

LABOUR MARKET AND SOCIAL COHESION WITHIN THE EUROPEAN UNION¹

Josef Abrhám – Zuzana Horváthová*

RESUME

The issue of labour and social sustainability of the existing models is therefore gaining the interest among the representatives of the EU Member States as well as the Community institutions, which can be demonstrated by the objectives stated in the majority of the major strategic documents of the EU regarding the economic and social sphere. The reformed Lisbon Strategy in 2005 places the employment and job creation, in addition to economic growth, between the two main priorities for the period up to 2010. A new, 2020 strategy for Europe, which provides guidelines for the development of the EU's competitiveness in the next decade, includes the growth promoting integration (support for high employment and social cohesion) among three main priorities, too. The aim of this paper is to analyze the evolution of the labour market and social cohesion in the European Union in the context of ongoing globalization process and the impact of the global financial crisis.

Keywords: European Union, labour market, social cohesion

Introduction

Sophisticated and relatively generous systems of social policy, constituting a fundamental pillar of the economies of the European Union, are now sharply confronted with both the challenges of globalization and changing conditions of the internal environment. The issue of labour and social sustainability of the existing models is therefore gaining the interest among the representatives of the EU Member States as well as the Community institutions, which can be demonstrated on the objectives stated in the majority of the major strategic documents of the EU regarding the economic and social sphere. The reformed Lisbon Strategy in 2005 places the employment and job creation, in addition to

* Ing. Josef Abrhám, Ph.D. is a Lecturer at the Faculty of International Relations, The University of Economics in Prague, Czech Republic, e-mail: abraham@vse.cz.

PaedDr. Zuzana Horváthová, Ph.D. is a Lecturer at the Metropolitan University in Prague, Czech Republic, e-mail: horvathova@mup.cz.

¹ This paper was elaborated within the framework of Research Plan No. MSM6138439909 *Governance in Context of Globalised Economy and Society*.

economic growth, between the two main priorities for the period up to 2010. A new, 2020 strategy for Europe, which provides guidelines for the development of the EU's competitiveness in the next decade, includes the growth promoting integration (support for high employment and social cohesion) among three main priorities, too.

Employment and labour productivity have become a magic formula of success of the European economy at the beginning of the 21st century. These are the basic determinants of economic growth and the level of gross domestic product per capita. Both factors significantly affect the position of the European economy in the world economy, too. Only a sufficient level of employment can help to address the challenges that the countries of the European Union are facing (aging population of the EU, sustainability of public finances, adaptation of social systems, etc.). A high employment rate also guarantees solid social cohesion, which would be expected from European countries.

The aim of this paper is to analyze the evolution of the labour market and social cohesion in the European Union in the context of ongoing globalization process and the impact of the global financial crisis. The text is divided into three parts, the first focusing on the current trends in employment and unemployment, the second devoted to the demographic situation and prospects, the third dealing with a social model of the EU.

1 Employment and unemployment

At the European Union level, employment belongs among the main priorities concerning sustainability, growth and competitiveness of member countries. In the original Lisbon Strategy in 2000 there were in the area of employment set two main objectives (the European Council, 2000):

- to move the employment rate to 70% by 2010,
- to increase women's employment rate to 60% by 2010.

At the European Council in Stockholm another goal was added:

- to raise the employment rate of older people (55-64 years) to 50% by 2010.

The new "Europe 2020" strategy reforms the goals that should be achieved in the area of labour market and social policy up to 2020 as follows (the European Council, 2010):

- to increase employment for people aged 20-64 years from the current 69% to at least than 75,
- to reduce by 25% the number of Europeans who live below the national poverty level, which could lead 20 million people out of poverty.

