



EUROPEAN EMPLOYMENT OBSERVATORY

QUARTERLY REPORTS

JUNE 2010

EXECUTIVE SUMMARY



1 INTRODUCTION

This report presents an executive summary of the national quarterly reports submitted by the SYSDem correspondents of the European Employment Observatory from 32 European countries (EU-27, Croatia, FYROM, Turkey, Serbia and Iceland) to the European Commission in June 2010.

The purpose of the executive summary is to provide an overview of labour market policies taken in the last quarter in the countries participating in the quarterly report and to identify whether:

- a) the policies can be expected to help reach long term Europe 2020 targets¹ and whether they are in line with Employment Guidelines 7 and 8²;
- b) the policies are likely to be effective to counter the effects of the economic crisis.

2 NATIONAL LABOUR MARKET POLICIES AND EUROPEAN EMPLOYMENT POLICY

This section presents developments in national labour market policies between April and June 2010 which have been identified as addressing the objectives set out in the European Employment Guidelines 7 and 8:

- **Guideline 7:** Increasing labour market participation and reducing structural unemployment, for example through flexicurity measures, support for social dialogue and policies to make work pay.
- **Guideline 8:** Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning, for example by improving access to and provision of training.

In line with the recommendations set out in Employment **Guideline 7**, several countries have introduced or proposed measures to increase flexibility in their labour markets (e.g. the Czech Republic, Greece, Spain and Hungary). Social dialogue has been an important part of the policy development process in Austria, Lithuania and the Netherlands. Measures to 'make work pay' are notable in Bulgaria, where the minimum wage has been increased and in Austria, where action to increase the transparency of wages and thereby address the gender pay gap has been taken. Youth unemployment has been a key issue in several countries (e.g. Belgium, Finland, Spain and Croatia) while as has the need to tackle gender inequality (Austria, Estonia, Spain, Luxembourg and Croatia) or support the disabled (the Netherlands and Turkey). There have been changes to the unemployment benefit systems in Denmark and Ireland, while in various countries reforms of the retirement and pension structures have been proposed or introduced (Czech Republic, Estonia, France, the

¹ <http://ec.europa.eu/eu2020>

² See <http://ec.europa.eu/eu2020/pdf/Brochure%20Integrated%20Guidelines.pdf>



Netherlands). Finally, measures to support people - in particular the unemployed – to set up their own business have been implemented in Lithuania and Austria.

With regard to policy developments contributing to Employment **Guideline 8**, a number of countries have increased the allocation of resources to education and training systems and measures, in order to support the unemployed to improve their employability and / or to improve the match between labour supply and demand. In Latvia for example, ESF funding has been used to finance additional training for the unemployed and in Sweden an increase in the number of education and training places has been approved. New measures to provide information on job opportunities were taken in Belgium, while in Hungary an information system to improve the match between labour supply and demand is being developed. Measures have also been taken to raise qualification levels; in Estonia, for instance, a programme has been introduced to encourage people to continue their higher education studies. Again, priority is often given to certain target groups, including for example the unemployed, young people and the disabled.

2.1 **Policies to support increased labour force participation and reduce structural unemployment**

In **Belgium**, a range of measures have been implemented at Federal level, which are in line with Guideline 7. These include:

- The extension of parental leave entitlement (three months maximum) - until the child reaches the age of 12 - for teachers and staff in the public sector, commencing 1 April 2010. The previous limit was four years for teaching staff and six years for other public sector workers.
- The introduction, on 1 May 2010, of an allowance payable by the National Employment Office (ONEM) to employees aged over 50 who, at their own request and with a loss of income of at least EUR 205, transfer from arduous work (that they have been carrying out for at least five years) to lighter duties with the same employer. The aim is to encourage workers to remain in the labour market for longer.
- The adoption of a new unemployment support scheme (although negotiations have yet to be held with the Regions in order to finalise a new cooperation agreement). Under this support scheme, the activation procedure should now be more rapid and more individualised.

At regional level, the Brussels government has awarded a subsidy of EUR 260 000 to the CED, the Centre for Enterprises in Difficulty. The CED assists heads of enterprises in difficulty by means of support (identification of difficulties, exit strategies, etc.) but also through discussion with legal or financial experts, the idea being to safeguard jobs in such companies.

In **Bulgaria**, employment mediators continue to improve the results of their work. On the one hand they maintain close contacts with employers and are thus able to collect information about employers' needs. On the other hand, the labour officers can currently offer well-qualified labour and give assistance in the choice of the appropriate person. As a result, a high proportion of people are employed after mediation (92.6 % in the first quarter of 2010, 5.8 % higher than in the first quarter of 2009).

Also in Bulgaria, a mechanism for increasing the minimum wage as of 1 July 2010 has been elaborated that includes a well-balanced combination of economic and social parameters. The mechanism had been approved by the social partners and the



Government in 2008 but had been disregarded due to a social dialogue break-down during 2009. As negotiated in April 2010, the minimum wage guarantees a standard rate below the official poverty line. At the same time, during the economic crisis, the number of people receiving that wage has been diminishing. A new objectively acceptable and financially bearable indicator that bounds the minimum wage to the official poverty line will therefore be introduced from 1 July 2010. The purpose is to improve the purchasing power of the minimum wage.

In June 2010, an expert committee, revived in January 2010 by the **Czech** Minister of Finance (the Bezděk Committee), released an update of the quantified outlook of the implied fiscal burden of the pension system for future decades and a quantification of fiscal implications of several options for reform strategies to be considered by political parties. The committee also proposed its most preferable reform option which consists of a higher statutory retirement age, indexing of pensions to inflation (as opposed to wage growth), abandoning any new approval of survivors' pensions, halving the earning ceiling from six to three times the average wage, introducing a partial opt-out from the public PAYG system and lowering the rate of social insurance contributions from 28 % to 23 %. The newly appointed Prime Minister, Petr Nečas, announced that his party is ready to support these proposals. However in April 2010 the Constitutional Court ruled that the current pension formula does not sufficiently reflect and reward the amount of previous social security contributions. The decision of the Court should become effective in September 2011 and affects only newly determined pensions. At present, it is too early to discuss the effects of the reform in terms of Employment Guideline 7, although the effects on participation and job quality are likely to be major.

Also in the Czech Republic, it seems likely that the new government will make the Labour Code more flexible in terms of hiring and lay-offs. In particular, fixed term employment contracts should become more flexible, severance pay should be reduced for short tenures and employment options not subject to social and health insurance contributions should be widened. The long-run effect of more flexibility can be positive, but it is not clear whether the administration is considering strengthening the hiring element of flexicurity by for example increasing the targeting and effectiveness of active labour market programs (ALMP). Given the ongoing effects of the recession, it is likely that more flexibility (less employment protection) would only be implemented after the effects of the crisis have diminished.

In **Denmark**, among the measures taken that reflect long-term goals, the most prominent example is the reform of the unemployment benefit system. The aim of the reform is to increase the supply of labour by motivating unemployed persons to look for work sooner. The reform has the following elements:

- At present an insured unemployed person can receive unemployment benefits for four years out of the last six. After the reform the maximum period will be two out of the last three years. The reform will be fully implemented from 2013.
- The conditions for regaining the right to unemployment benefits will be harmonised with the rules for qualifying for benefits. In both cases, the criteria will be 52 weeks of full-time employment during the previous three years. At present the requirement for regaining the right to benefits is only 26 weeks.
- The rules for calculating unemployment benefits will be changed. At present the benefits are calculated on the basis of earned income during the last 13 weeks. In the future, this period will be extended to 52 weeks.



The Ministry of Finance estimates that the reform will increase employment over time by about 11 000 persons, but it is recognised that the reform will lead to an increase in the number of persons that lose the right to unemployment benefits. The trade unions have strongly opposed the reform.

In **Germany**, a reform of job centres which support the long-term unemployed has been agreed. This is part of a change to the scope, rather than the contents, of active labour market policies. Besides the continuation of the existing job placement services, the reform permits further cooperation between the Federal Labour Agency and the municipalities. This guarantees the provision of services for the unemployed in a one-stop-shop. The number of so called Option Councils (*Optionskommune*) in which only the municipalities are responsible for the support of long-term unemployed will be increased from 69 currently, to 110. Transparency will be increased by target agreements at a federal level. In addition 3 200 temporary contracts of job centre employees were changed into permanent contracts. The new regulation is in line with Employment Guideline 7 as it helps to increase labour market participation - efficient support of the long-term unemployed from one single source is necessary to facilitate their re-entry into the labour market.

Also in Germany, on 23 June 2010 the Federal Labour Court terminated the principle of uniform collective agreements ("one company – one collective agreement"), which had been in force for decades. The reasons for the abolishment were the disadvantages the principle created for smaller trade unions – now several collective agreements can exist within one company and competition between trade unions will increase.

In **Estonia**, the Parliament approved the change in retirement age in April 2010. According to the changes, from 2017 the retirement age of both men and women will be increased by three months each year, up to 65 years by 2026. It was agreed earlier that the retirement age of men and women would be equalised by 2016 at 63 years of age. The purpose is to ensure sustainability of the pension system. This is partly in line with Employment Guideline 7 in terms of supporting employment among older age groups. However the increase in retirement age has been criticised by trade unions who stress the need to raise the quality of work among older workers. Research has indicated that older workers have poorer health (life expectancy in Estonia is considerably lower than the EU average) and lower educational attainment, although their motivation and satisfaction with work is higher than among young workers. Thus, with the prospect of higher employment among older workers, it will be important to raise the health of the population and analyse the special needs of older workers in the labour market.

