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## **Labour market and unemployment in the European Union, 1985-2002**

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### **Introduction**

This paper argues that the EU employment strategy has endorsed an enlightened liberal market agenda concerning labour market policies. The dominant policy paradigm places the individual at the centre stage: unemployment is mainly due to employment barriers faced by individuals who cannot respond adequately to labour market changes, especially technological changes. The ability of European welfare states to sustain employment growth in the context of structural labour market changes is currently under test. Flexi-security has been seen as one of the best ways to address this challenge. From this standpoint, EU's structural rigidities - highly regulated labour markets, administrative burdens on business and stubborn trade-unions - might explain the productivity gap between the US and Europe as well as persisting low employment rates. However, given the popularity of the welfare state in Europe, to copycat US liberal policies - as in the UK - is not a viable solution. Aware of this problem, the defendants of flexi-security (to be found primarily in the UK, Italy and Spain, but also the Netherlands, Denmark and Sweden) advocate the implementation of careful deregulation. However, this concept, as helpful as it might seem at first, fails to acknowledge the very different starting points of social policy systems across member states. There is no single best way to reconcile the conflicting objectives of social policy, i.e., full employment and labour productivity on the one hand and social equality on the other hand. Each welfare regime is confronted with specific endogenous challenges. Each country or rather, family of nations has thus devised its own strategy to address the issues at stake but there is little evidence of convergence within the EU. This paper aims to contribute to the current debate by examining labour market challenges at the EU level and within each national context.

It is divided into four sections. The first section offers an overview of the theoretical debates concerning the equity-efficiency trade off. The second section analyses current labour market trends at the EU level. Section 3 presents the EU's employment strategy. Lastly, section 4 offers an overview of national responses to current challenges.

### **Section 1: theoretical issues: social policy and employment performance**

The European Union combines a plethora of welfare state systems, a feature which is now well documented by the social policy literature. The dominant approach derives from the work of Esping-Andersen (1990, 1999). It distinguishes Nordic Universalist, Anglo-Saxon liberal, Corporatist Continental and Mediterranean regimes. The theory is based on the concept of decommodification, intended 'to capture the degree to which welfare states weaken the cash nexus by granting entitlements independent of market participation' (Esping-Andersen, 1999, p.43).

Despite the heterogeneity of European welfare states, jobless growth - growth without an accompanying increase in employment - emerged as a worrying syndrome

in Europe in the last decade. The comparison of the EU and the US in terms of employment performance suggests that relatively generous social policies have adverse effects on employment. This is known as the equality-efficiency trade-off (Esping-Andersen, 1996, 1999; Ferrera and Rhodes, 2000, Ferrera, M., Hemerijck A. and Rhodes M., 2000). High income inequality, especially the development of the working poor at the low end of the pay scale, a traditional characteristic of the liberal model of welfare, has been described as the price to pay for significant job creation (see also Bertola, Boeri and Nicoletti, 2001 p. 60).

Structural unemployment was diagnosed as a major consequence of labour market rigidities by the OECD in the late 1980s and early 1990s (OECD 1987 and 1994). Likewise, the EC stressed the importance of this phenomenon in the White Paper *Growth, Competitiveness, Employment* (EC, 1993). Like the OECD Jobs Study (1987), the EC identified the relatively high cost of unskilled labour as one of the major explanation for the rigidity of unemployment (EC, 1993: 11). Ten years later, the nature of the debate has changed: there is much more emphasis on poverty traps and inactivity traps (EC, 2001 a, OECD, 2001) than on structural unemployment. In fact, the idea of structural unemployment has vanished in major EU policy documents although there is still some major concern with long-term unemployment (EC 2001a). Structural unemployment increasingly grew out of fashion in the late 1990s and was being replaced by the notion of an unemployable labour force due to structural changes in the labour market.

These changes result from a period of very rapid economic transformation and globalisation. In particular, technological change creates a cohort of low-skilled, "unemployable" people who can be recycled only in low-paid jobs, just like in the US. The ability to create low-paid jobs in the service economy could help solve the European disease of jobless growth provided the EU makes a deliberate attempt to equip its citizens with life-chance guarantees since "being in a low paid service job is no welfare problem if there is no entrapment. The trade-off disappears if citizens have some credible guarantee of mobility, implying again skills and resources." (Esping-Andersen, 2001, 140). Esping-Andersen, Ferrera and Rhodes argue that the new constellation of risks is concentrated among younger age groups rather than among old age. To move away from a pensioner state to ideal activation would enable to solve the equity-efficiency trade-off. If we are to follow this course of ideas, the primary goal of social policy is no longer income equality but the ability to equip low-skilled workers with life-chance guarantees through the provision of adequate training and in-kind benefits (child-care, elderly care and training).

