflect both the reality of the labour markets in the member states in which our fieldwork was carried out and the important challenges facing the development of a coherent and realistic employment strategy for Europe. Taking our SWOT analysis as our point of departure, we have arrived at the following conclusions:

1. Employment should be considered, not in isolation, but as a characteristic of the wider economic environment and national economic structures.

Reducing unemployment is a top priority at both the national and EU level. However, the number of people employed (or unemployed) in an economy simply reflects the broader economic environment in which employees and employers operate. Our SWOT assessments highlight the importance of competitiveness and flexibility to creating an environment conducive to job creation. High labour costs in Belgium, protected professions in Greece, limited access to financing for Irish SMEs, rigid working conditions in Portugal and low levels of internal mobility in Romania all act as barriers to job creation.

2. The recent crisis has exacerbated long-standing labour market weaknesses in many member states.

As highlighted in our macroeconomic overview, youth unemployment levels had already been approaching 20% in Greece, Portugal, Romania and Belgium in 2007, before the impact of the crisis began to be felt in European labour markets. The rapid increase in unemployment that began in 2008 exposed clear deficiencies in Ireland's public employment services. Germany's remarkable employment performance during the crisis has also (due to low unemployment levels) exposed underlying demographic trends which threaten its long-term economic sustainability. In the context of these characteristics, the current crisis has acted as a wake-up call for member states to tackle their specific labour market weaknesses, which existed long before the current crisis.



3. Labour markets remain largely national and are shaped by domestic strengths and weaknesses. Thus, it is not possible to apply any one national labour market model directly to other EU member states.

Our analysis reveals that Germany is distinct from the other member states under discussion in having undertaken a significant programme of labour market reform before 2007. These reforms have been successful in developing an employment model consistent with the established characteristics of the German economy (i.e. close interaction between the social partners and a dual education model). However, the current structure of the labour markets in the other member states considered indicates that certain elements more closely associated with the German model (such as the greater application of the dual education model) have the potential to contribute significantly to the reform of labour markets within the EU.

4. Despite the difficulties in the economic environment, national responses to the recent crisis are characterised by the shared principles of improving labour market flexibility and maintaining social solidarity.

In all six countries except Germany (which implemented reforms before 2007), the recent crisis has resulted in the development of significant national reform programmes. Although differing in scope and scale, these reforms are all based on the common principles of improving labour market flexibility (primarily through the provision of better working terms and conditions and of more effective public employment services), while maintaining the core social market economy principle of solidarity with those who are unemployed and seeking work.

5. Much more work remains to be done at EU level to further improve the operation of the single labour market, to enhance labour mobility between member states and to promote the movement of workers within countries.

A common finding across all six member states was that weaknesses remain in the effective operation of the single labour market and that intra-EU mobility remains below what is necessary to allow imbalances to be adjusted at EU level. At present, labour mobility throughout Europe, and particularly within the euro area, is lower than what would be expected for a currency union. It is also largely determined, or restricted, by national factors (e.g. Ireland's historic ties with anglophone labour markets outside of Europe). Two of



the member states considered—Romania and Belgium—are also characterised by very low levels of inter-regional mobility.

6. Education, lifelong learning and digital literacy have a very important role to play in improving the employment prospects of all jobseekers.

The importance of education and further training to increasing employment was a common theme in all the fieldwork conducted. In particular, our interviewees emphasised that lifelong interaction with education and training is required to meet the demands of the modern labour market. Lifelong learning and digital literacy were repeatedly highlighted as important tools, not just for young, unskilled workers, but also for more established workers wishing to change jobs or to reskill after losing a job. It was also acknowledged that some member states' education systems are not fully in tune with current labour market realities and thus require updating to be more closely aligned with sectors of real employment potential.

7. The effectiveness of public employment services and the use of ALMPs varies greatly among member states and is dependent on national implementation strategies.

Our research uncovered mixed results regarding the effectiveness of ALMPs in combating unemployment. However, this was primarily attributable to the quality of implementation at national level. Overall, ALMPs were viewed as a positive response to the current unemployment crisis, particularly among the young. To be effective, however, such programmes have to be clearly targeted at specific groups, reasonably easy to administer and subject to proper evaluation mechanisms. As regards the longer term, ALMPs were viewed as part of a suite of measures which should be used to combat unemployment, but they were not considered a stand-alone response to the unemployment issue.

8. The impact of the crisis on individual member states shows that a new approach is needed to properly address the reality of current EU labour markets.

The experience of all the member states analysed in this research makes it clear that the traditional labour market model (education/training followed by permanent employment and retirement between 60 to 65 years of age) is no longer relevant for the majority of workers under 35–40 years. This reality has important consequences for associated issues such as the provision of pensions and social security, which are



traditionally based on a public system of management with a 40-to-45-year contributory model. In this context, the *current requirement for reform should be viewed as a unique opportunity* to tackle long-standing structural issues in European labour markets.