It is also noted in relation to Guideline 7, that in May 2010, the Estonian Ministry of Social Affairs initiated an information campaign to promote equal opportunities for men and women in the labour market. The campaign turns attention to gender segregation in the labour market in terms of both sectors and occupations and is co-funded by the European Social Fund (ESF).

In **Ireland**, the *Social Welfare (Miscellaneous Provisions) Bill 2010* was due to be debated in Parliament in June and early July. The Bill provides, along with other welfare aspects, for a specific disqualification of receipt of Jobseeker's Allowance if the person refuses an offer of suitable employment. It also includes a provision to reduce the rate of Jobseeker's Allowance or Supplementary Welfare Allowance for claimants who refuse to participate in an appropriate course of training or to participate in a programme under the National Employment Action Plan. The Bill also provides for the publication of the names, addresses, fines and other penalties of persons who have been convicted of offences under Social Welfare legislation.

In **Greece**, the government has committed to making private sector wages more flexible, to control costs, for an extended period of time. In this context, new legislation should provide



for a reduction in pay rates for overtime work and enhanced flexibility in the management of working time. Proposed changes will allow local territorial pacts to set wage growth below sectoral agreements and introduce variable pay to link wages to productivity performance at the firm level. The arbitration system (Law 1876/1990) will also change, so that both parties can resort to arbitration if they disagree with the proposal of the mediator. The government will also adopt legislation on minimum wages to introduce sub-minima for groups at risk such as the young and long-term unemployed, and put measures in place to guarantee that current minimum wages remain fixed in nominal terms for three years. New rules will extend the probationary period for new jobs to one year, reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue- and white-collar workers.

The new measures are well within the spirit of Employment Guideline 7, as they are expected to contribute to increased labour market participation and to a decrease in segmentation, inactivity and gender inequality. However, safety nets for older workers, a category which might be adversely affected by the changes, will have to be strengthened. Prior to these measures, the government had enacted legislation on those working in the so-called flexible employment forms, with the aim to secure their employment rights. Law 3846/2010 envisages various measures for home workers, temporary workers and part-timers and represents the first attempt to integrate the flexicurity principles into Greek labour market policies.

In June 2010, the Royal Decree Law 10/2010 on urgent measures to reform the labour market was approved by the **Spanish** Government. This is a structural reform, containing measures to improve internal flexibility, youth employment and the intention to create a new Fund for the capitalisation of open-ended contracts (following the Austrian model). In order to rationalise fixed-term contracts, the law establishes a maximum duration for them of three years, extendable for one year if stated in the collective agreement. Moreover, incentives to use fixed-term contracts have been reduced, as rules related to the succession of fixed-term contracts are strengthened and an increase in compensation for termination of employment contracts will be implemented gradually from 2011 to 2015. Additionally, the new law attempts to clarify the reasons for dismissal and the procedure for collective redundancies. Moreover, the law specifies new groups for permanent contracts which receive subsidies on social security contributions as well as lower dismissal costs than on the regular permanent contract.

In **France**, the retirement reform which is in preparation aims to increase the employment rate, especially among older workers. Consultations began on 12 April 2010 and in May the Government presented its document to serve as a basis for future negotiations. Among the measures considered by the Government, the legal age for retirement (60 years old) is one of the main contentious issues with trade unions. The Retirements' Orientation Council (COR) published another report in May, presenting the main financial estimations of all the reforms options. The consultations are continuing, and the bill should be submitted by September 2010 to Parliament.

In **Italy**, in June 2010, the Ministry of Labour and Social Policies approved the *Identità e incontro* Plan, which defines the policy measures and actions in the field of the integration of migrant workers and their families into Italian society and the labour market (according to the available data, immigrants made up 7.6 % of the total labour force in Italy in 2008). The pathways to integration are: education (schooling, language courses, citizenship training); implementation of a quota system in order to improve matching in the labour market; housing; access to healthcare and social services; and attention to the inclusion of children. The Plan also envisages the setting up of an Integration Portal and the building of specific



databases for the design of adequate policies. The need to coordinate the different stakeholders and diverse financial resources is clearly identified as a central issue.

In **Latvia**, the community jobs programme, which has involved more than 43 000 participants since the beginning of June 2010, remains the flagship labour market policy response to the recession. It allows city councils to provide jobs to the unemployed, lasting up to six months and providing a monthly stipend of LVL 100 (EUR 141). The government has recently approved LVL 13.3 million (EUR 18.8 million) in additional financing to extend the programme through 2010 and into 2011. This is estimated to allow an additional 25 500 people to participate in the programme; currently, just over 17 000 people are involved and it is expected that more than 48 000 people will be able to participate in 2010. The measure is principally an income support measure for unemployed persons who have run out of benefit. It contributes in terms of Employment Guidelines 7 and 8 by slowing down the decline in labour market participation through helping to keep both men and women in the workforce. Since these community jobs are low-skilled and involve little learning, they are highly unlikely to facilitate mobility of workers across sectors, provide lifelong learning opportunities or match worker competencies with labour market needs. However the measure contributes to the Europe 2020 goals by maintaining the share of employed persons higher than it otherwise would be, and by preventing some people from falling (too far) below the poverty line. Whether the measure continues after 2011 will depend on the speed of economic recovery, which must gradually reduce the number of unemployed people, and on the rate at which unemployed people emigrate to seek employment in other countries.

In order to promote the employment of people with disabilities and other target groups, the Latvian Ministry of Welfare announced in April 2010 that an additional 500 people would be able to participate in its subsidised employment programme; furthermore, the maximum duration of subsidised employment has been increased from 24 to 36 months. This programme covers the social security expenses of employing people who are members of the target groups and also offers a lump sum of up to LVL 500 (EUR 705) to the employer for the purpose of making the workplace accessible. A total of LVL 7 million (EUR 9.9 million) in financing is available for this programme until 2013. The measure is in line with Employment Guidelines 7 and 8 in that it contributes to reducing labour market segmentation and aiming to include marginalised groups in the labour market (e.g. people just before retirement age). The measure contributes to the Europe 2020 goal of inclusive growth and decreasing the number of people at risk of poverty, although the scale of the programme limits the size of its impact. The aim of the programme is not to assist all members of the target groups, but to demonstrate the viability (to employers) of employing them. Whether the programme achieves this goal is likely emerge only in the longer term.

A law amending and supplementing some articles of the Labour Code of the Republic of **Lithuania** was drafted in the second quarter of 2010. The draft law constitutes a compromise agreement among the social partners concerning flexibility of labour relations, the creation of new job opportunities, the regulation of labour relations in line with ensuring security of employees and the reinforcement of employees' rights. The amendments, which sought to create flexible and reliable employment contract provisions, are in line both with the Europe 2020 targets, emphasising the importance of applying the concept of flexicurity, and with Employment Guideline 7.

In addition, a law amending some articles of the Lithuanian Law on Support for Employment was drafted and adopted by Parliament on 4 June 2010. The amendments are aimed at: creating the legal background for reducing unemployment in territories with high unemployment rates and extending the scope of public works; increasing stimuli for employers to employ young individuals; and encouraging unemployed people to find work



by obtaining business licences and engaging in individual business activities. The amendments are in line with Employment Guideline 7 (in particular, by removing barriers to labour market entry, promoting self-employment and entrepreneurship) and also contribute to the long-term Europe 2020 targets. The amendments would considerably increase employment opportunities for young people, would provide more security guarantees to self-employed people and should encourage the unemployed to engage in setting up their own business.

The reorganisation of the Lithuanian Labour Exchange (LLE) and territorial labour exchanges also commenced in this quarter, which is aimed at improving the efficiency of the labour exchange network and reducing administration costs.

In **Luxembourg**, the government approved in June a package of temporary and long-term measures to counter the repercussions of the economic crisis. These proposed measures will alter the Code of Work with legislation on the following elements: part-time unemployment measures (initiated in 2009 and prolonged to 2010) are prolonged to 2011; new criteria are defined for companies to have access to part-time unemployment; a lowering of the age (from 50 to 45 years) for those eligible to receive unemployment benefits (and this extended for six months); payment of employer fees by the National Employment Fund for those companies benefiting from a part-time unemployment measure for the last six months, as well as payment of a bonus of 80 % of the wage paid by the employer during the first three months of employment for a permanent contract with a previously unemployed person aged over 30 years who is no longer eligible for unemployment benefits.

As far as new forms of employment are concerned, the Luxembourg government has finally approved a grand-ducal bill on the organisation of tele-working in the public sector, first introduced through an agreement with the social partners in 2006.

The issue of gender equality and the employment rate of women has remained on the agenda in Luxembourg this quarter, notably through the launch of a recent awareness campaign (an active measure already put forward in the National Gender Equality Action Plan) and launched by the Ministry of Equal Opportunities. It is the campaign's prime mission, via a website (www.echsimega.lu), to make young people (aged 12 to 20) aware of issues regarding gender equality. This is bound to bear fruit in the long run in the context of the new Europe 2020 strategy as it is complementary to many reforms already initiated (e.g. expansion of childcare structures) to meet Lisbon targets in a general effort to promote awareness among the different age groups.