Such ideas gained momentum at the EU level as the EC white Paper on Competitiveness, which spelled out the new vision on employment policies, made it clear (EC, 1993). The employment strategy was officially designed in the 1997 Luxembourg summit. The European Council of Ministers agreed that activation - preferably positive activation based on labour market integration through better access to training and employment opportunities coupled with making work pay strategies - was the best way to achieve full employment in the knowledge economy. The primary goals of public policy remained low inflation and a balanced budget. Consequently, the removal of structural rigidities in the economic downturn at the end of the 1990s was advocated in order to achieve sustainable economic growth. In 1997, most member states agreed that activation was the best way to achieve full employment. However, there are in practice tremendous difficulties in implementing a coherent EU strategy since each family of nation is prone to a specific trade-efficiency off. The

1997 Luxembourg summit has required each country to devise its own strategy in order to achieve the employment rates targets (EC, 2001a).

There was little mention of investment policies in the EC white paper 1993 except in chapter 8 "Turning growth into jobs", which "recognises that the market alone cannot solve the employment, unemployment and social problems faced by the Community" (EC, 1993: 123). The White Paper therefore recommended that new measures should "promote the development of new employment opportunities ...Public expenditure associated with EC programmes could contribute strongly with job creation." (EC, 1993: 132). In the late 1990s, the need to implement structural reforms has been more openly acknowledged by the EU official discourse. One of the goals for the EU agreed upon in the Lisbon European Council is to regain the conditions for full employment and to strengthen regional cohesion. The European Council held at Nice approved the European Social agenda, which specifies that achieving full employment involves structural reform and ambitious policies to reduce economic disparities (EC 2001a: 81). The emphasis on structural development has taken a new turn at the beginning of the 21<sup>st</sup> century. The *Joint Report on Social Inclusion* (EC 2002) has identified the promotion of the social economy (also known as Intermediate Labour Markets) as one of the best practices for implementing labour market integration. The extent to which the development of a social economy is compatible with the liberal market agenda and its resulting focus on employability remains open to question. These are clearly conflicting objectives. Furthermore, there is little evidence that the call for better co-ordination of local, regional and employment strategies within an overarching EU employment strategy has been followed through (EC 2001b:17).

## **Section 2- Labour market trends in Europe**

The average EU employment<sup>1</sup> rate reached 63,8% in April 2002 according to the latest Eurostat release. European Union (EU) employment rates have been improving since the late 1990s. Employment expanded by 1,8% in 2000 - more than 3 million people were in jobs than in 1999 despite the economic slowdown. Total employment in 2000 was almost 10 million higher than five years ago. Europe's return to full employment appears to be a feasible challenge. The employment rate increased from 62.3% of the working-age population in 1999 to 63.3% in 2000, bringing the EU closer to the Lisbon target of 70% by 2010 and the Stockholm target of 67% by 2005 (see table 1).

The unemployment rate<sup>2</sup> came down from 9.1% in 1999 to 8.2% in 2000 and the number of unemployed people fell by 1.5 million - the largest annual decrease in a decade - bringing down the total number of unemployed people in April 2002 to 13.3 million in the EU according to Eurostat (see table 2).

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<sup>1</sup> Employment rates represent persons in employment aged 15-64 as a percentage of the population of the same age. Persons in employment are those who during the reference week did any work for pay or profit for at least one hour or were not working but had jobs from which they were temporarily absent.

<sup>2</sup> Unemployment rates represent unemployed persons as a percentage of the active population of the same age. The active population (or labour force) is defined as the sum of employed and unemployed persons. Unemployed people - according to the International Labour Organisation (ILO) criteria are those persons aged 15 and over who are i) without work, ii) available to start work within the next two weeks and, iii) have actively sought employment at some time during the previous four weeks or have found a job to start later.

However, most recent data on EU unemployment rates seem to suggest a relative deterioration of the employment performance in 2001-2002: the EU15 unemployment rate was 7.6% in April compared to 7.5% in March. It was 7.4% in April 2002 (see table 2). Germany (8,1%), France and Spain (11.3%) remained at the bottom of the league in April 2002, which seemed to confirm Esping-Andersen's image of continental disease. Spain remained the EU's highest unemployment rate.

### **Changes in the labour market create both new risks and new opportunities (EC, 2002).**

First, there is an increasing demand for new skills and higher levels of education. High-tech and knowledge-intensive sectors have contributed more than 60% of total job creation in the period 1995-2000 (ECa, 2001). In the EU, the employment rates of persons with tertiary education is 83.6% whereas the employment rates for people with less than upper secondary education is 54.0% in 2000 (see table 3). This trend enables to understand the emphasis on life-long learning in the EU policy discourse and the mainstream of social policy literature.

Second, there are also new job opportunities in services for people with low skills although this can lead to the danger of persistent low paid and precarious paid employment, especially for women and youth. More than 1.6 million of the new jobs created were taken by women, whose employment rate grew from 52.8% in 1999 to 54% in 2000 (see table 4 on employment rate by age and sex). More than half of working women are concentrated in four sectors: wholesale and retail trade; real estate, renting and business activities, education and health and social work (Eurostat Statistical Year Book, 2002).

