

Lyon 2006 - Background papers and conclusions

EIN Summer University and European Ideas Fair

21 - 23 September 2006

EIN POLICY ROUNDTABLE

Job Creation in Europe

Background



The Economist newspaper recently noted that, over the last decade, employment in the eurozone has grown as fast as in the United States, mainly because European firms have succeeded in holding down unit labour costs more successfully than in the past. In May 2006, the eurozone's jobless rate reached its lowest point in almost five years, dropping to 7.9% - but this figure remains high by international standards, with just 4.6% of the US workforce unemployed and only 4% of the Japanese. Ambitious but essential reform objectives agreed by EU heads of government at the Lisbon European Council in 2000 show little sign as yet of being met, with Europe facing a particularly question of how to fund an ageing society and shrinking workforce.

Opinion surveys confirm that employment remains a top concern for Europeans. High unemployment in certain EU countries is both a huge waste of human resources and drain on prosperity, with Eurostat estimating that there are 11.5 million potential workers without jobs in the eurozone, and a total of 17.8 million across the EU25. This is a pool of unemployed larger than the population of the Netherlands. The European Commission needs to match its positive rhetoric with concrete action to promote economic reform and business growth: too often EU policies point in contradictory directions.

Over the past four years the EIN working group on Job Creation in Europe has highlighted employment growth as a key issue for European competitiveness. Enhancing the labour-market participation rate in Europe from 64% to 75% - five per cent higher than the Lisbon goal, but only a little higher than rates already reached in several EU member states - would largely close the GDP gap between the EU and the US. Likewise, participants have recognised the key role that SMEs can play as the main engine for growth in employment. Currently, costs of administrative burdens on business represent around 3% of GDP and fall disproportionately on SMEs. Reduced burdens, better regulation and simpler rules would all help to facilitate growth and jobs.

At the 2005 EIN summer university in Lisbon, the WG noted that there is a big constituency of non-unionised workers, the self-employed and the unemployed, whose interests are currently under-represented in the political system, not least at EU level. Likewise, employment law and taxation remain an important factor in inhibiting business start-up and growth, as does the availability of capital and skilled workers. Overall, the European Commission should adopt a lighter approach to legislation, with less prescriptive directives and a greater respect for subsidiarity. There needs to be less EU 'mission creep': rules should be specific and limited in their scope. The WG proposed that SMEs with ten or fewer workers should be exempted from certain EU regulations.



In February 2006, the WG met in Paris to discuss labour-market best practice. What is needed is a predictable and appropriate policy mix, with sound public finance, clear competition rules, and light-touch regulation. The WG examined the Danish model of "flexisecurity" and the resistance in France to attempts to certain workplace reforms. Finally, an assessment was made of Australia's scrapping of regulations on companies with fewer than 100 staff, the latest stage of a series of changes that have significantly reduced unemployment.

Conclusions of Lyon discussion

The Policy Roundtable in Lyon came to the following broad conclusions:

- The major long-term threat which Europe has to anticipate and confront is demographics. In addressing it, all social policies need to be modernised and reformed, including health and retirement.
- Current European social models must change to meet the challenges of both demographic change and globalisation - this process must be managed pro-actively or a sudden response will be thrust upon us.
- Flexible work, especially part-time and temporary work, is something which many employees, as well as employers, would welcome, and it should be promoted.



- OECD data on job creation show that some policy mixes work much better than others. It is important for governments to move fast to eliminate dysfunctional social policies and negative incentives (for example, early retirement, and permanent disability instead of retirement).
- Best policies enhance participation rates, by making it worthwhile for people to work – for example, lower taxes for the lower paid. In this context, SMEs are the engine of job creation.
- Protective measures (covering youth and women, notably) frequently have counter-productive effects.
- Properly organised immigration should be seen as a major opportunity for the sustainability of the European social systems.

The Policy Roundtable took the view that there is a centre-right social model based on the basic principles of the market economy, competition and social security. This policy area is not and must not be seen to be the monopoly of the left, whose policies often undermine the responsibility of the individual and reduce initiatives.

The EU social agenda needs to be reworked and reformed. For example, the Working Time Directive is blocked and is likely to remain so. The best way out would be to withdraw it and replace it with a proper health and safety measure, focussed on rest time rather than working time. When developing new rules such as this, the Commission should listen to what real workers are saying, not just their representatives. Widespread consultation could and should be carried out on such a set of rest-time proposals.