In **Hungary**, from 1 May 2010, basic flat-rate maternity benefit has been made available for two years (down from the previous three years, with the exception of twin babies), but keeping the ban on dismissal until the child is three years old. At the same time, the income-related maternity benefit now requires 365 days of employment (an increase from the previous 180 days). This change is in line with Employment Guideline 7 and can contribute to the earlier re-entry of mothers to the labour market if the severe shortage of day-care places for children aged under three is tackled. There is currently no information as to how the government will approach this problem.

In addition, the **Hungarian** system of occasional work has changed from 1 April 2010, mostly motivated by its misuse and, effectively, its support for illegal employment. The use of the occasional work booklet has been abolished, in favour of the system of simplified employment which relies on electronic registration of employees. A sustainable and well-functioning system of such atypical work would contribute to fully declared employment and thus help to achieve the targets set by Employment Guideline 7. However, many find the resulting regulation patchy and a source of (different) abuse. To rectify these issues, the



new government has already submitted a bill, keeping the advantages of electronic administration but offering more realistic regulation.

The new government in Hungary has also set out other plans for the future, some of which would have a direct effect on the labour market. For instance, the new government wishes to create one million new jobs within a decade, with an emphasis on jobs aimed at individuals with at most secondary education, mostly in construction, agriculture and tourism. This aim is in line with the challenges facing Hungary and reaching it would contribute significantly to Guideline 7. Other aims include the creation of a framework for flexible employment and support for family-friendly employment possibilities, part-time jobs and atypical employment.

In **Malta**, amendments have been made to legislation governing part-time work. The right of pro-rata benefits to all part-time employees has been granted. Previously, pro-rata benefits were only granted in cases where the part-time job was the principal employment. Among the beneficiaries of this measure are those whose work is spread across different companies so that the employer could have avoided granting full benefits and overtime payments. This amendment will enter into force in September 2010 and is expected to incentivise more people to engage in part-time employment, in particular promoting re-entry into the labour market and greater flexibility to adjust working hours according to family needs. At the same time, authorities should remain vigilant for any possible practices involving disguised self-employment that some firms may resort to, in order to bypass this and other legislation.

In the **Netherlands**, the government has decided to prolong the scheme for part-time unemployment benefit (*deeltijd-WW*) until the end of June 2011, although with some restrictions. New companies are offered the possibility of entering the scheme but companies that have already made use of the scheme cannot re-apply.

Dutch Ministers also agreed on a proposal to stimulate job-to-job transitions within regions. The proposal entails an experiment granting EUR 2 500 to employers and employers' associations that facilitate the timely transition of a redundant employee to a new employer or to self-employment. The aim of this scheme is to prevent dismissals and unemployment and to speed up transition from job-to-job. Employers must contribute at least half of the costs for creating such transition options, underlining the government's expectation that employers and employers' associations in a region play a vital role in the reallocation of work and workers.

On 4 June 2010, the Dutch social partners managed to conclude an agreement on the retirement age in the Labour Foundation (*Stichting van de Arbeid*). They propose to raise the state pension (AOW) age to 66 in 2020, however, with the option to retire at the age of 65, but with lower benefits. This agreement is a major step forward in a very difficult debate on retirement ages, most probably paving the way for a new government to adjust the retirement age. Any changes in the retirement age will eventually increase labour supply.

A new temporary Act on Wage Dispensation (*Pilot loondispensatie*), in the Netherlands, approved on 18 May 2010 helps to meet the aims set in Guideline 7, especially to increase the labour market integration of people with disabilities. The Act, which aims to increase the chance of people with a disability obtaining a job, enables employers to pay less than the minimum wage for employees whose productivity is lower due to a disability. Such employees receive a benefit from their municipality to supplement their wages. The pilot Act is one of a set of four projects that support the labour market integration of people with a disability. However, the pilot will not run in all Dutch municipalities (it covers 132 municipalities), thus excluding some people from the scheme. Moreover, people in the scheme cannot earn more than the minimum wage, as the wage supplement provided by the municipalities plus the wages paid by the employer will at maximum amount to the



minimum wage level. This could possibly contradict the 'make work pay' philosophy. Moreover, the pilot ends in 2012, whereas it would be interesting to judge its effects in times of labour market shortage, which is expected to emerge in the longer term.

In **Austria**, the Minister for Labour has launched a microcredit pilot programme in Vienna and Styria. The main target groups of this programme are the unemployed or atypically employed persons who intend to set up their own business. The pilot has been set up to address the difficulties encountered by the unemployed to acquire bank loans without providing security. To support the process of setting up a business, a maximum loan of EUR 12 500 (for single persons) or EUR 25 000 (for a business partnership) is provided by the Ministry. This should help to cover the initial costs for founding a small business, takeover or extension. The implementation of the programme is supported by counselling and training for company founders. In total, the budget for the pilot microcredit programme amounts to EUR 1.4 million. It is expected that the results of this programme will be similar to the business start-up programme (UGP) of the Austrian Public Employment Service (AMS), which created employment both for the business founders supported by the programme and also additional jobs (on average 1.26 jobs per business). Bearing in mind that the employment effects may reduce slightly during the crisis, the programme might contribute to job creation and avoid long-term unemployment of a small group of the unemployed. As it is a pilot programme in two federal states, the employment effect will be rather limited but a wider effect may occur after an expansion to the other federal states.

The Austrian government, together with the social partners, has agreed on the introduction of an obligatory wage transparency system. According to this system, enterprises have to prepare internal Annual Wage Reports, showing the average wages and salaries of women and men in different remuneration groups. The system will be introduced step by step - in 2011 it will be obligatory for enterprises with more than 1 000 employees, then up to the year 2014 all enterprises with more than 150 employees will have to prepare such wage reports. However the measure is voluntary, as no sanctions in the case of non-compliance are effective. Furthermore, the majority of the workforce will not benefit because of Austria's economic and business structure. Nevertheless, according to the recently published report on the situation of women in Austria, the gender pay gap is up to 18 %; measures to reduce the gender pay gap are therefore highly necessary to achieve gender equality.

In **Poland**, new legislation aims at increasing the labour market participation of parents with small children. In March 2010 the government accepted guidelines proposed by the Minister of Labour and Social Policy on the forms of childcare for children aged up to three. The guidelines aim to establish a basis for the creation of various forms of childcare for small children and to improve the functioning of childcare centres in order to allow more parents and carers to participate in the labour market. Nurseries will no longer be healthcare centres and will care for children from 20 weeks to three years old and will be managed by local government and by an external institution.

In **Romania**, the Government intends to apply three main measures from 1 June 2010 in order to improve public finances. These are: a 25 % reduction of salaries in the public administration, including the armed services; a 15 % reduction in the value of the pension point³; as well as a 15 % reduction in the amount of unemployment benefits and other social protection benefits; and a total and irrevocable elimination of so-called "special pensions", coupled with a moratorium extending to the end of the year on early retirement and a thorough check of all invalidity pensions during a period of 12 months. These measures might have some long-term effects, the most significant of which is the nominal

³ The planned reduction in the value of the pensions point has been repealed by the Constitutional Court and will not be applied. Instead, VAT has been increased from 19 to 24 %.



reduction of benefits received under social protection schemes which were acting, more or less, as a disincentive to work and an encouragement for involvement in undeclared activities.

The situation in the **Slovenian** labour market was in 2009 and 2010 greatly alleviated by the introduction of two Acts (the Partial Subsidy of Full-time Work Act and the Partial Reimbursement of Payment Compensation Act). These enabled employers to preserve many jobs that would otherwise have been lost. According to the government, with both measures covering around 10 % of the total number of employees, approximately 20 000 jobs have been preserved since 2009. Recently, the government continued to introduce changes with the proposal of the Amendments to the Employment Relations Act. The main objective of the amendments is the harmonisation of periods of notice and severance pay with those in comparable European countries.

Also in Slovenia, the Constitutional Court has issued a decision stipulating that companies in which there are no trade unions, are in breach of their workers' right of equality under the law, since the absence of a trade union renders the exercise of their social and economic rights entirely a matter for their employer. Proposed amendments thus give workers an opportunity to participate through their representatives – who are selected in a procedure specifically stipulated by law – in the adoption of their employer's legislative instruments that lay down rights which are otherwise subject to collective agreements. The Government proposes that a workers council or other representative body be vested with the same powers as a trade union in such cases.

The **Slovakian** government approved in June a *draft position of the country on the new Europe 2020 strategy*, with the aim to stipulate ambitious yet realistic national targets within the commonly agreed indicators.⁴ The proposed national goals are in most cases less ambitious than the EU headline targets.

Also in Slovakia, the *Act on services in the internal market* came into force on 1 June 2010, which prompted an amendment to the *Trade License Act*, which constitutes the legislative framework for the operation of one-stop shops for entrepreneurs. One-stop shops have been in operation since October 2007 and serve tradesmen as centres which integrate all necessary administration related to business start-up and operation. With the new legislation, the services provided by one-stop shops have been widened and are now accessible also for entrepreneurs who perform activities based on other registries (e.g. persons registered in the Business Register, freelance occupations, etc.). There are other changes which should facilitate small business start-ups, including the simplification and shortening of the registration process with the trade licensing office, the replacement of trade licenses and deeds by a uniform certificate of entrepreneurship and reduction in the number of categories of trades to three. The changes are expected to reduce red tape and simplify and shorten start-up procedures.