Third, there are more opportunities for part-time and new forms of work which can lead to new flexibility but can also result in more precarious employment. The share of part-time work in total employment was of 18% in 2000 and was crucial to employment creation in the EU (EC, 2001a). In the Netherlands more than 30% of those in employment work on a part-time basis (OECD, 2002:36). Part-time employment has been increasingly criticised since it may trap low-skilled workers and older workers in precarious employment as the multiplication of critical accounts of the Dutch employment miracle suggests: " At the moment, the large percentage of part-time work renders the Dutch employment miracle less miraculous." (Becker: 22). Although part-time work and temporary contracts are stepping stone for young people - between 1995 and 2000, the proportion of young people working part-time increased by almost 4% to 23% (EC 2001a) - this may not apply to older workers and low-skilled workers.

### **Main concerns**

First, GDP growth has slowed down in 2001 and 2002. Thus the economy in the EU may not provide such a supportive environment for labour markets as over the past four years. In April, the US unemployment rate was 6.1% and the Japanese rate was 5.2%. In the EU15 the unemployment rate for males grew from 6.4% in April 2001 to 6.6% in April 2002.

Second, high youth unemployment - at 16.3% of active young people - remains a problem. Employment rates reached 40.3% in the 15-24 age group but youth

employment rates still differ markedly within the EU. Employment rates of young people have increased significantly in Spain, Sweden and Finland, and to a lesser extent in France and the UK (EC, 2001a; see also table 4). However, employment rates among the young in Germany have increased over the period 1995-2000.

Third, the low employment rate of older people (aged 55-64) is worrying at 37.7%, a long way from the Stockholm target of 50% by 2010. The policy of active ageing has had yet mixed results since disability (mainly in the UK and the Netherlands) and early retirement schemes (France and Sweden) have been used by workers to withdraw from the labour market shifting the unemployed outside the labour force. Lessons from the Dutch experience seem to suggest that there may well be a pattern of hidden unemployment in the EU. This trend is currently underestimated by official accounts of the EU employment performance.

Fourth, the ability of European economies to maintain labour productivity is a major concern. Recent job creation has coincided with declining labour productivity growth per employee. Labour productivity growth per EU employee fell to 1.3% in the 1990s compared with 1.9% in the 1980s. By contrast, labour productivity growth per US employee rose to 2.4% in the 1990s, up from 1.3% in the 1980s (EC, 2001a). In the US case, high productivity growth per employee did not lead to low employment growth in the late 1990s. Instead, the US employment performance has been characterised by a virtuous cycle, which enables to escape the productivity-employment trade-off.

However, there is a clear mismatch between the labour productivity per employee and the labour productivity per hour (see table 5 and 6). Labour productivity per employee picked up in the US over the past decade (see table 5) but productivity per hour declined slightly (see table 6). Productivity per hour in the EU is slightly lower than that of the US. However, there is a pattern of strong national variation within the EU: the UK, Sweden, Spain and the Netherlands are at the bottom of the league whilst Luxembourg, Ireland and France have increased the productivity per hour. It follows that there is no clear evidence which supports the case for the productivity-employment trade-off. An optimistic interpretation is that "member states with higher productivity growth also experienced higher employment growth, while those with low productivity growth also displayed low employment growth." (EC 2001a: 53). Neither the Dutch nor the Swedish miracles support this explanation, since both countries have experienced strong employment growth but without equivalent productivity growth.

Fifth, the very rapid growth of the knowledge society and Information Communication Technologies is leading to major structural changes, most notably an increased selectivity in hiring. The selectivity of European labour markets increases the employment barriers of the cohort of low-skilled workers. These workers are increasingly being used on a temporary basis in the service economy but with little improved employment prospects.

Sixth, there is some increased activity in the enlargement process scheduled in 2004. 13 countries have applied for EU member ship: the Czech Republic, the Slovak Republic, Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Malta, Cyprus, Turkey. The main concern is about the ability of these countries, especially in the most fragile Central European Countries (CCs), to meet the convergence criteria

defined by the Maastricht Treaty. There are two major differences between the EU countries and the accession states. The first has to do with the structure of the economy; the second is about persistent gaps in terms of labour productivity, which is in turn reflected by the much lower employment performance in the CC group.

The economy of the candidate countries is much more heavily weighted towards agriculture and less towards services than that of the EU. The agricultural share is about four times higher in the CCs than in the EU (10.6% to 2.6%). However, there is no real homogeneity among the candidate countries in this respect. Agriculture shares vary from 2.7% in Malta to 21.1% in Bulgaria. Turkey, Romania and Lithuania all record shares above 10%, while the other CCs have well below this level (see Eurostat 2002, p. 4-5). The weight of the agricultural sector has generated concern and figured prominently on the agenda of the Seville summit in June 2001.

