

Executive Summary

The Employment and Social Developments in Europe (ESDE) review analytically underpins the policy actions of the European Union and its Member States in pursuit of the Europe 2020 employment and social goals. As in previous years, the opening section of the ESDE review provides an overview of the most recent developments, trends and challenges in the employment and social fields. This is followed by an in-depth look into several themes linked to the Commission's current employment and social policy agenda.

The ESDE review provides useful analytical insights that feed into the European Semester process, the Mobility Package, the EU Blue Card, the Skills Package and the development of the European Pillar of Social Rights initiative.

The ESDE is divided into three thematic parts focusing respectively on 'Promoting Job Creation', 'Improving Labour Markets' Efficiency', and 'Investing in People'. Each part is in turn divided into individual chapters. A summary of the key findings per chapter is provided below:

PART I: PROMOTING JOB CREATION

Chapter I.1: Boosting job creation through self-employment and entrepreneurship

Promoting self-employment and entrepreneurship has the potential to create jobs and give unemployed and disadvantaged people an opportunity to fully participate in society and the economy.

About 16% of all employed people in the EU are self-employed. More than two thirds are solo self-employed, though the share varies across Member States. Women account for only a third of those self-employed and have a much lower propensity to hire employees than men. Micro-enterprises account for around 30% of all EU employment, of which nearly a third is in the wholesale/retail and motor vehicle and motorcycle repair sectors. In several Member States, a significant share of those self-employed is employed in the agriculture, forestry and fishing sectors. The data suggests that some groups, such as young people, women, older people and ethnic minorities, may be facing stronger barriers to starting and expanding a business.

Micro-enterprises account for almost a third of total employment in the EU

Social and labour market policies combined with other relevant policies can support start-ups...

Comparable survey data point to significant bottlenecks in stimulating self-employment and entrepreneurship. In 2014, less than 50% of 18-64 year olds in the EU believed that they had the necessary skills and knowledge to start a business. Evidence gathered by the OECD and the Commission suggests that improved framework conditions (including access to financing, efficient public administration, taxation, and business development support services), stronger entrepreneurship education and well-targeted social and labour market policies could help overcome existing bottlenecks and address the challenges faced by people who have adverse starting conditions. Policies put forward include developing facilities for child and elderly care, providing financial support to those who are long-term unemployed and tackling gender and age discrimination.

... as well as business expansion in a sustainable and inclusive way

Empirical evidence indicates that most start-ups remain small with limited job growth. Research results emphasise that labour market and social policies can contribute to strengthening the capacity of one-person start-ups and micro and small enterprises to sustain job creation. Such policies include encouraging managerial skill formation especially among women and young people, supporting micro and small firms' innovation capacity, and reducing hiring and firing costs.

Chapter 1.2: Labour legislation in support of job creation

Labour legislation is seen as a key determinant of job creation together with other institutional, public administration and product market conditions. In the EU, it reflects more than two centuries of history, with country differences in rules and procedures resulting in different legal and institutional traditions (e.g. civil law vs. common law in national systems). Labour legislation was adopted at the EU level to ensure a level playing field in the EU single market by setting minimum requirements in a number of areas. The aim is to remove distortions and unfair or artificial advantages resulting from national laws and practices.

The variety of contracts has increased as a result of socio-economic and structural changes...

Structural changes such as technological progress and globalisation have an impact on the world of work and therefore labour legislation requirements. Technology can improve the protection of workers and allow for more flexible working arrangements, thereby encouraging labour market participation of women, older workers, those with family responsibilities, disabled workers and others whose labour market participation can be boosted by flexible working arrangements. However, it challenges the traditional concepts of work organisation, working time, employment relationship and place of work.

As a result, there is an increased diversity of employment contracts in the Member States. Atypical or non-standard work contracts go beyond regulating part-time, fixed-term or seasonal work, to cover a wide range of situations including on-demand, on-call, casual or intermittent or agency work, project contracts, job-sharing, lending and pool arrangements, and crowd-sourcing. Contracts can be classified along three dimensions: employment relationships; work patterns; and level of networking and cooperation.