The new legislation in Slovakia also creates conditions for improved e-communication between competent public institutions at national level and vis-à-vis other Member States and EU institutions. One change raised concerns in the business community and will most probably require a revision: participants in retraining programmes must, apart from passing an exam, carry out six months' practice in the respective business to qualify for a craftsman license. This requirement will hinder applicants from the ranks of job seekers who want to retrain for a craft and start in self-employment. The chances that they will find a dependent job for six months are poor.

⁴ <http://www.rokovania.sk/Rokovanie.aspx/BodRokovaniaDetail?idMaterial=18151>



A new youth employment measure was launched in **Finland** in May, to encourage young job-seekers in their job search. Youth unemployment has risen significantly in Finland during the crisis, thus the measure is well in line with national and European employment strategies. The “Sanssi-card” (“Chance”) is a kind of employment voucher and 20 000 in total have been distributed. The card is worth a maximum of EUR 550 per month for a maximum of 10 months, to subsidise full-time employment. It is issued by the Employment and Economy Offices and aimed in particular at vocational education graduates aged under 30. The voucher can be used for private companies, municipalities, associations, social enterprises and apprenticeship training. Those aged 25-29 can use the voucher for private companies after six months of unemployment, and immediately with other employers. When issued, an employment plan is also made with the job-seeker in the Employment Office. However, the initiative has had a rather slow start with only 200 jobs found so far. The situation may improve as it becomes more widely known.

In **Sweden**, the further countercyclical expansive fiscal measures adopted by the Parliament during the last quarter of 2009 were implemented during the first quarter of 2010, in order to secure the welfare system by maintaining levels of employment in the public sector. To further sustain consumption and aggregate demand, the reduction of pensioners’ taxes and the increase of the housing supplement for people with sickness and activity compensation took effect on 1 January 2010. In addition, the Government has temporarily modified the eligibility requirement for individuals on long term sickness who have exhausted their right to sickness benefits and from January 2010 until January 2013, these individuals may receive unemployment benefits. At the same time, a new specific programme administered by the public employment office, targeted toward persons on long term sickness and aimed at assessing their ability to return to the labour market has also been adopted by the parliament. The fourth measure, an in-work tax credit, also took effect on 1 January 2010.

In the **UK**, the Future Jobs Fund was a key measure to tackle long-term unemployment which had increased during the recession. Introduced by the then Labour government in 2009, the new coalition government has cut the budget for the programme by GBP 320 million (EUR 396 million) thus ending any further implementation of temporary jobs under the Young Persons’ Guarantee by removing the six month recruitment subsidy. Plans were to have between 40 000 and 80 000 young people on the programme and there were already signs that it was having some effect on reducing the rate of youth unemployment (though no formal evaluation has taken place). At an estimated cost of GBP 6 500 (EUR 8 047) per job, it appears to have been deemed too expensive, although the net cost, when taking into account savings in unemployment benefit, etc., would be much lower. This decision seems to be a move away from the recommendations made in Guideline 7 for the UK.

Also in the UK, a number of changes to welfare benefits were announced as part of the measures taken to reduce the budget deficit. These include new tests for recipients of disability allowance and putting single parents whose youngest child is 5 or older on Jobseekers’ Allowance, rather than income support.



Candidate countries

Croatia has been making noteworthy steps in improving the position of women in the labour market, primarily in analysing and improving current practice through surveys on discrimination. In addition, within the PROGRESS Community Programme, the Croatian

Employment Services is implementing a project entitled *Supporting Equality in the Croatian Labour Market*. The Croatian Government has adopted a Women's Entrepreneurship Development Strategy for the period 2010 – 2013 and the share of female entrepreneurship, which is currently at 30 %, is growing. Female entrepreneurs are considered to be successful in pursuing business opportunities but face constraints in the form of limited access to financial resources and family obligations. To alleviate these, the Ministry of the Economy, Labour and Entrepreneurship (MELE) subsidises 75 % of child care costs and 75 % of the costs of extended day child-care for one year. Also, MELE and the Government Office for Gender Equality provide financial support to the Internet portal for female entrepreneurs: <http://www.poduzetna.hr>.

The Croatian Employment Service has also begun a Project directed at supporting the employment of young people. The project should produce action plans and measures for hiring young people as well as new services for young people.

The Government of the **former Yugoslav Republic of Macedonia** prepares an annual Operational plan for active policies and measures which can be considered as a move towards a programming approach to ALMPs. For the year 2010, a range of programmes and measures to tackle unemployment are planned. These include the promotion of entrepreneurship in specific sectors, support for the unemployed to set up new businesses, an employment preparation programme and employment subsidies.

In **Iceland**, all parties to the labour market – government, employers and unions – stress the importance of providing the unemployed with the skills needed to meet the demands of the market. Promoting innovation and entrepreneurship is also an important issue. Because labour force participation is extremely high in Iceland, methods to improve participation have not been implemented and there has not been any talk of reducing the retirement age. Most people in Iceland can retire at the age of 67 but many prefer to continue working until the age of 70. Labour mobility in Iceland is also high. High unemployment has usually led to increased emigration, primarily to the other Nordic countries, with many returning home later in life.

In **Turkey**, the government announced that it would fill its quota to provide employment for 55 000 disabled persons within two years.

2.2 Policies to develop a workforce with skills responding to labour market needs, to promote job quality and lifelong learning

In **Belgium**, at Federal level it is planned to release an extra EUR 14 million in 2010, in order to fund measures to support traineeships and training (plus EUR 10 million set aside for activation) and EUR 26 million in 2011 (plus EUR 20 million for activation, including EUR 10 million for training). A number of measures are planned:

- To increase the number of traineeships, e.g. reducing the social security contributions paid by employers who designate a tutor for the occupational guidance of their trainees;
- To boost training, e.g. offering re-training as supervisors for people aged 45 or over who are made redundant as a result of restructuring, who will continue to receive EUR 1 100 per month in the form of unemployment benefit; and



- To encourage firms to take more responsibility for providing training, e.g. the Employment Minister is calling for cross-industry agreements to contain numerical targets on the provision of traineeships. These targets will be analysed and discussed by the Central Economic Council.

At regional level, the Brussels regional Minister of Employment has released EUR 95 800 for “Job Days 2010” which will bring together employers and jobseekers. Also in Brussels, the fourth ‘social temporary work office’ (*Potentia*) has been inaugurated. The purpose of these offices is to support young jobseekers (aged 18-30) with very limited skills (having not completed secondary education). The difference between these temporary employment agencies and standard ones is their job coaching activity. The Brussels government has also awarded a grant of EUR 420 000 to the other three social temporary work offices: *Exaris*, *Instant A* and *Inter S*.

The Brussels regional employment body Actiris has set up a text message alert system for jobseekers, which was being used by an estimated at 68 000 job seekers in April 2010. The Brussels government has also decided to subsidise 25 projects for the development of new equipment in technical and vocational colleges in Brussels. In fact, the Brussels government has subsidised colleges in Brussels to the tune of EUR 1 million in 2010, even though education funding is the responsibility of the Communities.

In Flanders the ‘*werk@telier*’ deliver training and support (lasting up to six months) for under 25-year-olds who have been unemployed for at least a year and have not received an offer from the Flanders public service for employment and training (VDAB).

In **Denmark**, the government introduced an action plan in April 2010 to increase the recruitment of foreign workers in the Danish labour market. The initiative must be seen as part of the longer term efforts to heighten both the quantity and the quality of the Danish workforce. The initiative had the following elements:

- Improved guidance for foreign workers, also in the form of four new guidance centres in the major Danish cities with universities;
- The creation of a digital facility for the authorities involved in granting work permits and other documents needed to work in Denmark;
- Better access for foreign students graduating from Danish universities to stay in Denmark after graduation;
- Stricter control of foreign students, in order to ensure that only students with a serious wish to study in Denmark are granted a student’s permit to stay.

In March 2010, the **Estonian** Ministry of Education and Research approved an ESF co-funded programme to encourage people to continue their higher education studies. The programme is targeted at those who have dropped out of higher education, aiming to raise the qualifications level of the adult population. The share of drop-outs increased during the period of economic growth, since people were choosing to enter the labour market and abandoning their studies. The crisis period gives a chance to motivate people to continue their studies. The target group of the programme is persons who have interrupted their studies during 2003-2009, having already completed at least half of their studies. During 2010-2013 it is planned that 800 students will be accepted to continue their studies.

In **Ireland**, a review of labour market programmes which was published in February 2010 contained a number of recommendations, some of which appear to have been acted upon (e.g. in the 2010 Social Welfare (Miscellaneous Provisions) Bill described above). The Review covers the National Training and Employment Authority (FÁS) and Skillnets labour market programmes with a budget of more than EUR 10 million per annum which are



funded by the Department of Enterprise Trade and Employment (DETE). The areas covered included not only conventional training and employment programmes, but also in-company training and the Public Employment Service (PES). The content of the Review is more relevant to longer term labour market issues and most of the initiatives discussed (or recommended) would be fully consistent with the objectives set out in Europe 2020. The Review focused particularly on efficiency and effectiveness in order to enhance the allocation of resources in the context of current and future labour market challenges, including the implementation of the National Skills Strategy (NSS) which was launched in early 2007. The Report did not assess short-term or temporary measures. The Report concluded that the most effective programmes for the unemployed were those training programmes closest to the labour market and with employer involvement, including the FAS Specific Skills Training and Traineeship programmes. These had the best employment outcomes of all the programmes reviewed. Other measures such as community based activities, for example Community Training Centres, Bridging Training Programmes and the large Community Employment (CE) scheme, were considered less successful.