Second, labour productivity levels are also very different between the CCs and the EU, with the EU economy, as a whole, being 2 and a half times more productive than the CC group. The labour productivity for the total economy of the CCs is much lower than that of the EU, at 41.15%. Slovenia is the most productive of the CCs. At the other end of the scale, Bulgaria, Latvia, Lithuania and Romania all have rates of labour productivity less than one-third of the EU average (Eurostat 2002, pp6-7). Concerns regarding a possible deterioration of the levels of social protection are not as strong as they used to be in the 1980s, when the Southern European countries joined the EU. The main concern is about the "cost of the "wedding" between the EU and the candidate countries, e.g. the implementation of structural investment policies. Infrastructural development is needed to make Eastern and the EU economies more alike.

### **Section 3: EU employment policy**

Employment is one of the key areas of the EU social policy. The institutional framework of the European communities is keenly aware of social policy issues. Article 118 of the Original Treaty of Rome tasked the European commission with "promoting close co-operation between the member states in the social field." In practice, however, progress has been extremely slow. The introduction of co-ordinated labour market regulation was left to intergovernmental agreements at the European Council level, where decisions were to be made on an unanimity basis, save as otherwise provided in the Treaty.

However, in the late 1990s, the EU co-ordination started to focus on the need to spur employment creation. In November 1997 at an extraordinary European Council on Employment in Luxembourg the member states agreed to co-ordinate and stimulate employment-oriented policies, even before the ratification of the Amsterdam Treaty, around four Pillars:

- Improving Employability
- Developing entrepreneurship
- Encouraging adaptability of business and their employees
- Strengthening the policies for equal opportunities

The four pillars spell out a relatively coherent approach to Europe's unemployment problem, which is viewed as a structural problem, that is, one that should be tackled by reform efforts, as Europe's old fashioned welfare states encounter unavoidable difficulties in changing macro-economic environment. The first of the four pillars focuses on employability and on tackling the skills gap. There

is a particular emphasis on ensuring that young people and the long-term unemployed are equipped to take advantage of new employment opportunities in the fast-changing labour market. The first pillar explicitly refers to the implementation of active labour market policies. Benefits and a training system must be reviewed and adapted to ensure that they actively support employability and provide real incentives for the unemployed to seek and take up work or training opportunities. The first pillar stresses the importance of life-long learning. The second pillar derives from the recognition that the creation of more and better jobs requires a dynamic enterprising climate. This aim is to be achieved through deregulation and simplification of market access by small firms. The third pillar acknowledges that there is a need for better adaptability on the part of business but also on the workforce. It focuses on the adaptability of enterprises and workers to changing technologies and markets and industrial restructuring through union-negotiation and work reorganisation. The concept of *flexi-security* encapsulates this strategy since “it recognises explicitly that a balance must be struck between the need of business for flexibility, and the needs of employees for security and employability.” ([http://europa.eu.int/comm/employment\\_social/empl/esf\\_pilar\\_en.htm](http://europa.eu.int/comm/employment_social/empl/esf_pilar_en.htm)) The fourth pillar focuses on the necessity to reconcile work and family life in order to reduce the gender gap in terms of employment participation. It also promotes the integration of people with disabilities into working life.

In addition, the Council Resolution of 15 December 1997 on employment guidelines has defined horizontal objectives. The employment guidelines for 2001 should build conditions for full employment in a knowledge-based society. The most important guideline in relation to the 2001 objective is that “member states shall develop comprehensive and coherent strategies for lifelong learning, in order to help people acquire and update the skills needed to cope with economic and social changes throughout the entire lifecycle.” (Official Journal of the European Communities, 24-1-2001).

As to the actual implementation of these guidelines, the Luxembourg process is essentially a forum for discussion and evaluation of country-level practices. Each member state is required to submit annual Employment Action Plans, where its experience and policies are discussed within the framework proposed. The plans make an effort to enlist the panoplies of nation-specific existing measures within the Luxembourg pillars. The different national approaches to social and labour market problems are reflected in the various reports. Country practices are evaluated by the Commission’s Services, with an eye to identify best practices that might provide examples for further reforms and adjustments. The Luxembourg process leaves employment-policy reforms in the hands of the member states.

The Lisbon European Council of 2000 set as a new strategic goal for the EU in the 2000-2010 decade “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion.” It specifically stated that the overall aim of employment and economic policies should be to raise the employment rate from an average of 61% today to as close as possible to 70% by 2010 and to increase the number of women in employment from an average of 51% today to more than 60% by 2010. In addition to the 2000 Lisbon targets, the Stockholm European Council of 2001 has set intermediate targets for employment rates across the Union as a whole for 2005 of 65% overall and 57% for women. It also set up an EU target for increasing the average EU employment rate for older women and men (55-64) to 50% by 2010 (EC, 2001a: 18).