Research suggests that some new contracts (employee sharing, job sharing and interim management) offer a potential win-win situation, while others (casual work or crowd employment) raise serious concerns as they bring about work uncertainty, spells of (uncovered) unemployment, fewer working hours, less social protection and lower autonomy in work decisions. This means that both flexibility and security need to be achieved. Work under the envisaged European Pillar of Social Rights initiative is ongoing. It aims to take into account the changing realities of Europe's societies and world of work when modernising and addressing the gaps in existing legislation and identifying benchmarks built on best practices with a view to promoting upwards convergence of employment and social performance.

...sometimes leading to segmentation of labour markets

The increased diversity of contractual conditions can result in labour market segmentation whereby groups of workers experience multiple disadvantages in terms of their working conditions, rewards (wages, training and career opportunities) and the risks they run, while facing barriers to mobility towards the better protected jobs. Segmented labour markets typically display a large use of (notably involuntary) temporary contracts, low transition rates from temporary to permanent regular contracts, or high shares of involuntary part-time contracts. Large differences exist across the EU: the share of workers with involuntary temporary contracts varies from 8.8% in Austria to 94.3% in Cyprus; the share of employees moving from temporary to permanent employment per year varies from about 10% in France to more than 60% in Estonia; the share of involuntary part-time

workers ranges from less than 12% in Slovenia, Belgium, Austria and the Netherlands to more than 60% in Bulgaria, Greece, Spain, Italy and Cyprus.

Employment Protection Legislation (EPL) as part of labour legislation varies across the EU for example in terms of worker protection in cases of unfair dismissal or in terms of severance payments. Since 2008, several Member States have carried out comprehensive reforms of their EPL for open-ended contracts and collective dismissals. The efficiency of civil courts is also highly heterogeneous across the EU: in 2013, civil or commercial lawsuits in first instance lasted between 53 days in Luxembourg and 750 days in Malta. Available analysis indicates that an inefficient civil justice system can be a significant factor compounding the effects of strict EPL on employment flows as excessive trial lengths increase uncertainty about the resolution of employment law cases. In addition, combined with strict EPL for regular contracts, the length of lawsuits can reduce job-finding and dismissal rates, thereby hampering labour market dynamics.

The effects of employment protection legislation are often compounded by the functioning of civil justice

PART II: IMPROVING LABOUR MARKETS' EFFICIENCY

Chapter II.1: Preventing and fighting long-term unemployment

Long-term unemployment (unemployed for at least a year) affects about 11 million people, two thirds of whom (around 7 million) have been unemployed for at least two consecutive years. Although unemployment has been declining since 2013, long-term unemployment has only recently stopped rising. Long unemployment spells result in lower job-finding rates, a trend which has worsened during the crisis. The long-term unemployed currently have about half the chance of finding employment compared to the short-term unemployed. Long-term unemployment predominantly affects the low-skilled, the young (20-29) and workers coming from non-EU countries. And while older workers are less likely to become unemployed than other workers, once long-term unemployed, they face greater difficulties in finding a new job.

Long-term unemployment is becoming one of the main challenges of the EU...

Based on Labour Force Survey data for 2014, on average, 30% of the long-term unemployed were 'not registered with the Public Employment Services (PES)'; less than 30% 'received unemployment benefits' (less than 40% for the short-term unemployed) and less than 10% 'took part in training in the last 4 weeks'. Low participation in lifelong learning and training especially affects the low-skilled whose chances of finding a job tend to be rather bleak because they lack the skills needed. There are also wide variations between Member States in terms of policy coverage of the long-term unemployed, which partly explains differences in the effectiveness of the policies.