In addition, a National Skills Strategy Implementation Statement was issued in March 2010, providing an update on the objectives set in the National Skills Strategy (NSS) introduced in March 2007. This Strategy proposed a vision of Ireland in 2020 in which a better educated and highly skilled population would contribute to a competitive, innovation driven, knowledge based and inclusive economy. This initiative is clearly consistent with the long-term objectives of the Europe 2020 strategy. The Implementation Statement notes that significant progress has already been made towards meeting the objectives set out in the NSS. For instance the proportion of those in the labour force with Higher Education qualifications increased from 33 to 39 % between 2005 and 2009, which compares with the target of 48 % set for 2020. The outcomes achieved to date suggest that the most significant challenge for the period to 2020 will be to raise the skills of those at Lower Secondary Level to Higher Secondary. This objective will now be given a specific focus by the Inter Departmental Committee chaired by the Minister of State for Lifelong Learning. The Implementation Statement is of the view that, with the current economic and labour market difficulties, progressing the NSS is even more important, not just for the economy as a whole, but especially for the many individuals who are experiencing unemployment and who will require new skills to get back into employment.

In **Spain**, special contracts which include training are being promoted, in order to encourage youth participation. The contracts are entitled *Contrato en prácticas* (Contract in apprenticeship), usually for skilled workers with formal education degrees and *Contrato para la formación* (Contract for training), usually for low-skilled workers. In this sense, skills acquired will be credited, worker rights will improve and economic incentives for employers will increase in comparison to the previous situation. Moreover, some measures have been passed in order to improve labour market matching. First, the law authorises private employment agencies, under several conditions, such as a previous collaboration agreement with the Public Employment Services and administrative requirements. Second, it incorporates the Directive 2008/104 into national law and, thus broadens the sectors in which temporary agencies are allowed to operate.

In **France**, many education projects have been presented this quarter. First, a project of reform of the *lycée technologique* (technological high school) was presented on 1 April 2010. The reform should be in force in 2011 and fully implemented in 2012. The project consists of a rationalisation of the 17 existing paths in six baccalaureates, encouraging scientific paths. Another project concerns the timetable for the school year; in France the school year is short (three weeks less than in other countries), as is the school week (four days). The Ministry of Education has announced that it will propose changes which will fit both children and the need for an increasing educational level.



In **Latvia**, the Cabinet of Ministers approved in May 2010 the initiative of the Welfare Ministry, to devote additional ESF financing for the training of unemployed persons. This will allow more than 28 000 additional people to participate in learning programmes for various levels of professional qualifications, informal learning, or training with an employer. Depending on the type of learning activity, the unemployed person is eligible for up to LVL 1 000 (EUR 1 411) to covering the tuition fee and a stipend of LVL 70-120 (EUR 99-169) per month to cover other expenses. Over the period to 2013 it is planned to dedicate more than LVL 31 million (EUR 44 million) for this initiative. It offers a pathway back into employment for those people whose skills and competencies have become obsolete in the job market, thereby reducing the level of structural employment and increasing labour force participation rates both for men and for women. The programme helps participants adapt to changing labour market needs, and the higher educational attainment that results can also be expected to allow unemployed people to find better quality work. The measure is in line with the Europe 2020 goals of increasing employment and decreasing the number of people at risk of poverty. The programmes are targeted in two main respects: firstly, the training programmes are organised according to the requirements of actual employers in the labour market; secondly, priority can be given to people from specific target groups, such as the disabled.

In **Lithuania**, new general requirements for BA and integrated studies were approved in April. These are designed to improve the orientation of studies towards the needs of students and those of the labour market. In May, the Ministry of Education and Science initiated, in cooperation with the Lithuanian Labour Exchange, special vocational qualification improvement courses for unemployed university graduates. These measures are expected to lead to improved knowledge and skills amongst young people, thereby improving their ability to adapt to a continuously changing labour market. In addition, the new training system is expected to provide access to life-long learning, which addresses the provisions laid down in Guideline 8.

In **Luxembourg**, the reform of the education system continued within the context of a continuation of initial Lisbon strategy goals. The reform is in line with the targets set out in Employment Guideline 8, as it has sought to adapt the system to employment market developments and the need for a more skilled workforce. In addition to reform of professional training and fundamental schools in 2009, the modifications as regards the secondary (both general and technical) education have been revealed. The reform creates a system based on flexibility, project and portfolio work, as well as a mix of specialisation and a well-structured general knowledge-based training based on the competence-based learning approach. These reforms go in tandem with more tailor-made educational training such as a new nursing training course with double certification (BTS diploma and high school diploma). As far as the new BTS technical diploma (reformed in 2009) is concerned, three specialisations have been designed (i.e. IT, technical engineering, and the work manager). The various practise and employment-orientated diplomas are particularly popular among non-resident students.

In **Hungary**, a project for the creation of a nationwide employment (and skill) demand-supply model and an associated information system commenced on 1 April 2010. Once completed in 2013, it is expected to contribute to improved matching in the labour market, and has thus the potential to reduce structural unemployment due to inefficient planning, in line with Guideline 8.

A reduction of the budget for active labour market policy has been agreed in **Austria**. The reduction amounts to EUR 100 million, which corresponds to about 5 - 8 % of the public employment service (AMS) budget for active measures. It is envisaged to reduce



expenditure on training measures and in order to compensate for the reduced budget, to achieve a more effective assignment of unemployed people to training courses.

At around 80 schools in Austria, people in employment can undertake education. In June 2010, the Parliament decided on a reform of the legal basis, with the objective to make it easier for the employed to achieve, or catch up on, higher educational attainment whilst maintaining an appropriate work life balance. A more flexible delivery of such education and training (e.g. introduction of a modular system, abolition of the repetition of classes) will be implemented.

Also in Austria, the introduction of a standardised competence-oriented final examination for academic schools (*Allgemeinbildende höhere Schulen*) commencing in the school year 2013/2014 will be extended to secondary technical and vocational schools (*Berufsbildende höhere Schulen*) from 2015. Currently, every school uses different forms of examination. The aim of the reform is to achieve more objectivity, transparency and national and international comparability and, therefore, secure a high quality of initial education.

In **Poland**, the amendment of the Labour Code and the Act on Personal Income Tax, which regulates the rules of improving vocational qualifications by employees, was signed in June 2010. The key change introduced is that only the persons who improve their qualifications on their employer's initiative, or with employer consent, will be entitled to leave for training. New regulations use a wide definition of the improvement of vocational qualifications, i.e. the acquisition or fulfilment of knowledge and skills related not only to current, but also to future work. New regulations guarantee employees consolidated training leave, dependent upon the type of exam that the employee will undertake to confirm his/her vocational qualifications. Employers are also entitled (but not obliged) to offer employees who improve their vocational qualifications, additional benefits, such as covering the cost of training, and text books, in particular.

The **Swedish** Public Employment Service has received extra resources to expand its matching services and provide early and individual support to people who have lost their job. The coaching support has also been extended to young people and the number of job seekers expected to benefit from these extra coaching measures is estimated to be 30 000 in 2010 and 15 000 in 2011. To enable the rapid implementation of the measures for jobs and adaptation, funding to the Swedish Public Employment Service has been raised in 2010 to SEK 600 million (EUR 62.5 million).

In terms of educational and training policy, the proposal to temporarily increase the number of places in post-secondary vocational training (*Yrkehögskolan*), in the local authority upper secondary education for adults (*Konvux*), as well as Universities, has been adopted by the Riksdag. These measures imply a total increase of 23 000 places during the period 2010-2011. To encourage more people to apply to secondary adult vocational education programmes, the Government proposal of a temporary increase in opportunities for unemployed people over the age of 25, regardless of previous education, to obtain a higher level of post-secondary student aid in 2009 and 2010, was also adopted. As far as youth educational measures are concerned, drop-outs from high school now have the opportunity, within the framework of the Job Guarantee, to complete their study. The announced increase of 1 000 places in adult colleges (*folkhögskolor*) has also been implemented. The Government has also increased the number of places in work placement schemes and introduced a new practical skill development scheme. The number of participants in labour market training has also been increased by 1 000.

Candidate countries

Although a single "Lifelong Learning Strategy" has not yet been developed in **Croatia** as a separate strategic document, there are numerous initiatives that are being implemented



with a view to advancing the education system and policy. This is accomplished by means of documents and legislative provisions prepared on the basis of the lifelong learning principles: the Education System Development Plan 2005-2010, the Baseline of the Croatian Qualifications Framework and Operational Guidelines, the Strategy for the Preparation and Development of the National Curriculum for Pre-school Education, General Compulsory Education and Secondary Education, the Adult Education Strategy, the Strategy for the Development of the Vocational Education system and many other documents and operational programmes.