To make work pay is equally part of the EU's activation strategy. The idea behind making work pay is simple: if an individual income is lower when working than when not working, this creates disincentives to look for work. Net replacement rates at the earning levels of 2/3 of an average single production worker are 71.4 in the EU in the first month after losing employment. France provides the most generous replacement rate during the first month of benefit receipt but this declines sharply for long-term benefit recipients. The EU replacement rate for long-term benefit recipients drops from 71.4 to 58.8. (Table 7). To encourage individuals to actively look for work entails two mechanisms: the use of sticks (declining benefits during unemployment periods) and carrots (in work benefits, generally through a supplement provided by the tax or the benefit system). By giving families where someone works but where the family income is low a supplement, replacement rates are lowered without lowering out-of-work incomes. According to the OECD, there has been a general upward trend in benefit entitlements, stabilising some time in the mid-1980s (OECD 2002, p.58). To make work pay was first advocated by the OECD and implemented in the liberal regimes such as the UK and Ireland in the EU, the USA in the OECD. However, the use of in work benefits is becoming increasingly popular in other EU countries, although it varies depending on each national context.

The fourth pillar also refers to the need to integrate disadvantaged groups in the labour market, especially disabled workers, older workers, women and increasingly so, ethnic minorities. As far as disabled workers are concerned, a relatively coherent strategy has been implemented. Progress in terms of access to the labour market between men and women is equally a central concern, especially in the context of an ageing society. Female participation in the labour market can enable women to escape welfare dependency and boost economic growth, most notably in the service economy, which explains the renewed emphasis on work-life balance issues. Progress in this respect remains slow and does vary from one country to another. Lastly, the need to integrate ethnic minorities figures more prominently in National Employment Plans in 2002 than in 2001. The EU increasingly tries to attract high-skilled workers. Member states are also doing "good by stealth" and try to use a cheap flexible labour force on a temporary basis. Low-skilled workers are needed for the purpose of temporary work and scheduled to go back to their homeland once they have finished their job. The temporary scheme for seasonal work in the UK is a good example of this Americanised, pragmatic and utilitarian approach to immigration despite the political emphasis on addressing public angst concerning asylum seekers.

#### **Section 4: National policy responses to common challenges**

Each category of welfare regime is prone to a specific kind of disease in terms of labour market participation. There is a pattern of variation within each family of nations depending on the level of internal development. With respect to overall levels of employment, female employment, public employment and unemployment indicators, the Nordic countries, Denmark, Finland and Sweden outperform the Anglo-Saxon and Continental models of welfare. The Anglo-Saxon countries, Ireland and the United Kingdom display good levels of employment with relatively low rates of public employment. The Continental countries offer a mixed picture, with above average employment performance in the northwestern part of the European continent,

including Austria, Belgium, France, Germany, the Netherlands and Luxembourg. Low levels of employment are evident, especially amongst women and elderly workers, in Mediterranean countries like Greece, Italy and Spain, with Portugal as the exception. It follows that each family of nation presents a mixed picture in terms of employment performance. Each country cannot be considered completely representative of labour market trends<sup>3</sup> and challenges within each welfare regime.

### **The Anglo-Saxon (liberal) regimes**

The Anglo-Saxon regimes in Europe comprise two countries: the UK and Ireland. Ireland and the UK display the following characteristics of the Anglo-Saxon regime: taxes are relatively low, wage dispersion, income inequality and poverty are high, labour markets are highly deregulated. The so-called “tax-wedge” – i.e. the difference between labour costs for employers and disposable incomes of workers - is also low in Anglo-Saxon countries. The UK is closer to the lean American model than Ireland.

### **The United-Kingdom**

The UK shows good labour market indicators (see tables 3 and 4). However, it is equally characterised by a pattern of under-investment in public services, especially on labour market policies (see table 8). Inactivity and remaining long-term unemployment are concentrated in jobless households, within deprived areas, and amongst certain disadvantaged groups. 40% of benefit claimants have literacy or numeracy problems (EC 2001b: 84).

In fact, despite the emphasis on lifelong learning in the public rhetoric, the UK remains a low spender on active labour market policies and policymakers favour relatively cheap employability policies to the detriment of costly structural policies. This comes at a price: skilled-labour shortage, long-term unemployment and long-term poverty traps. Efforts to increase low levels of basic skills remain insufficient to address workforce skills gap and low labour productivity, especially per hour worked (see table 6).

Low-income lone parent families face severe barriers to employment due to the lack of affordable childcare despite the launching of the National Childcare Strategy. Welfare dependency continues to remain a major problem for disadvantaged groups who are confronted with long-term unemployment and long-lasting poverty spells.

### **The Scandinavian welfare states**

Norway, Iceland, Denmark, Finland and Sweden form the core of the universalist-social democratic regimes. They are particularly prone - in theory- to the equity-efficiency trade-off since they are characterised by high labour costs due to the high level of taxation. According to Ferrera and Hemerijck (forthcoming), "the major problem seems to be how to promote the growth of private sector employment, hampered by a wage structure which reflects the overreaching importance of equalitarian principles".

### **Finland**

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<sup>3</sup> These issues will not be explored in depth since each country report will give a more precise and up-to date account of the labour market trends and challenges.