However, the real situation in the field of employment lags significantly behind the objectives. In the period 2000-2007 significant progress was made in the area. The overall employment rate has risen from 62 to 65%. Even greater progress can be seen in case of the female employment rate (increased by 4 percentage points to 58%) as well as the employment rate of older people, which even rose from 37 to 44%. Despite the improved performance, the fulfilment of the so-called Lisbon targets cannot be realistically expected by 2010. Only the target value of 60% female employment rate may be attacked. The employment rate in 2006 was 64.5% in the EU, 72% in the U.S. and 70% in Japan. However, the global financial crisis brought a significant turnover. The employment rate in the EU_27 declined in 2009 to 64% and even this year one cannot expect any significant improvement. Even more significant effects can be observed in case of unemployment, which increased between 2007 and 2010 from 7 to 10%.

There are still relatively large differences in employment rates between the Member States. In 2009, the span among the countries with the highest and lowest of total employment made 54% (Malta) to 77% (Netherlands). The 70% criterion was significantly exceeded in Denmark. Sweden, Austria, United Kingdom, Cyprus and Germany ranged around this frontier. On the other hand, Estonia, Romania, Italy, Hungary, Poland and Malta did not even reach 60% employment rate. More reserves for achieving the Lisbon and Stockholm targets can be reported in the New Member States than the Original EU_15 States. Labour markets in the New Member States in the transition period were punctuated by significant structural shifts in the economy and reflected themselves primarily in less developed regions.

In terms of unemployment, one can also trace significant difference within the Member States of the EU. Among the countries with low unemployment were, in 2010 (in June), the following: Austria (4 %), Netherlands (4 %) and Luxembourg (5 %). By contrast, the highest unemployment showed Spain (20 %), Latvia (20 %), Estonia (18 %), Lithuania (18 %) Slovakia (15 %).

2 Demographic trends and perspectives

It is already quite a well-known fact that changes in social conditions and individual values produce significant demographic problems, the scope and seriousness of which have no analogy in the modern history of Europe.

According to current estimates, should the population of the European Union slightly grow due to immigration until 2025 and then it is expected to decline, which could make 10% in some countries by 2050. The population the EU_25 should be reduced from 456.8 million in 2005 to 449.8 million in 2050. The share of the Union on the worldwide population during the same period is likely to be reduced from 12 to 6%, which will reduce the weight of Europe in the global economy. Of the five largest EU countries only the population of Great Britain and France should grow between 2005 and 2050 (the European Commission, 2005a: 2).

The aging population in coming decades may significantly jeopardize economic growth and competitiveness of the European Union and the sustainability of current social, pension and health systems. The main trends of population changes in the European Union are:

- persistently low birth rate, which is far below the rate necessary to restore the population,
- increasing life expectancy, which is due to significant progress in the health and quality of life,
- changes in the structure of the population - a growing proportion of
- older people who are economically dependent on the shrinking population of working age.

Birth rate, apart from the migration, belongs among the main characteristics affecting the population increases. To monitor the birth rate (fertility) indicator of total fertility rate is used, which reflects the average number of children per woman over a lifetime. A key threshold that ensures natural reproduction of the population is on average 2,1 child per woman. (the European Commission 2005: 1-13).

Demographers also prognosticate that the population with a stable level of fertility at 1.3 children per woman will fall to 25% of its original size in a hundred years. Fertility rate at 1.9 will cause a decrease in population at around 80% of baseline in a hundred years. Of course, if we do not take into account the impact of immigration (the European Commission, 2007a: 31-33).

Table 2 shows that a common feature of the European Union has represented a significant decline in fertility in the last thirty years. In the light of demographic estimates we can assess the current level of fertility in all countries of the EU_27 as low or very low.