Within the government's annual Operational plan for active policies and measures in the **former Yugoslav Republic of Macedonia**, an employment preparation programme is planned, which will provide vocational training, retraining or additional training, as well as advising unemployed persons on acquiring knowledge and skills in order to increase their competitiveness in the labour market. The plan also includes a number of the proposed measures which focus on specific target groups. For example, Roma support programmes are planned, to prepare young unemployed Roma persons to enter the labour market and increase their employability. There is also a measure planned to provide financial support (employment subsidies) to marginal groups (parentless children, disabled persons, single parents and elderly persons) for their inclusion in the labour market.

In **Serbia**, the National Employment Service intensified the implementation of the 2010 National Action Plan for Employment over the spring period and especially its two major active labour market policy measures - public works programmes and 'The First Chance' programme. This latter programme targets unemployed young people who have at least completed high school but do not have previous work experience, offering them a chance to gain at least six months of work experience by subsidising their wages through their employers. The programme is well suited to supporting improvements in the human capital and skills of the younger generation. This is particularly important since the working age population (aged 15-64) is, according to demographic projections, expected to shrink by some 8 % (400 000 people) during the next decade. In that respect, it is very important to support the timely entry of young people into the labour market.

In **Turkey**, the government has stressed the importance of education for the long-term success of the Turkish economy. Turkey spent TL 41.2 billion (EUR 20.6 billion) on education in 2010. According to the government, Turkey has improved on its curriculum, physical infrastructure, and ICT technologies (in primary schools).

A report was produced by the Istanbul Chamber of Independent Accountants and Financial Consultants on training programmes for the unemployed in Turkey. ISKUR provides the official training programmes and trained 32 000 people in 2008, and 182 000 in 2009. The expenditure on these training programmes was TL 500 million (EUR 250 million) – participants receive a stipend of TL 15 (EUR 7.5) per day. Other training courses are conducted by People's Education Centres, municipalities, and private institutions. The report claims that annual expenditure for these non-ISKUR activities is TL 3 billion (EUR 1.5 billion) and that, of the two million course recipients, only 22 000 found jobs. During the economic crisis, municipalities became qualified to conduct vocational training, funded from the unemployment insurance fund.

3 LABOUR MARKET POLICIES AND THE ECONOMIC CRISIS

This section presents developments in national labour market policies between April and June 2010 which have been identified as addressing the economic crisis. Many countries have sustained anti-crisis measures which were already in place (e.g. Belgium, the Czech



Republic) while some introduced new measures in this quarter (e.g. Luxembourg, Germany, Spain). There was a clear focus on reducing public debt with a number of countries taking steps to reduce their public deficits. Linked to this there have again been a number of (proposed) changes to pension and retirement schemes. Other measures taken include support for the self-employed and SMEs (Austria, Croatia, Turkey) and support for older workers (Luxembourg).

The crisis measures introduced on a temporary basis in **Belgium** as from July 2009 (temporary reduction of working time, crisis time credit, temporary unemployment for white-collar staff and payment of the crisis allowance for blue-collar workers) have been extended until 30 September 2010. These measures may be renewed again by a decree debated in the Council of Ministers, after consultation of the National Employment Council.

In the **Czech Republic**, two key anti-crisis programmes *Educate Yourself!* and *Education is a Chance* are ongoing. In April 2010, the Ministry of Labour released a further interim report on these two programmes. However, this report provides only statistics on participation, rather than impact evaluation. A more thorough evaluation of both projects is expected at the end of their term in the second half of 2010 or first half of 2011. As with other stimulus programmes intended to fight the immediate crisis, these have helped to maintain consumption, although at the cost of potentially delaying inevitable restructuring.

In May 2010, as a response to the rapid increase in long-term unemployment, a package of measures was put forward in **Denmark**, amounting to DKK 500 million (EUR 67 million) for the period 2010-2014. The measures will include:

- Screening of the ability of the unemployed to read and write, with those lacking basic qualifications being offered education by the jobcentre.
- The regional labour market authorities will receive ear-marked funding for combating long-term unemployment, thus increasing the role of the regional level in implementing employment policy.
- At present employers have the option to place employees on reduced hours, while they receive compensation equal to unemployment benefits during the period when they are out of work. This will normally be granted automatically for three months and can be prolonged for another three months with permission of the Regional Labour Market Council.
- Additional support to employers that employ previously long-term unemployed people, in the form of assistance to mentors for the unemployed and the allocation of more resources to the efforts of the jobcentres directed at employers.
- The Employment Regions will develop a catalogue of relevant offers of labour market training targeted at areas with good employment opportunities.
- The introduction by the Ministry of Employment of a universal tool for the assessment of the competences of the unemployed, which can be used by the job-centres, the unemployment insurance funds and external service providers.

In **Germany**, the Federal Government released its plans for budgetary consolidation on 8 June 2010. Public deficits will be reduced by EUR 81.8 billion between 2011 and 2014. The consolidation programme has a strong focus on social benefits and family transfers which will have to contribute 37 % of the overall savings. The major contribution will come from unemployment insurance and the programme also intends to improve work incentives, thus contributing to consolidation by the rise of social contribution payments and taxes. Minor contributions come from lower family transfers.



A cut of subsidies and additional financial levies in companies will make up 35 % of the budgetary consolidation sum in Germany, 37 % will result from reduced social benefits and family transfers and 28 % will be achieved by lower public investment and administrative costs. The programme is necessary for budgetary consolidation after the expansion of public spending for economic stimulus packages within the last two years. However the programme has been criticised for being socially unbalanced and also unsustainable. For example, the cut of tax contributions to pension insurance for UB-II⁵ recipients is expected to lead to rising poverty among pensioners. The reduction of active labour market policies may hamper integration, and the expected efficiency gains in public placement services remain highly uncertain. Moreover, the notion of creating financially independent unemployment insurance will require higher contribution rates, with corresponding negative employment effects.

In **Greece**, recent changes introduced in the labour market legislative framework in order to respond to the current crisis are expected to strengthen the competitiveness of the Greek economy. Provided that the measures are permanent and that adequate care is taken for the least protected, the proposed changes can lead to a better functioning and more equitable labour market. A pension reform is also being developed. Due to fast demographic ageing and long-term mismanagement of funds, Greece's fragmented social security system has evolved into a serious problem, threatening macro-economic stability. Expenditure on pensions is at much higher levels in relation to other EU countries and projected to rise to unsustainable levels in the near future. The proposed reform aims to strengthen the safety net role of the system, to curtail generous benefits and exploit efficiency gains through the merger of funds. However, given the scale of the projected fiscal imbalance it is almost inevitable that further reforms will be needed in the near future.

In **Spain**, some measures introduced in the Royal Decree 10/2010 are designed to counter the effects of the current crisis through a variety of measures. For instance:

- Subsidies to encourage conversion from fixed-term into permanent contract are only effective if this happens before the end of 2010 or 2011, depending on several criteria.
- To improve the youth labour situation, age limits in contracts for training are increased from the age of 21 to the age of 25 until the end of 2011.
- In the field of job search assistance, the government has approved an extension of the Shock Plan for the Improvement of the Spanish Public Employment Services until the end of 2012.

Despite the labour market measures taken recently, the number of unemployed people continues to grow while the active population is stagnating. This situation has a negative effect on public finances. Hence, recent measures which try to reduce public consumption spending, especially reducing public employment and public wages, may improve the macro-economic situation. In any case, the effectiveness in employment terms of the recent labour market reform will depend on its implementation and on how the reform will influence the confidence of economic actors.

In **France**, no specific measures have been adopted this quarter to counter the crisis. The main policy developments are more linked with structural reforms and with the launch of the 2010 social agenda related to the retirement reform. Within this framework of recovery measures, there is one which may help to counter the crisis: an Act was adopted on 18 May 2010, so as to ensure employees concerned by outplacement measures have equal

⁵ *Arbeitslosengeld II*: Means-tested basic income for job seekers, paid after expiration of regular unemployment benefit. The basic rate is 351 EURO per month. The regulation is included in Social Code Book II (SGB II). This is also known as basic income benefit.



conditions of remuneration in their new job. The Act introduces the obligation, in the case of outplacement, to propose to an employee a similar wage to the former wage that they received (and not just an 'equivalent job'). Another measure is foreseen to provide a framework for placement in subsidiaries abroad: enterprises will have to ask employees their conditions for accepting a job abroad (localisation, wage) and will have to have these agreed before making any such placements.

In May 2010, the Council of Ministers in **Italy** approved the Law 78/2010 containing the 2011-2012 budget revision, worth EUR 24.9 billion. The revision aims to cut the budget deficit to under 3 % of GDP by 2012 (from 5.3 % in 2009), thus reducing Italy's ratio of public debt to GDP. The measures focus on spending cuts, in particular: a three-year wage freeze for all state employees, including magistrates and law enforcement; cutting ministry budgets; reducing funding for regional and local governments; cracking down on fraud with regard to disability pensions. Increased revenues will be collected mainly through combating tax evasion, which is expected to generate revenues equal to EUR 8 billion. The Law 78/2010 also introduces changes in the old age pension and early retirement pension schemes by postponing the beginning of the pension for employees (12 months) and autonomous workers (18 months), starting from January 2011. Such pension re-scheduling will generate cost savings in social benefits amounting to a total of EUR 3.5 billion in three years. Many observers underline that the postponement will mainly have an impact on women, who largely benefit from old age pensions, and might also lead to an increase in applications for early retirement pensions.