The labour market situation continued to be characterised by a higher than EU average economic growth. The primary aim of the economic policy of Prime Minister Paavo Lipponen's second government is to raise the employment rate. Three main challenges were identified by the EC in 2001 (EC, 2001b):

- To reduce regional employment disparities which remain very high in Finland
- To implement targeted tax relief in order to boost labour demand in low productivity areas and in income groups where the threshold for entering employment is high
- To raise the employment participation rates of most vulnerable groups most notably older workers and immigrants, especially in the context of an ageing population.

## **Sweden**

The overall aim of employment policy is to reach full employment. 80% of the population 20-24 years old should be employed by 2004. Efforts have been made to reduce the high taxes on labour, which remains one of the major problems of the Scandinavian welfare states. Strong incentives to take up paid job through the adoption of in work benefits have been introduced. Sweden does not hesitate to use the stick and carrot approach in its activation policies. Moreover, to reduce welfare dependency is also part of the public discourse. It is no longer possible to qualify for a new period of unemployment benefit by participating in a labour market scheme and the unemployment insurance is limited to 600 working days.

In both countries the employment rates of older workers aged 55-64 is higher than the EU average of 37.5% (table 4). However, Sweden outperforms Finland in this respect (64.7 in Sweden versus 41.5% in Finland). Despite tax cuts, the tax burden on labour remains high in an EU context (EC 2001 b: 82).

## **The Continental welfare states: France, Germany and Switzerland**

The Continental type of welfare state includes France, the Netherlands, Germany, Austria, Luxembourg, Belgium and Switzerland. The continental regime is portrayed as a villain in comparative debate as shown by the metaphor of “frozen Fordism” (Esping-Andersen 1996). First, highly protective labour laws, high minimum wages, generous insurance entitlements (especially those of maturing pension systems) have contributed to perpetuate the segmentation of the labour market. Second, in the 1980s-1990s the Continental welfare states tried to reduce labour supply, most notably through the development of early retirement schemes. Lastly, Continental welfare states have found it difficult to create jobs in the private sector, especially in the service economy, in sharp contrast to the Anglo-Saxon family. The labour market segmentation coupled with the inability to create jobs in the private sector has had serious adverse effects on the labour market integration of low-skilled workers, the young and women.

## **Germany**

Germany has not reached the national targets in NAP 2001, with overall employment rates of 65.4 in 2000 for the entire labour force and 57.9% for women. The main challenge is that of regional disparity since job creation in the eastern part of the

country is stagnant and unemployment remains high. The youth employment ratio continues to be far below the EU average. The employment rate for older workers (55-64 years), while being roughly at EU average level, has not increased in the last few years (see table 4). Germany seems to be prone to the Continental disease of inactivity traps for women and the youth (aged 15-24). So far there has been little emphasis on activation policies per se in the NAP 2001 despite the emphasis on lifelong learning. The Joint Employment Report 2001 stresses that "actions under the Employability Pillar are being progressively strengthened, but need more sharpening and coherence" (EC 2001b: 48). More consistent efforts have been made to reduce wage costs at the lower end of the pay scale. The continued reduction of income tax and the lowering of the corporate tax continue to decrease the overall tax burden.

## **France**

The French strategy has focused on reducing youth and long-term unemployment, one of the highest in the EU, through the implementation of specific programmes such as New Services, Jobs for young people. These measures have had a positive impact on youth employment and long-term unemployment but progress remains slow and fragile. New measures have imposed wage moderation (as part of the 35 hours week), in work benefits (through the *Prime pour l'Emploi*, the French equivalent of the British Working Family Tax Credit) and have tried to reduce the costs of low-skilled labour, with mixed results. Labour market integration through the implementation of the Personalised New Action for a New Start fall short of expectations. Measures to stem the early retirement of older workers do not appear to go far enough to address the issues (EC 2001b: 57). Labour market integration is one of the greatest challenges and has not been addressed appropriately given the persistence of strong institutional constraints and the persistence of the outsider/insider cleavage.

## **Switzerland**

Switzerland is a welfare laggard as pointed out by Bonoli (Bonoli, 2001). This implies that the issue of retrenchment is less pressing than in other Continental regimes. Employment rate is one of the highest in the OECD area (cf. table 1) and unemployment rates, with only 2.7% in 2000, matches the performances of the Netherlands and Iceland in the EU in this respect. More importantly, the employment rate of low-skilled workers (see table 3) is remarkably high. Switzerland appears to be a special case in Continental Europe due to low levels of unemployment and indications of labour shortage, not only among the high-skilled but also among the lower end of the pay scale (see Bonoli, 2001: 131 and OECD 2001: 14). The shift to a post-industrial economy has not been hampered by low levels of wage dispersion contrary to prevailing theories of post-industrial employment (Bonoli, 2001: 131). In this context, the main challenge for Swiss policymakers consist in promoting family-friendly policies through the expansion of public childcare provision for low-income families (Bonoli, 2001).