To a group of countries with low fertility (rate of fertility in the range of 1.6 – 2.0) we may include France, Ireland, Scandinavian countries, the Benelux countries and the United Kingdom. Very low birth rates (ranging from 1.2 to 1.5) are at all other countries (new member states of Central and Eastern Europe, countries of Southern Europe, Germany and Austria). Declining birth rates in the new EU member countries came later (about 20 years compared to Northern and Western Europe and 10 years later than in Southern European countries), but it was a lot stronger. The situation is not surprising. The change of the economic, social and political conditions in the 90's of the last century played an important role here. The rate of social security expenditure on family policy at the beginning of the transition period significantly decreased. Moreover, increasing opportunities for work, social and individual sports contributed to this change as well. The development in Southern European countries, however, can be marked as a particular surprise, especially if we take into account the differences in the understanding the meaning of family in the Northern and Southern Europe. The north, once predominantly Protestant, is now largely secular and individualistic, while the south remains under significant influence of Catholicism. Yet it is precisely in the southern European countries, where women protest against their traditional role of mother and decide whether to opt for work or family life (Liddle and Lerais 2006, 14-18). The constantly improving system of follow-up and preventive health care and the trend for healthy lifestyle lead to the reduction of mortality and extending the age of the population. It is estimated that the average and median age will increase in the European Union between 2005 and 2050 by almost ten years.

Life expectancy in the EU_25 increased between 1960 and 2000 by 8 years to 76 years for men and 82 years for women. This increase should continue in other decades. For the year 2050 life expectancy in the EU_25 is estimated to 82 years in case of men and even at 87 years in case of women. Longer life expectancy is recorded for both men and women from the original EU_15 countries compared with the new ones (with the exception of Cyprus and Malta). In the future differences between the sexes in the member countries should reduce slightly.

Concurrence of increased life expectancy and low birth rate causes changes in the age structure of population. The reduction in the birth rate came after the years of strong population from the 50s, 60s and 70s of the last century, which is the cause of the current high population aged between 45 to 65 years. This large age group will gradually move into retirement age.

Based on the European Statistical Office, data increase the negative relationship between productivity and generation of seniors. According to population projections published in the materials of the European Commission there will be in 2050 an increase in the number of elderly people aged 65 years by almost 60 million and their share on the total population grow to about 30%. The proportion of people aged over 80 years is even going to triple compared to the present value, while the working-age population around 15-64 reaches a peak around 2010 and then will gradually decrease. Its share declines from the current 67% to 57% in 2050 (the European Commission, 2007a).

Seriousness of the ongoing changes in population structure arises from the potential implications for economic and social systems. While maintaining the existing mechanisms of social protection in the Member States, for the European Union (the EU_25) the average increase is estimated by the share of spending on old-age pensions of GDP from the current 10.6% to 12.8% of GDP in 2050; the share of health expenditure to GDP from the current 6.4% to 7.9% of GDP in 2050; the share of spending on long-term care for the elderly from the current 0.9% to 1.7% in 2050 (Carone and Céline 2006, 54 -144).

3 Globalization and European social policy

The processes of globalization, which currently transform the international economic relations as well as the position of nation states, have significant impacts on the labour markets and social models in the European Union countries. Production is less and less reallocated in the countries of its consumption. The interrelation of the global economy makes it possible to move production or its parts to countries with cheaper inputs. Previously, the usual migration work is now being replaced by capital movements.

Multinational companies obviously benefit from the new world economy order, but in case of advanced and cost-intensive economies considerable problems emerge. Pressure on increasing productivity and reducing labour costs is being created, which also means reduction in social standards.

Among the most affected economies belong the majority of the Old Members of the European Union, where the costs of labour and social standards outweigh those in the other regions of the world economy. The labour costs are in the Western and Northern Europe higher compared not only to less developed Asian, Latin American and Eastern European economies, but also in comparison with Japan, the United States or Canada. The length of working hours belonged in that year in Western Europe to the shortest among the OECD countries (measured by the number of working hours per year). The differences in the length of working hours are the result of long-term processes. The OECD statistics show that in the last twenty years the average annual working time decreased in all the countries of Western Europe much faster than in most other developed market economies.