Moreover, in June 2010, the Ministry of Economic Development approved the reform of the reindustrialisation policy for the areas and economic sectors affected by the crisis. The reform provides for a statistical monitoring system based on: i) the use of a method for identifying the areas hit by the crisis; ii) the definition of complex areas in crisis and the rules governing the reconversion and restructuring processes; iii) statistical analysis of the reindustrialisation interventions. A specific website was set up, containing six databases and providing information on the main companies in crisis. The reform is expected to improve the effectiveness and timeliness of conversion measures and consequently to limit the employment effects of industrial crises.

In **Cyprus**, it is feared that the measures to support economic activity mostly in tourism and construction, introduced since late 2009 in response to the economic crisis, will have limited impact, because they are temporary and because evidence from other countries suggests that government multipliers are very small, except for infrastructure projects. The focus of the public debate over the past few months has been on reducing the fiscal deficit, rather than also ensuring that wage developments would support and enhance competitiveness. PASYDI, the union of public sector workers, has agreed to hold claims for general wage increases beyond cost-of-living allowances and wage drift. However, important though this decision may be, it will still entail nominal wage increases of the order of 4 % to 5 %. An important condition for obtaining PASYDI's agreement was a commitment to reduce tax avoidance and to force the better-off segments of society to also help reduce the fiscal deficit that has emerged. In line with this, the government has introduced legislation to increase the corporate tax rate from 10 % to 11 % for two years. It has also introduced legislation to increase the current property tax rates. The Minister of Finance claims that these proposals will affect only 8 000 large real estate owners (by an average of EUR 1 250 annually), and will not affect 99 % of the population. The only political party that appears ready to support these two measures is the government party (AKEL), rendering parliamentary approval of the legislation doubtful.

In **Lithuania**, the crisis revealed the main bottleneck of the Lithuanian labour market, namely the poor ability of employees and employers to adapt to change. This was primarily



caused by the lack of trust between/among social partners, inflexible labour relations and insufficiently efficient active labour market policy measures. Policy measures implemented/prepared in the second quarter of 2010 were particularly designed to eliminate these shortcomings. Nevertheless, recovery of the Lithuanian labour market will be mainly determined by increasing demand for labour and the creation of new jobs. In this respect, the amendments to the Labour Code described above are likely to have a positive impact. The amendments to the Law on Support for Employment can also be expected to help reduce youth unemployment and should contribute to the activity of the labour force and improve entrepreneurship, as well as having an indirect positive effect on the mitigation of the impacts of the crisis.

In **Luxembourg**, the government approved in June a package of temporary and long-term measures to counter the repercussions of the crisis. If voted by the parliament, a series of long-term measures will be implemented: future retention plans will have to include a special section on older workers, whereas jobseekers in general will have to register themselves at an earlier stage with the National Employment Agency ADEM; maintaining in employment measures for ADEM-registered jobseekers will be considered in the future as 'temporary compensated occupation' (*occupation temporaire indemnisé, OIT*), with a doubling of benefits (EUR 150 to 300). Again, in the context of older workers, this measure is adapted to the extent that workers aged over 50 are guided by a special committee charged with determining if those jobseekers who are no longer eligible to receive unemployment benefits can instead benefit from a guaranteed minimum wage measure. This last measure specifically addresses those jobseekers who cannot be reintegrated into the market and are no longer eligible for benefits.

These policies to support older workers could have a spill-over effect in the sense that older workers are given more opportunities to be reintegrated into the job market, if the measures go hand-in-hand with active integration measures. In this context, sector-based active ageing initiatives (i.e. Springboard to a job, Fit4Job) have been helpful since their introduction, together with the more recent Jobforum initiative, or the experience-valorising project, '*Senior – eigentlech just en anert Wuert fir Experienz*' (Senior - just another word for experience). They help to achieve the 75 % employment rate objective set out in Employment Guideline 7 and constitute a continuation of the former Lisbon strategy objectives which had already been set out in the 2009 National Reform Programme.

In addition, the government in Luxembourg put forward a series of crisis-related and cost-cutting measures to reduce the budget deficit. On the employment policy front, the Council of Ministers approved a grand-ducal bill stipulating the amount of financial compensation destined to those jobseekers who participate in a training measure. It has also been envisaged that compensations only apply if the unemployed person is promised a job by an employer. These measures, together with a general increase of the solidarity tax and a decrease of 10% of subsidies for companies, are crisis-related and severely criticised by the social partners.

In **Malta**, the Vision 2015 programme, which identified seven sectors for development, is achieving an overall improvement in key sectors, despite the effects of the international crisis. In particular, progress has been achieved recently in the sectors of financial services, tourism and manufacturing. In 2009, the financial services sector grew by 22 %, with employment figures nearing 7 000 persons. Malta's sound financial regulatory framework and bank system provides a positive outlook in this field while more emphasis to step up the provision of adequate human resources is of paramount importance. Statistics also indicate positive trends in tourism. For instance, inbound tourists during the first four months of 2010 increased by 4 % over the same period in 2009, despite the ash cloud disruptions. The government is among others focusing on upgrading infrastructure in tourist



areas, such as promenades, etc. The introduction of more airline routes is also expected to maintain the positive momentum, in particular with the establishment of the new Ryanair base in Malta.

In the **Netherlands**, the afore-mentioned scheme for part-time unemployment benefits has been relatively successful in terms of the number of companies that have successfully applied to enter the scheme and the number of people in the arrangement. By 1 April 2010, 36 000 employees were in the scheme and a total of 62 000 employees had benefitted from the arrangement up until the end of February 2010. Currently, the outflow out from the scheme is larger than the inflow. The aim was to keep people in their companies, thus securing their jobs while offering companies the possibility to maintain valuable knowledge. The expectation is that these people would have otherwise been made redundant. The longer-term effect is, however, also relevant. By allowing companies to keep their employees, these companies will maintain important knowledge, eventually offering them a great advantage, also in the light of the expected labour market shortages due to the retirement of the baby-boom generation. Prolonging the scheme somewhat to allow new companies to benefit from it is useful, as some economic sectors will only now be confronted with the effects of the crisis. A possible downside of the scheme is that it predominantly supports people with an open-ended job contract and less the people with fixed term contracts or temporary agency workers. These are the people who faced the largest job losses, especially in the beginning of the financial crisis.

The Dutch proposal to stimulate job-to-job transitions might actually help to address the effects of the financial crisis within the regions. This is especially the case within the Dutch labour market context, where lay-offs in one sector co-exist with labour shortages in other sectors. A possible disadvantage is that the efforts of employers take place next to the already existing efforts of for instance Public Employment Services (UWV) that operate within regions. Creating a synergy between the different regional labour market actors might obtain better results. Already in many regions the UWV has started cooperating with labour market actors such as educational institutes, temporary agencies, and private reintegration organisations. In the future UWV hopes to strengthen such cooperation and create effective and efficient work networks (*'werk-netwerken'*). It could be useful to integrate plans for employers into these existing networks.

The temporary Act on Wage Dispensation in the Netherlands is displayed under the heading 'labour market and financial crisis' on the website of the Dutch Ministry of Social Affairs and Employment. However, the Act will probably not contribute much to fighting the consequences of the crisis, as the population which could benefit from this Act is quite small. Moreover, it remains to be seen if employers are willing to hire employees who are less productive in times of economic downturn.

In **Austria**, the afore-mentioned micro-credit programme may form an important substitute for bank loans, which the unemployed currently do not have access to. (During the crisis banks became very defensive in granting loans to persons or business partnerships. They demanded a high level of securities, which was nearly impossible for the unemployed to provide.) As only acceptable business plans are supported, the programme may contribute to job creation and prevention of unemployment. The programme may also turn out as a new model for creating self-employment. This programme helps a certain group of business founders to evade the bottlenecks on the money and credit market. On the other hand it might help to exhaust the potential of the unemployed who are interested in self-employment.

The Austrian Federal Government presented its new energy strategy in March 2010. The report states that around 80 000 workplaces could be maintained or created through energy policy measures (e.g. extension of public transport, restructuring of buildings). A



'Masterplan Green Jobs', under the guidance of the Federal Ministry of Agriculture, Forestry, Environment and Water Management, is currently under development and should formalise measures to achieve the employment goals mentioned. This currently observable increased awareness of green issues in the political discourse in Austria can for the most part be seen in the context of reaching synergies while tackling the crisis and achieving climate- and energy objectives.

In **Poland**, the floods suffered earlier in 2010 had a significant negative impact on economic activity. A draft law is currently under inter-departmental discussion on solutions to address the effects of the floods of May 2010. Among others, the proposed measures include the possibility for businesses which experienced a decrease in economic turnover caused by the floods, of at least 15 %, from the beginning of May until the end of July 2010, to make use of support measures designed in July 2009 to address the economic crisis. The draft law also foresees the financing of wages, bonuses and social security contributions for the employment of unemployed persons from areas which have been flooded. Moreover, it is proposed that absences from work related to the floods will be excused, and employees will be entitled to a proportion of the minimum wage for a period no longer than 10 working days. The Ministry of Labour and Social Policy has also increased the reserve of the Labour Fund earmarked for local governments that witnessed a deterioration in their labour market as a result of natural disasters. The funds will be used to finance programmes for the promotion of employment, and to co-finance vocational activation centres and local information and consultation points, until December 2010.