## **Southern Europe**

The Southern family of European welfare states comprises Italy, Spain, Portugal, and Greece. They typically display an institutional bias in favor of old age protection, to the detriment of other life-course risks. They are characterised by peaks of generosity

for certain occupational groups (“core” industrial employees and civil servants) and gaps of protection for certain others (e.g. irregular workers, workers located in small enterprises, workless households in general). This has had especially adverse effects on employment performance. Youth unemployment rates are extremely high in Southern Europe. However, there is a strong pattern of national variation within the Southern family of welfare states. For instance, Italy's overall employment rate (53.5%) remains the lowest in the EU and traditional structural difficulties persist, such as low employment ratios, wide gender differentials in employment and unemployment rates and regional imbalances. By contrast, Portugal's labour market indicators show good performance, with improvement in the employment rate (68.3%) and a decrease to the unemployment rate to 4.2% in 2000 (EC, 2001 b). In addition, the strategy to reconcile family and working, which focuses on the enlargement of the pre-school child care network partially explains the rise of the female employment rate (60.3%) in Portugal.

## **Spain**

Spain is characterised by low employment rates and low female employment rates (see table 4). Like Italy, Spain displays a radical insider/cleavage to the detriment of women and the young. By contrast to Portugal, efforts to provide public child-care care for the elderly remain insufficient to sustain substantial increase in the female employment rate. This remains Spain's greatest challenge:

" The aim of increasing female employment rates needs the urgent implementation of critical efficient measures, especially to promote the reconciliation of family and work, and, in particular, childcare and other dependent care." (EC, 2001b: 55).

## **Conclusion**

This brief report points out to two conclusions. First, there is a strong pattern of national variation within each welfare regime. Although Esping-Andersen typology is still a valuable tool for comparative analysis, most countries display a mixture of the characteristics attached to each family of nations. Switzerland is a case in point whereas France is in some ways closer to the universalist model of welfare, especially by contrast to Germany or Switzerland, than might be expected at first. Each nation is faced with a different set of challenges depending on its degree of development and its structural characteristics. Portugal is the most successful in the Southern family of welfare states, especially in the way it addresses the challenge of female participation in the labour market. France and Germany perform relatively poorly due to the fatal combination of two factors: strong institutional constraints and the economic downturn.

Second, some countries perform better than others in addressing the equity-efficiency trade-off. Recent accounts of activation policies, especially in the Netherlands, cast some doubt about the so-called Dutch miracle. In fact, there seems to be a pattern of hidden employment. Part-time work is imposed on workers who would prefer to work full time. This suggests that full-time employment and job retention may well be the most realistic criteria for assessing a country's success in achieving EU employment rates targets. If this is the case, the Swedish miracle is already replacing the Dutch miracle in EU's success stories. Sweden stands out as being able to escape the equity-efficiency trade-off with nearly full employment rates and without a sharp rise in poverty. By contrast, the UK is particularly vulnerable to the efficiency -equity trade-

off. The under-investment in public services such as education and training may result in a declining productivity of the workforce, although this hypothesis has not been tested in a rigorous fashion. The UK's employment performances are not outstanding in comparative terms.

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## Appendix

**Table 1: Employment rates in the EU and the US: selected countries**

	1990	1996	1997	1998	1999	2000
France	59.9	59.2	58.8	59.4	59.8	61.1
Finland	74,1	61,9	62,8	64,0	66,0	67,0
Germany	64.1	64.4	64.0	64.4	64.9	66.3
Spain	51.1	48.2	49.5	51.2	53.8	56.1
Sweden	83.1	71.6	70.7	71.5	72.9	74.2
Switzerland	79.6	78.3	78.1	79.3	79.7	79.6
United Kingdom	72.4	69.9	70.8	71.2	71.7	72.4
United States	72.2	72.9	73.5	73.8	73.9	74.1
EU	61.6	60.3	60.5	61.0	62.4	63.6

Source: OECD Employment Outlook, June 2001.

**Table 2: Unemployment rates (%) in March and April 2002 in ascending order**

	<b>April</b>	<b>March</b>
EU average	7.6	7.5
Switzerland	No data available	No data available
Sweden	5.3	5.3
UK	6.0	6.0
Germany	8.1	8.1
Finland	9.1	9.1
France	9.2	9.1
Spain	11.3	11.3

Source: Eurostat 2002 press release

Although there was no data available for Switzerland on Eurostat, Switzerland had one of the lowest unemployment rates in Europe in 2000, with only 2.7. Only did the Netherlands (2.7%) and Iceland (2.3%) have similar performances in 2000.