The development of a realistic *jobs strategy for Europe* requires a series of interlinked recommendations which can be implemented at both the EU and the national level. National-level recommendations for the six countries considered in this report have been provided in our individual SWOT appraisals. This dual-level approach reflects the reality that employment issues in the EU remain dominated by 28 national labour markets, each with distinct strengths and weaknesses. It also reflects the potential of the EU to provide an overarching framework conducive to employment and economic growth.

Our SWOT analysis has brought to light four key principles which underpin our labour market recommendations:

Flexibility.

As noted, the traditional model of a job for life is no longer relevant to the majority of young workers. Today's labour markets require flexibility as the impact of technological change and workplace innovation is reflected in the employment market.

Social solidarity.

The development of increased flexibility in labour markets should not lead to a deterioration of the core social market economy principle of providing support to low-paid workers, the unemployed and retirees. Rather, the social solidarity model in place in all EU member states needs to be updated regularly to reflect the trend towards multi-job employment and changes in both demography and the modes of education.

Competitiveness.

A competitive economy, at both the national and the EU level, will underpin the creation of jobs and economic growth in the future. Competitiveness is a characteristic of successful economies and can be enhanced through reducing bureaucracy, controlling key business costs and promoting a climate of entrepreneurship.

Mobility.

Increasing labour mobility is one of the biggest challenges facing the development of an effective single labour market within the EU. In addition to creating a more flexible, open and competitive economy, higher levels of labour mobility will allow the EU to deal better with employment imbalances.



In the following we recommend a series of actions designed to provide a coherent and achievable *jobs strategy for Europe*.

1. Simplify EU employment policies and coordinate them more effectively.

Currently, the European Employment Strategy developed by the European Commission takes into account the Europe 2020 strategy.⁸⁶ The Employment Strategy is primarily based on the Annual Growth Survey, whose findings are supported by the work of the Employment Committee, which advises the Employment and Social Affairs Council.⁸⁷ EU employment strategies are further characterised by a multitude of other reports (at both national and EU level) from a variety of institutions such as the European Employment Observatory.⁸⁸ From a national perspective, the 'Brussels' approach to employment policy can seem overly complicated, with many competing objectives.

EU employment policies need to be simplified in order to make them more easily understood at local level. This is important since the EU's ability to promote effective job creation policies will be viewed as a major success of the wider European integration project, notwithstanding the current primacy of national policies in employment affairs.

In addition, better integration of EU employment policies (including the Europe 2020 strategy) with the overall economic governance framework would ensure that job creation policies remain at the forefront of all economic policy decisions at EU level. If real progress is going to be achieved in combating the histori-

⁸⁶ Europe 2020 is the EU's growth strategy in the areas of employment, innovation, education, social inclusion, and climate and energy. It has five ambitious objectives, which are to be reached by 2020.

⁸⁷ The Employment and Social Affairs Council is comprised of national ministers in the areas of employment and social affairs.

⁸⁸ The European Employment Observatory contributes to the development of the European Employment Strategy by providing information and comparative research on, and evaluations of, employment policies and labour market trends in 33 countries.



cally high levels of unemployment across Europe, *job creation policies must become as integral a part of the EU's policy armoury as fiscal consolidation or banking reform.*

A number of measures are recommended:

- The EU should seek to develop a more formalised mechanism for *sharing information* on national employment policies between member states. This would provide national governments with an effective means of gaining information on employment policies successfully implemented in other states. This mechanism should not increase existing administrative burdens, but act as a conduit for the exchange of information between the Commission, Council, governments and national employment services. For example, such a framework would allow a greater dissemination of information on successful education models (such as the German and Austrian dual education model) among member states.
- Develop a short *EU jobs statement* based on the principles highlighted in this report: flexibility, social solidarity, competitiveness and mobility. By agreeing to these common principles, EU institutions and member states would be able to work within existing frameworks to develop more effective, nationally specific policies to create jobs and growth. This statement should serve as the first port of call and as a key policy tool for citizens wishing to understand the EU's approach to increasing employment.
- The relevant EU institutions—including the European Council, Commission and Parliament—should establish an *EU institutional jobs forum* to provide a more unified voice in dealing with employment policies proposed at EU level. This forum would provide one shared spokesperson on employment affairs and allow EU institutions to speak as one on key employment issues. It would give voice to the proposed EU jobs statement and serve as a more effective means of communicating the main employment objectives of the Europe 2020 strategy.