European politicians are forced to look for tools to help the countries of Western Europe remain competitive in the global economy. The EU economies are forced to reduce corporate taxes as well as labour costs (including incidental non-wage costs) to maintain the attractiveness for investors. At the same time, it is necessary to generate sufficient revenues to finance government budgets. Reduction of existing social standards in the countries of the European Union might be seen as a suitable solution to the problems. However, strong traditions and preferences of people speak against the establishment of minimum welfare state. In the future, therefore, we can expect more streamlined and targeted social aid, tightening the criteria for participation in the social protection system or application and instruments that contribute to greater labour market flexibility and strengthen employment rates.

Flexicurity: a possible option in the field of social policy

Labour market reforms and social policies represent a relatively complex problem which involves not only economic but also social and societal aspects. The implementation of reforms in the social field encounters strong political opposition in most countries. Many governments, therefore, systematically expel the unpopular reforms, or turn only to partial reforms which do not bring necessary results. Moreover, it is necessary to look for such approaches, which will also respect the traditions and practices, while maintaining competitiveness in the global environment.

The concept of flexicurity is the attempt to reconcile the contradictory requirements of traditional workers and employers. European entrepreneurs prefer a flexible labour market with liberal rules that encourage entrepreneurial activity and economic development. At the same time, however, there are reflected the requirements of workers and trade unions to maintain a certain level of social standards and guarantees, which are typical for Europe and especially for some countries (e.g. France, Germany, Belgium, Sweden, etc.).

The principle of flexicurity, which was created by combining the English words "flexibility" and "security", is based on a combination of tools that support the flexibility of the labour market with a high degree of social protection (flexibility and security). Flexibility can be understood as the possibility of transition from one job to another, making adjustments to working hours, wage costs, the possibility of changes in work organization within the enterprise and so on. Security is associated primarily with the maintenance at the labour market and with a guarantee of satisfactory amount of revenue when losing the employment. These seemingly contradictory concepts are not excluded; on the contrary, their merger can provide both employers and employees with necessary flexibility and necessary security (the European Commission, 2007b: 2). Trying to make flexible arrangement relationships is based on the experience that laws to protect the jobs may make the release of existing staff difficult, but simultaneously they prevent other people from the entry into the labour market. Thus when hiring new employees companies calculate on the increased costs of their possible release. For this reason, there is promotion of efforts for modern forms of organization of labour relations, such as parttime work, time-limited employment contracts, greater opportunity to work overtime, the agreement to facilitate the termination of labour relations and greater flexibility in the formation of wages, etc.).

The requirement for sophisticated system of lifelong learning is based on the assumptions that increased investment in employee training brings the companies more opportunities to respond to changes in economic and technological environment. For employees the increase in their qualifications means more chances to remain in the labour market, respectively to find quickly new alternative employment, which has a positive effect on the level of long-term unemployment.

Effective measures of active employment policy and modern social protection systems play an important role in changing job and a significantly

influence the time required to find a new job as well as the overall labour market flexibility. Unemployment benefit should be set at a level enabling to cushion the impacts associated with the shift of workers between jobs, but at the same time not reducing the incentive to re-integrate into the labour market (the European Commission 2006).

Modern social model based on the principle of flexicurity, unlike the traditional European social model from the 60s-80s of the last century, does not insist on protection of existing jobs, but the maintenance a high level of employment throughout the economy. Structural changes within existing firms are replaced by promoting job creation in new industries and enterprises. More emphasis is put on active incentives for employment and flexible labour market. The system also allows for comprehensive reforms in the social and pension system in line with the prospects for the development of the demographic structure of the European Union (rising the retirement age, boosting employment of older people, the reform of pay pension systems).