**Table 3: Unemployment rates and employment population ratios by educational attainment for persons aged 25-64 in 1999.**

		Less than upper secondary education	Upper secondary education	Tertiary education
Finland	Unemployment rates	13.1	9.5	4.7
	Employment rates	58.6	74.3	84.7
France	Unemployment rates	15.3	9.2	6.2
	Employment rates	56.4	75.1	81.8
Germany	Unemployment rates	15.8	8.8	4.9
	Employment rates	48.9	69.9	83.1
Spain	Unemployment rates	14.7	12.9	11.1
	Employment rates	51.0	69.6	77.6
Sweden	Unemployment rates	9.0	6.5	3.9
	Employment rates	66.5	79.6	85.6
Switzerland	Unemployment rates	5.0	2.3	1.7
	Employment rates	69.4	81.1	90.9
UK	Unemployment rates	10.0	4.7	2.7
	Employment rates	52.6	78.9	87.7
European Union	Unemployment rates	11.5	7.2	5.1
	Employment rates	54.0	73.9	83.6

Source: OECD Employment Outlook, 2001

**Table 4: Employment rates by age and sex in the EU spring 2000**

	EU 15	Finland	France	Germany	Spain	Sweden	UK
15-64 years Total	63.1	68.1	61.7	65.3	54.7	71.1	71.2
Male	72.4	71.1	68.8	72.7	69.6	72.6	77.9
Female	53.8	65.2	54.8	57.8	40.3	69.7	64.5
15-24 years Total	39.9	45.4	28.3	46.1	31.8	36.9	55.9
Male	43.3	47.0	31.4	48.6	37.0	36.6	58.2
Female	36.5	43.8	25.2	43.6	26.4	37.1	53.5
25-54 years Total	76.4	81.9	78.4	79.3	67.7	82.5	80.4
Male	87.1	84.6	87.3	87.4	85.4	84.1	87.5
Female	65.7	77.6	69.6	71.1	50.6	80.9	73.1
55-64 years Total	37.5	41.2	29.3	37.4	36.6	64.3	50.5
Male	47.6	41.8	32.8	46.2	54.8	67.0	59.8
Female	27.7	40.7	26.0	28.7	19.9	61.7	41.4

Source: Eurostat (2002), Statistics in focus, population and social conditions

**Table 5: Labour productivity per person employed**

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
B	124.5	124.8	124.6	119.8
DK	100.5	99.8	98.2	99.6
D	98.6	99.7	98.3	98.6
EL	76.2	76.5	75.7	79.2
E	94.2	93	90.5	92.4
F	109.3	107.5	107.8	108.7
IRL	105.9	113	110.4	112.4
I	114.6	112.6	115	115.3
L	174.7	182.8	187.2	195.5
NL	96.5	97.5	99.3	98.2
A	95.8	95.5	95	96.6
P	64.3	66.9	65.3	65.2
FIN	99.7	99.9	101.4	100.2
S	92.8	94.2	93.9	93
UK	92.9	94	95.5	93.3
US	117.3	118.1	119.1	117
EU15	100	100	100	100

Source: Eurostat 2002

**Table 6: labour productivity per hour worked**

	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
B	125.9	125.1	124.3	119.2
DK	108.7	107.1	105.7	105
D	106.5	108	106.1	106.6
EL	64.2	64.9	63.9	66.1
E	85	83.8	80.4	82.7
F	111	109.3	109.6	110.6
IRL	94.2	102.6	104.5	107.4
I	114.4	112.1	114.3	114.6
L	172.1	180.2	185.3	193.2
NL	116.1	117.4	120.8	118.8
A	100.2	97	102.1	102.8
P	58.3	62.1	61.1	60.3
FIN	91	91.6	93.8	92.2
S	93.3	94.5	93.9	92.4
UK	87.2	88.3	89.9	88.2
US	104.1	104.3	104	101.6
EU15	100	100	100	100

Source: Eurostat 2002

**Table 7: Net replacement rates at the earning levels of 2/3 of an average single production worker (after tax and including employment, family and housing benefits), 1999**

	In the first month month of benefit receipt	For long-term benefit recipients
Finland	72	79
France	83	55
Germany	69	75
Spain	70	35
Sweden	77	84
Switzerland	73	88
UK	73	73
EU average	71.4	58.6

Source: OECD Social indicators, p. 59.

**Table 8: Social expenditure on selected functions**

	<b>Education 1995</b>	<b>Active labour market policy</b>
<b>Denmark</b>	6.5	1.89
<b>Sweden</b>	6.6	2.01
<b>Finland</b>	6.6	1.23
<b>UK</b>	4.6	0.42
<b>Ireland</b>	4.7	1.66
<b>Austria</b>	4.5	0.44
<b>Belgium</b>	5.0	1.29
<b>Germany</b>	4.5	1.27
<b>France</b>	5.8	1.37
<b>Netherlands</b>	4.6	1.76
<b>Luxembourg</b>	4.3	0.30
<b>Italy</b>	4.5	1.08
<b>Spain</b>	4.8	0.72
<b>Portugal</b>	5.4	0.87
<b>Greece</b>	3.7	0.35
<b>EU 15</b>	5.1	1.2

Source: OECD, 2001.