...but policy intervention does not reach all

The analysis shows that, all other things being equal, the long-term unemployed who have participated in training or education and have previous work experience are far more likely to move to a sustainable job, especially among the low-skilled. Being registered with the PES, especially in combination with receiving unemployment benefits, also significantly increases the chances of finding sustainable employment but the relevance of receiving benefits has declined in recent years and varies greatly across Member States.

Training significantly increases the chances of moving to a sustainable job...

Public Employment Service interventions, training and income support tend to have a greater impact on job-finding rates when they are combined and complementary. Their impact also depends on the quality of their delivery and design and varies a lot across population groups. This might suggest the need for more individualisation and targeting of policy measures.

...especially when combined with complementary policy measures

Chapter II.2: Mobility and migration in the EU: opportunities and challenges

Mobility has been increasing across the EU over the past two decades, particularly after the EU's enlargement to the east. Yet, EU mobility is low compared to mobility in the US. Four percent of the EU's population aged between 15 and 64 years are living in an EU Member State other than their Member State of birth (mobile EU people). This compares to the situation in the US where, in the absence of a language barrier, nearly 30% of the working-age population live in a different state than that of their birth. In 2014, there were fewer than 15 million mobile people in the EU, up from slightly less than 12 million in 2006. This is roughly half the number of third-country (non-EU) migrants: there were 28 million third-country migrants aged between 15 and 64 years living in the EU. While most mobile EU people move primarily for

Internal mobility and third-country migration can increase the EU's growth potential

work-related reasons, migrants from third countries come to the EU for work, to join family members, for education or training, or to seek international protection.

In addition to global competitive challenges, future EU growth will be under greater pressure due to the steady decline of the working-age population in most EU Member States, which may combine or exacerbate skills mismatch in regional labour markets, often resulting in brain drain. In order to enhance its growth potential, the EU will need to achieve higher employment rates (including through intra-EU mobility), boost productivity growth, and be an attractive destination for the talent and entrepreneurship of students, researchers and workers (outside the EU). Assume the EU will achieve its 75% employment rate target by 2020. After 2020, if the EU is to keep its economic dependency ratio (number of non-employed people per one employed) constant, it will need an additional 30 million people in work in 2060, through increasing the employment rate and additional migration.

Labour market performance of mobile EU citizens is higher than that of the native population

Analysis shows that mobile EU workers tend to be young and well-educated and are attracted by well-performing labour markets where unemployment is low. They tend to have higher chances of finding a job and overall better employment prospects than the native population. For example, mobile EU people of working age who come from EU-10 Member States which joined the EU in 2004 and live in the host country for up to 10 years have an almost 50% greater chance of being in employment than the native population. Once unemployed or inactive, their chance of finding a job is almost 80% higher than that of natives. Intra-EU mobility can therefore have an overall positive impact on employment and improve labour market dynamics and labour allocation.

Evidence suggests that the EU fails to reap the full benefits of mobility. First, intra-EU mobility remains a modest phenomenon. Second, a 'migrant allocation index' reveals that mobile EU people⁽¹⁾ (as well as third-country migrants) tend to be under-represented in the host countries' fastest-growing sectors. And finally, mobile EU people tend to work below their formal qualification levels.

Despite recent progress, third-country migrants still lack qualifications

Migrants from third countries stand a comparatively lower chance of being employed than natives and EU-10 people. Qualifications may play a role, since a large portion of third-country migrants have low levels of education. Moreover, in many Member States a large share of third-country migrants did not come to fill their host countries' needs for skilled labour, but rather for family reasons, or, in some Member States, for international protection. Analysis also shows that the share of mobile EU people and third-country migrants with at least upper secondary education who work in low-skilled occupations (referred to as 'over-qualification' or 'brain waste') is significantly higher than that of the native population. Both mobile EU people and third-country migrants are at greater risk of working under temporary employment contracts compared to the native population. Evidence also points to a substantial wage penalty of foreign-born people working in EU Member States. Growth prospects could be enhanced by enabling mobile people to better capitalise on their formal qualifications and by promoting skills-oriented third-country migration.