2. Introduce clearly defined actions to increase labour mobility

There already exists a range of EU-level policies whose principal aim is to create jobs in Europe. Increasing labour mobility and further developing the single labour market are long-established goals of the EU. However, as highlighted in our SWOT assessments, many member states are still characterised by low levels of mobility (both internal and external) and by significant national barriers which impede the development of a fully functioning single labour market. In this context, our recommendations include proposals for developing existing EU programmes and setting new policies. These proposals are as follows:

- Currently, the EURES (the European Job Mobility Portal) system provides job matching services across the EU via the Internet and through 900 advisors across Europe. However, the availability of information on EURES services through national employment services differs from country to country. Often, little support or advice is provided to interested jobseekers. EURES should be further developed as a *pan-European job search network* that acts as a 'one-stop shop' for workers seeking advice, practical guidance and application support in seeking employment across the EU. This could be achieved through the development of a unique EU-wide jobs database which could be run in conjunction with national employment services, thereby facilitating better access to information. The employment services offered by EURES should also be expanded to include providing information on the specific challenges facing new arrivals in different member states, for example, registering with authorities and language barriers.
- There is a clear positive correlation between educational attainment, employment levels, labour productivity and salary outcomes. The links between education (at both post-primary and tertiary level) and the labour market must be enhanced to reinforce these positive relationships. Our research has revealed that in several member states a worrying gap is emerging between established education models and current labour market realities. We recommend that educational bodies should provide students with a greater awareness of job opportunities across different sectors of the economy and with more practical information on possible career paths and salary expectations. In the long term, this could be achieved by establishing a *common labour market module* run by national employment services but based on shared principles. This



module would focus on general employment information at national level, set within a broader EU context. It could be delivered by educational institutions across the EU either during the final year of post-primary education or near the completion of technical training or university. This module would be delivered on a non-compulsory, non-examination basis and serve as an introduction to the principles of the wider EU single labour market.

- The Erasmus programme has been an outstanding success since its introduction in 1987. The Erasmus+ programme for the 2014–20 period has a total budget of €14.7 billion and is to provide over four million mobility opportunities. Building on this success, it is recommended that *the Erasmus+ programme be further developed and extended beyond 2020* to provide an opportunity for every EU student to spend time studying in another member state.
- As noted, low levels of internal labour mobility within states such as Romania and Belgium contribute to employment market fragmentation and an under-utilisation of available resources. The development of an *Erasmus Entrepreneur programme in individual member states would provide a key channel for entrepreneurs to gain practical internship experience in more established companies*. This programme should be run and financed at a national level. This national focus would help increase regional labour mobility and allow states to better equip young innovators with the skills needed to create successful businesses.
- Legal uncertainty regarding the recognition of educational and professional qualifications remains one of the main barriers to labour mobility within the EU. The implementation of updated rules will make it easier for professional qualifications to be recognised and for members of a regulated profession to practise elsewhere in the EU.⁸⁹ However, it is imperative that further measures should be undertaken to simplify and standardise the recognition of educational and professional qualifications across the EU. Among other things, *the introduction of the proposed European Professional Card should be prioritised*, particularly with regard to major professions such as medicine, pharmacy and engineering.⁹⁰ In addition, the EU should

⁸⁹ European Parliament and Council Directive 2013/55/EU amending Directive 2005/36/EC on the recognition of professional qualifications and Regulation (EU) no. 1024/2012 on administrative cooperation through the Internal Market Information System, OJ L354 (28 December 2013), 132.

⁹⁰ The European Professional Card will provide an electronic system for storing professionals' past work-related history and will be transferable throughout the EU. It was recently subject to a consultation procedure undertaken by the European Commission.



continue to broaden the range of educational and professional qualifications which will become subject to the European Professional Card mechanism in the medium term.

- Building on the range of proposals set out above, it is also essential that *the EU should actively promote the benefits of labour mobility and the importance of further developing the single labour market*. In particular, the EU should vigorously defend the core principle of the free movement of labour. Criticisms that centre on the prevalence of ‘benefits tourism’ should be addressed by providing easily accessible, independent assessments of the benefits of mobility and labour market integration. On the whole, our research supports the view that the ‘free movement of workers cannot be a principle only for the good times . . . the EU needs to step in and make the benefits of mobility more visible’.⁹¹ This more proactive approach should also highlight how poor levels of labour mobility within the EU are facilitating a ‘brain drain’ of young European professionals to other global economies such as the US, Canada and Australia.

⁹¹ C. Dheret et al., *Making Progress Towards the Completion of the Single European Labour Market*, European Policy Centre Issue Paper 75 (Brussels, 2013), accessed at http://www.epc.eu/pub_details.php?pub_id=3529 on 27 July 2014.



