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REVIEW ON EMPLOYMENT AND SOCIAL DEVELOPMENTS IN EUROPE

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MAXIME CERUTTI, DIRECTOR FOR SOCIAL AFFAIRS, BUSINESSEUROPE

I. BUSINESSEUROPE key messages

- BUSINESSEUROPE welcomes the recent labour market reforms that have been undertaken in France and Spain. There are also some positive elements to reforms agreed in Italy for improving the apprenticeship system. Reforms that were initiated before the crisis are also now delivering positive responses, such as in Germany. However, labour market reforms on their own do not create employment without being supported by other fundamental reforms that are able to stimulate business activity.
- The current pace of reforms is not enough to hasten Europe's recovery from the economic crisis and to stimulate employment. A prime example is Denmark where it is estimated that just 1/5 of the government's targeted reforms have been adopted while competitiveness continues to be lost due to a lack of qualified labour. Therefore, more needs to be done at European level to encourage reforms, including implementing an EU employment policy that provides a framework for reforms to be undertaken at national level.
- To help foster competitiveness and productivity a particular focus must be placed on resource-efficient investment in education to provide people with the skills that will meet the demands of the labour market. Taking into account the specific status of each country, the EU may provide financial support for this, such as in the form of seed funding to help establish or strengthen dual-learning apprenticeship systems.
- Targeted cuts in employers' social security contributions can play an important role in stimulating demand by encouraging employers to hire more staff. The tax burden on labour should also be reduced. It is essential that work is an economically attractive option for low-income earners, compared with welfare beneficiaries. Raising the level at which people start pay to tax on their earnings, such as is being initiated in the UK is a principle that could be promoted at European level to help make people better off by working.
- Flexible forms of employment should be valued as an important vector of employment growth and a stepping stone for the young. We regret that many Member States did not correctly implement the Temporary Agency Work directive by refraining from reviewing and lifting unjustified restriction on its use. Different forms of contractual arrangements are needed to match variations in



demand and absences of staff faced by companies and to allow workers to better reconcile work and family life. It is essential that all contractual arrangements are designed with the primary goal of contributing to job creation. In some countries this requires removing excessive protection of permanent contracts.

- Against the backdrop of demographic change and a projected fall in the working-age population and in order to ensure the sustainability of Europe's pensions and social benefits systems, retirement age should be linked to life expectancy.

II. Findings on the Review of Employment and Social Developments

A) Labour market reforms

- **The review highlights the disparities that exist in unemployment and in the undertaking of reforms across the Member States.** The extent and pace of reforms in this context can be linked to the degree of unemployment, which varies from country to country. For example, in December 2012 unemployment stood at 5.3% in Germany, compared to 26.1% in Spain. Therefore, different policy responses are needed in the two countries.
- Germany is benefitting from the so-called "Agenda 2010" labour market reforms and reforms undertaken in 2003 and 2005 that helped to make the German labour market more flexible, improved job search efficiency and increased work incentives for (mainly long-term unemployed and low-qualified) welfare recipients.
- In 2012, Spain also passed a series of reforms, which include moves towards linking wages to productivity, thereby moving away from a system of wage indexation. This agreement represents a major step towards necessary wage flexibility, so that future adjustments are based on prices and salaries and not job destruction.
- The commonality for the EU level is that the EU's employment policy needs to provide a framework within which national labour market reforms can be made.

B) Structurally high levels of youth unemployment

The review observes that in general, one in five long-term unemployed in the EU has never worked, three quarters of these being young people below 35 years of age. This points to strong risks of marginalisation for the affected group and underlines the urgency of defining effective policy combinations including active and passive measures both to protect from poverty and to provide incentives and support to finding a job.

As of September 2012 there are over 25 million unemployed people in the EU, compared to 16 million in the first quarter of 2008. Of this total around 5.5 million are young people under 25 years of age, compared to around 4 million



people in 2008. At the same time, there are in the region of 7.5 million people who are neither in employment nor in education or training.

These structurally high levels of youth unemployment reveal that there are barriers to the smooth labour market integration of young people, and that they already existed in better economic times. The economic crisis has served to exacerbate the challenges faced in getting young people into work and highlights the longer-term need for reforms, as well as enhanced support and guidance structures for young people.

C) Wages

- **The review takes a broadly positive tone towards minimum wages in terms of helping to encourage social cohesion; getting more low skilled people into work; and narrowing the gender pay gap.** The same point was referred to in the April 2012 Employment Package.
- For BUSINESSEUROPE, the issue of whether to have legal minimum wages and if they exist, how to regulate them, is entirely within the national competence. The EU should not try to steer this debate.
- Wage negotiations are organised at different levels in European countries. Whatever the level at which they are negotiated, it is important to take into account companies' productivity.

D) Taxation

- **The review comments that while there is a long-standing proposition to shift taxation away from labour to other sources to increase the employment rate, it is important to consider that such a measure may be most effective when targeted at the most vulnerable groups in the labour market.**
- BUSINESSEUROPE shares the general perspective that the employer tax burden on labour acts as a barrier discouraging companies from hiring staff. In particular this concerns the need for targeted cuts to employer social security contributions, for example for low-income earners.
- We also support the measure in the UK where the income tax threshold is being progressively increased, which is to the benefit of low and middle income earners. This means the level at which people start pay to tax on their earnings is increased. This is intended to encourage people into work and to make them better off this way than by staying at home on benefits.

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