Foreign-born people overall do not pose a burden on welfare systems, but pressures on services provision can occur at local level

The analysis suggests that foreign-born people overall do not pose a burden on the welfare systems of the host countries. In general, all groups of foreign-born people are less likely to receive benefits than native-born people when controlling for their labour market status. Potential and significant pressures on the provision of services can occur at local level. This may be especially the case if local funding mechanisms and public services provision are not adjusted accordingly to serve a larger population.

Chapter II.3: Social dialogue

Social dialogue balances workers' and employers' interests and thereby contributes to both economic competitiveness and social cohesion. The EU is characterised by a wide variety of national systems of industrial relations. This diversity is recognised in the Treaty on the Functioning of the European Union. Successive rounds of enlargement of the EU have increased this diversity.

(1) The analysis on mobility and migration in this Review is based on the country of birth and the country of residence. Unless stated differently, the term 'EU mobile people' refers to people born in the EU who live in an EU Member State other than their country of birth, whereas 'third-country migrants' are people born outside the EU who are residents in an EU Member State. It should be noted that some 'EU mobile people' may not be EU citizens, and that people born as EU citizens outside the EU are included in the 'third-country migrants'.

Most Member States have at least one formal structure through which social partners are involved in policy-making. These vary considerably in number, objective, scope and composition. In addition, there may be informal or temporary structures which may have more or less influence.

Regardless of modalities specific to each Member State, social dialogue relies on social partners' capacity to organise workers and employers, to speak on their behalf and to find common ground. While this capacity differs widely across countries, several common trends challenge the existing collective bargaining systems in most Member States. Economic specialisation and new forms of employment complicate the organisation and representation of workers and employers.

Social dialogue has been faced with challenges in recent years

Trade union density – measured by the share of all employees that are trade union members – has been on the decline since the 1980s in the majority of Member States. Today, approximately one out of four employees is a trade union member. This has been driven to a certain extent by an increasing number of new employees who choose not to join a trade union. This trend appears to have slowed during the recent crisis, mainly due to a strong fall in employment. The trade union density is substantially lower among younger workers, workers on fixed-term contracts, in smaller establishments and in the private sector. Also, smaller companies are less likely to join employers' organisations than larger ones.

International competition pushes for a close link between costs and productivity, with a larger role for bargaining at company level. Some national systems have adapted gradually to these shifts, as workers and employers' representatives jointly organised the decentralisation of bargaining. In other Member States, the recent crisis has triggered sudden and deep reforms.

Interactions between public authorities and social partners on policy development and implementation take different forms. They include exchanges of information, consultation, and negotiations leading to agreements. Through these, social partners have been involved in the design and implementation of several major reforms and policies in recent years. This includes reforms in the framework of the European Semester in such areas as pensions, unemployment insurance, EPL and collective bargaining. These reforms at times entail a delicate balance between building broad consensus and addressing pressing challenges. This highlights the relevance of social dialogue in terms of promoting a sustainable and inclusive recovery. For social dialogue to play this role, efforts to build and develop social partners' capacity might be needed, particularly in those Member States where social dialogue is weak or has weakened due to the economic crisis.

Social dialogue will be crucial in promoting a sustainable and inclusive recovery

PART III: REMOVING OBSTACLES TO JOB CREATION

Chapter III.1: Supporting skills development and matching in the EU

A skilled workforce is crucial to a resilient and competitive economy and to the smooth functioning of the labour market, especially in the context of population ageing, technological change and globalisation which create new opportunities but demand ever changing skills and competences.

As many as four out of ten EU employers surveyed in 2013 reported difficulties in finding staff with the right skills. Further analysis indicates that less than half of the recruitment difficulties constitute genuine skill shortages, while almost a third can be attributed to unattractive pay. Atypical working hours and lack of training opportunities on the job, together with unattractive pay, reduce the ability of employers to attract workers. In addition, research shows that the companies which are unable to find workers with the required skills are often those unwilling to offer long-term contracts.