3. Switch the priority from combating unemployment to creating jobs.

ALMPs play an important role in combating unemployment. However, as noted, their real effectiveness depends on how well they are implemented at national level. Initiatives such as the Youth Guarantee provide mechanisms for helping young people in danger of becoming disassociated from training, education and employment. However, *these initiatives should not replace the broader macroeconomic imperative of creating growth in the economy, growth which will lead to the creation of jobs*. In this context, it is important that policies are developed that focus on unemployment prevention rather than on managing joblessness. In this area we have two specific recommendations:

- The EU should try to ensure that the use of ALMPs at national level is as effective as possible. This can be achieved by making sure that these programmes are clearly targeted at specific groups, as simple as possible to administer, subject to proper (and regular) evaluations and accompanied by a continuing focus on lifelong learning and digital learning tools.
- In the longer term, economic growth will provide the basis for increased employment in all member states. A constant priority at EU level should remain the implementation of policies which improve the competitiveness of both member state economies and the EU as a whole. As emphasised previously, considerably more work remains to be done to achieve a fully functioning single market. The further development of the internal market in key areas such as energy and telecommunications will reduce business costs, increase intra-EU trade and lead to the creation of economic growth and jobs.



4. Financing the recovery: building a bridge between investment and reform.

The recent crisis has resulted in a significant decline in investment across the EU.⁹² This decline, in turn, has had a negative impact on European labour markets. However, the scale of investment required is so large that combating the decline is beyond the capabilities of most member states. The results of our SWOT assessments show that there is a clear link between Europe's current investment gap and the absence of structural reforms in most member states before 2007.

The crisis has also resulted in a level of financial market fragmentation which has facilitated the emergence of divergent credit conditions across the EU. As expressed in our interviews, the lack (or very high cost) of credit facilities for private enterprises in member states such as Greece, Ireland and Portugal is impeding economic recovery and restricting the creation of new employment opportunities. Survey data published by the ECB confirms that credit conditions for SMEs in Germany are considerably different from those in most southern European countries.⁹³

The adoption of Banking Union legislation by the European Parliament and the stress testing of Europe's largest financial institutions by the ECB will help ensure that banks can resume their important financing role. It is possible to provide additional mechanisms which will help re-establish a competitive European economy while still adhering to the existing Stability and Growth Path. This can be achieved by providing private sector enterprises with an environment conducive to further investment and job creation. The Investment Plan for Europe launched by Commission President Juncker acknowledges the key role of investment (both public and private) in job creation.⁹⁴ It also identifies the responsibility of all member states in comple-

⁹² As noted in European Commission, *Communication on an Investment Plan for Europe*, COM (2014) 903 final (26 November 2014), 4 accessed at http://ec.europa.eu/priorities/jobs-growth-investment/plan/index_en.htm on 1 December 2014.

⁹³ European Central Bank, 'Report on the Results of the Survey on the Access to Finance of SMEs in the Euro Area', Press release (30 April 2014), accessed at http://www.ecb.europa.eu/press/pr/date/2014/html/pr140430_1.en.html on 28 July 2014.

⁹⁴ European Commission, *Communication on an Investment Plan*, 4.



menting investment policies with ongoing structural reforms. Our interviews reveal that the absence of real labour market reforms in member states before 2007 (with the notable exception of Germany) was a key factor underpinning the rapid deterioration in many European labour markets from 2008 on.

Consistent with the objectives of the Juncker Plan, we recommend that *better use be made of both the common EU budget and the resources of the European Investment Bank*. Smart investments in areas such as transport infrastructure, human capital and education, energy supply and high-speed internet networks would serve to increase the EU's competitiveness on a global scale while also creating employment opportunities throughout the EU. Detailed implementation mechanisms for such investments should be agreed at EU level with a preference for cross-border investments which benefit more than one member state. It is important that such additional expenditures should not be based on any additional borrowing (either by the EU or by national governments) but on a better allocation and use of existing resources.

In addition, member states should seek to include private sector funds (e.g. private pension and insurance funds) in a wider investment plan strategy which could potentially see additional EU and European Investment Bank investments matched by similar levels of private sector investment. This combination of public and private sector funds has the potential to create a sufficient scale of investment to make a real difference to financing Europe's recovery. These investments should be developed in the context of a longer-term (5-to-10-year) investment strategy with a clear objective of increasing the overall competitiveness of the EU economy.

Smart investment plans and structural reforms should not be viewed as separate policies to be utilised only in times of economic crisis, but as complementary initiatives which will create growth and jobs in the long term. These are initiatives whose implementation is more acceptable (both politically and to the public) in times of economic growth than in times of economic crisis. Thus, a coherent and realistic structural reform programme should be a key element of all national development strategies, regardless of the prevailing economic conditions.





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