The above proposed measures are focused on the crisis situation caused by the floods but are likely to be temporary due to their high cost and the necessity of tight financial discipline in view of high public debt. In relation to the general economic crisis, a draft law proposing changes to the Act on lessening the results of economic crisis for employees and entrepreneurs is now in public consultation. The proposed measures (if unchanged during the legislative process) will significantly broaden the pool of possible beneficiaries of the Act, while at the same time making the Act more attractive to employers. This may lead to increased interest from companies in using this measure and consequently may increase its influence. On the other hand, the resources secured for the initial version of this Act may not suffice, if interest grows significantly.

In **Portugal**, government priorities have changed since the previous quarter. Concerns about the public deficit and debt have become the top priority of the government. In order to cut the budget deficit from 9.4 % of gross domestic product in 2009 to nearly 3 % in 2013, several measures were designed to reduce expenditure and increase revenues. These included changes to the conditions used by Social Security to grant social benefits, changes to the unemployment protection system, measures to increase fiscal revenue and to decrease public expenditure, and finally the termination of the short term labour market measures launched in 2009 and 2010.

These measures will probably have a negative impact on Portugal's ability to meet Europe 2020 targets, namely those related with the investment of 3 % of GDP in Research and Development and with the employment rate. This is also the case of the employment guidelines, since recent labour market measures/policies lead to less security for workers and the elimination of the short term measures is expected to accentuate some of the current problems (e.g. high long term unemployment) which can cause greater segmentation in the labour market. Furthermore, the measures are not expected to have a positive impact on mitigating the effects of the crisis on the labour market. Firstly, the increase in taxes can have a negative impact in economic activity and therefore in employment. Secondly, the suspension of new contracts in Public Administration will also accentuate this trend. Thirdly, the elimination of short term measures will suspend the extra



support given to firms in financial difficulty, the unemployed, and to those at risk of losing their jobs.

The three main measures proposed by the **Romanian** government will, in the short-term, help to restore the public budget and also help to stop the increase in sovereign debt. However, the adverse effect of these measures will be a renewed and more drastic fall in domestic demand which, coupled with the worsening of the country's terms of trade and export market, will leave the country in recession for the remainder of 2010.

In **Slovenia**, the economic downturn, which is still affecting Slovenian companies, has exposed the need for greater employment flexibility. High severance costs often present a threat even to those jobs which employers are eager to retain. Having approved amendments to the Employment Relations Act, the Government intends to reduce notice periods for workers with over 15 years of service from 75 to 60 days, and for workers with over 25 years of service from 150 to 90 days. If an employment contract is terminated by the employee, a one-month notice period applies, with the possibility of negotiating a longer notice period of up to 3 months. If the employment contract is terminated by the employer, the Act proposes that severance pay is reduced from current levels.

Moreover, in May 2010, the Employment Service of Slovenia issued another public tender to subsidise the employment of long-term unemployed persons, envisaged to create jobs for 150 long-term unemployed persons. The scheme will allow employers to receive EUR 4 500 per person employed for a fixed term and EUR 9 000 per person employed indefinitely.

In **Slovakia**, employment recovery measures have supported the creation and/or retention of almost 5 400 jobs in the first quarter of 2010, at an average cost of EUR 1 300 per job and/or person. The most attractive measure – support to retention of jobs threatened by the crisis (almost two thirds of total number of supported jobs) has been repeatedly questioned and it has been suggested that it has run the risk of subsidising jobs that would be kept even without support. Three out of the five measures have not been taken up by their target beneficiaries.

In its annual evaluation report on measures taken to mitigate the impact of the crisis in 2009, the resigning government stated that successful policies are to be continued and new recovery measures are not needed. It is yet not fully clear how the new cabinet in **Slovakia** will approach the recovery agenda, nevertheless few changes are expected despite the fact that the labour market is only slowly stabilising and pre-crisis performance is years away. Policies needed to restart employment will thus rather become part of the longer-term reform agenda.

The achievements of recovery measures show that a reassessment of other short-term measures would be advisable as well, in particular those which have obviously no effect on employment. However, since most of the measures are of a temporary nature (until the end of 2010) and allocated funds are flexible, it is likely that recovery measures will be completed in the current form.

The crisis has exacerbated the issue of long-term unemployment in Slovakia and highlighted the weaker position of young people. These are issues which will linger even when the crisis fades away, and where labour market policy in conjunction with other policies (mainly education and social policies) must intervene. An example of an efficient recovery policy is the temporary relaxed access of young job seekers to certain employment services (contribution to self-employment, work experience of school leavers, contribution for the creation of a new job). Young people do not need to wait until they have been on the unemployment register for three months to apply, which resulted in an increased participation in policies that have above average post-programme employment rates. As for the long-term unemployed, the introduction of the so-called intermediate labour



market – a concurrent drawing of unemployment support (and/or social assistance) and income from work for a specified period of time – could motivate long-term unemployed to activity. Although fiscal impacts must be examined, the measure is compatible with structural reforms.

Sweden already meets the EU headline target for employment, with an employment rate of 78.3 % in 2009 (20-64 years old). Nevertheless, all the countercyclical measures aimed at temporarily increasing aggregate demand by increasing public and private consumption may help to mitigate the impact of the global crisis on employment. In the long run, the work incentive measures, in work tax credit (making work pay), might contribute to increasing labour supply. Furthermore, the tax credit results in higher disposable income for households with low or average earnings. These households can be expected to have a higher propensity to consume which might contribute to a higher aggregate consumption and demand. The temporary increase of places at the various educational levels also seems a step in the right direction. The current reform of the Swedish high school system, implying a greater emphasis on vocational oriented curricula as well as the introduction of an apprenticeship system at the high school level, might be considered as a useful instrument to ease the transition from school to work. On the other hand there is still scope to further increase the number of participants in traditional labour market training programmes.

In the **UK**, the new government has made it a priority to bring down the budget deficit from its present level of around 10 % of GDP to 1 % in 2015-16. Some of the measures were already put in place by the previous government, but have been considerably added to and extended by the new administration. The main measures announced with their implications for employment are summarised as follows:

- A public sector pay freeze, except for low income earners;
- A VAT increase (from 17.5 to 20 % from January 2011);
- Extra help for small businesses;
- Job creation through national insurance exemptions;
- Bringing forward the scheduled increase in the state pension age to 66;
- Changes to welfare benefits (mentioned above).

In addition, as mentioned above, the budget has been cut for a key measure to tackle long-term unemployment - the Future Jobs Fund.

While most commentators agree that the budget deficit is unsustainable in the long term, there are conflicting views about the timing of any measures to tackle it. These concerns centre on the effect such measures may have on the rather weak recovery, with some suggesting that it could push the country back into recession. The actual measures announced in the budget were less severe than might be expected but increases in taxation are expected to account for just one fifth of the total needed - with the remainder coming from cuts in public spending.

The budget forecast that unemployment would rise to 8.1 % (from the present rate of 7.9 %) before falling back to 6.1 % in 2015. However, these seems to be an extremely optimistic perspective given that the scale of the public sector cuts means that there will be significant job losses directly and indirectly, that are unlikely to be offset by any growth in the private sector.

*Candidate countries*

In **Croatia**, between April 2009 and April 2010, around 1 000 craftsmen went bankrupt in Zagreb, which accounts for a tenth of the craftsmen in the city. The biggest problem for SMEs is general insolvency, i.e. the fact that they are unable to collect on their claims automatically means they have problems with repaying their loans and other liabilities. Because of this, the City of Zagreb and the Ministry of Economy, Labour and Entrepreneurship, in association with the local craftsmen association and several major banks, launched a project of SME lending at preferred terms, in order to help them to overcome such difficulties.

As mentioned earlier, the **Serbian** National Employment Service intensified the implementation of the 2010 National Action Plan for Employment during the spring period. Largely as a result of a more intensive implementation of the two relatively large programmes which make up this Plan (public works programmes and 'The First Chance' programme), a slight drop in registered unemployment by some 5 000 was recorded in May, despite the constant deterioration of the labour market situation revealed by the LFS and the establishment surveys on formal employment. In that respect, by shifting the unemployed into subsidised employment, the programmes have been effective enough, given the relatively limited funds spent.

In **Turkey**, an increase in the unemployment rate to 14 %, with 3.4 million persons unemployed, has prompted the government to stem the tide of dismissals. In a new step to stop further layoffs, the government is planning to extend the coverage of short-time work compensation. In 2009, 200 000 people benefited from this measure. The Ministry of Labour and Social Security has now extended the qualification clause from a 'general' crisis (force majeure) to 'sector-specific' (e.g. export market related) crisis and has made the measure a permanent fixture of the Turkish labour market. Furthermore, energy and raw material bottlenecks will also qualify firms for compensation.

In addition, the Prime Minister announced in April the first comprehensive action plan concerning artisans and tradesmen, of which there are an estimated 1.9 million in Turkey. The support measures include 50 % interest rate support for artisans and tradesmen to be provided by the publicly owned Halk Bank. They are also to be provided with training and to be encouraged to be innovative and to receive entrepreneurship support in order to introduce new and innovative product lines with the help of local university support.