Factors behind perceived skill shortages

Employers can therefore play a role in reducing skill shortages, including through upgrading the skills of their staff. Lastly, employers who focus their hiring practices on candidates' 'potential' rather than solely on experience are more attractive to job applicants.

Monitoring and forecasting of employment by sector is key for appropriate skill provision

Evidence suggests that lack of skills has affected the new occupations of the green and digital economy. Apart from the high-end occupations in the new technologies, the demand has been strong in many traditional sectors of the economy such as health, engineering and teaching. Projected employment change in the EU between 2013 and 2025 suggests that 24% of all job opportunities (both newly created jobs and replacement needs) will be in the 'professionals' group, followed by 'shops and market sales workers' (16%), while 'plant and machine operators' will have the lowest share (4%). All occupational categories are likely to experience demand growth due to high replacement needs linked to demographic trends; however, relatively few new jobs will be created in medium-skilled occupations.

Training opportunities depend on the size of the company

Adult learning and professional training plays an important role in ensuring that skills are updated in view of structural drivers of change. An average of 10.7% of adults aged 25-64 in the EU stated that they attended some education or training at least once in 2014. However, training opportunities provided by employers depend on the size of the company: large companies (250+ employees) provide training opportunities on average for half of their employees; medium-sized companies (50-250 employees) for a third; and small companies (10-50 employees) for only a quarter.

Chapter III.2: The efficiency and effectiveness of social protection systems over the life course

A shift in social protection expenditure from unemployment and family to pension and health

In the initial years of the crisis, social protection expenditure increased significantly. As expected, expenditure on unemployment, family, social exclusion and housing benefits increased sharply especially in 2009. However, health and pension expenditure also increased more than usual in real terms, which is not necessarily the most efficient stabilisation mechanism. Further, in 2012 expenditure did not respond to the second economic dip, which translated into a weakening of the stabilisation function of social protection systems. These developments have raised research and policy interest in social protection systems' efficiency and effectiveness. Since the early 2000s, the structure of social protection expenditure in the EU has witnessed a gradual shift from unemployment and family benefits to pension and health benefits. This raises the question of whether spending on these latter benefits could be made better tailored to the economic cycle or whether there are other possibilities for channelling available resources to the social protection areas which are comparatively underfunded, notably those that support social investment and ensure adequate income while facilitating participation in the labour market.

Comprehensive family policies can improve employment and reduce child poverty

In the EU, only 61.7% of mothers (aged 25-49) with children below 6 years are employed, compared to 76.9% of those without children. But there are large cross-country variations. One of the key issues in increasing labour force participation of women is therefore the compatibility of child-rearing and employment. The analysis finds that family policies, especially high-quality childcare services accessible to all children, and availability of part-time work, are positively associated with employment of women with children. Other policies that can help reconciling family and work life include access to parental leave, which can help increase the labour market participation of women.

In the EU, 64.3% of children under the age of 18 who live in jobless households live below the poverty threshold. Both the mother's working status and the number of additional workers in the household are the main determinants of child poverty. The mother's educational level, access to family benefits in low-income households and childcare are also key determinants of child poverty. This suggests that policies which support family incomes through cash benefits combined with measures to facilitate mothers' employment help reduce child poverty.

The improvement of older workers' employment in recent years is the result of higher educational attainment, pension reforms, flexible working arrangements, and access to training and to care services

The analysis shows that the improvement in the employment rate of older workers in the past decade is linked to a number of factors. The workforce has gradually become better educated, and pension reforms implemented in recent decades have encouraged longer working lives for both men and women. In spite of this improvement, there remain very sharp differences in labour market attachment at an older age, with for instance significant differences in retention and rehiring rates. The analysis shows that other dimensions also play a role in ensuring longer working lives, including flexible working time and work organisation, access to training by older workers, long-term care, and childcare provision.