Some risks are also associated with the inappropriate application of flexicurity, which is designed as a comprehensive package of measures. As an example of the failure of the establishment we may present for the situation in Spain of the 1980s, where the principle was implemented only partially. Spanish lawmakers may have made time-limited employment contracts more flexible, but at the same time maintained the rigidity of unlimited time employment. Thus several temporary jobs were created, but total employment decreased due to lower workers' mobility and limited transitions from temporary to permanent relationships. Also investments in human capital were reduced, since it does not pay off to invest into workers hired on fixed-term contracts. This reflected in the quality and level of labour productivity and employment in general.

Conclusion

Perhaps in no other area of the economy, there is such a big difference between the European Union and other developed centres of the world economy (the U.S. and Japan) as in labour market. Despite the ambitious targets set in the Lisbon process, the state of play in the labour market in the European Union shows lower than the planned figures. The improving trends of the last two years were abated because of the global financial crisis. The employment rate in the EU_27 declined in 2009 to 64% and even this year one cannot expect any significant improvement. The average unemployment rate of the European

Union has reached, after some successful years, double-digit numbers when getting over 10%.

Nevertheless, poor performance on the labour market can be seen as a universal problem for all countries of the European Union. In 2009, the span among the countries with the highest and lowest of total employment made 54% (Malta) to 77% (Netherlands). Among the countries with low unemployment were, in 2010 (in June), the following: Austria, Netherlands and Luxembourg. By contrast, the highest unemployment showed Spain, Latvia, Estonia, Lithuania and Slovakia.

Changes in social conditions and individual values cause significant demographic challenges, the scope and severity of which are unprecedented in the modern history of Europe. Population changes in the European Union are drawn by consistently low birth rates, increasing life expectancy and changes in the structure of the population. Besides demographic pressures and strains on public finances they represent a challenge for both the social models in the countries of the European Union as well as the ongoing process of globalization. Interconnectivity of the world economy makes it possible to move the whole production or its part to countries with cheaper inputs. This creates a pressure to increase productivity and reduce labour costs, which, among others means the reduction of social standards. Among such affected economies belong mostly old EU Member States as the cost of labour and social standards exceed those in other regions in the world economy.

Regarding the reduction of existing social standards in countries of the European Union, it might seem appropriate to address these problems. Reforms of the labour market reforms and social policies represent a relatively complex problem, involving not only the economic but also social and societal aspects. The implementation of reforms in social area encounters a strong political opposition in most countries. Many governments therefore systematically postpone unpopular reforms or take only partial reforms, which do not produce the necessary results. Thus it is necessary to find approaches that will respect the European traditions and practices while maintaining competitiveness in the global environment.

In response to external and internal challenges, it is needed in order to ensure a sustainable economic growth of the European economies, to enhance the current productivity growth of the EU, while finding ways of how to at least halt the decline offer of jobs on which one can count on. The sustainability of

adequate social models will mainly depend on high levels of employment. The main aim of employment policies should be creating more new and better (in terms of quality) jobs.

The recent development in the EU countries shows that an important factor that unites the countries with lower unemployment and higher employment is not a type of social system, but rather a combination of the given model with an effective activation strategy (more successful in this respect in the last decade were the Scandinavian countries applying a liberal model compared to countries where the social policy was based on the continental and South-European systems). In particular measures to increase labour market flexibility, the quality of human capital, active inclusion of vulnerable groups, etc have proved to be successful.

References:

- CARONE, G., CÉCILE, D. 2006. *Long-term labour productivity and GDP projections for the EU25 Member States: a production function framework*. Economic Papers. European Commission. Brussels.
- ČAJKA, P. 2006. Knowledge-oriented society – new system of creation of wealth and prosperity. In: *EU as a Global Player. Centre of European Studies*. Nakladatelství VŠE.
- EUROPEAN COMMISSION 2007a. *Europe`s Demographic Future: Fact and Figures on Challenges and opportunities*. Luxembourg: Office for Official Publications of the European Communities.
- EUROPEAN COMMISSION. 2007b. *The general principles of flexicurity*. Brussels.
- EUROPEAN COMMISSION. 2006. *Flexicurity combining flexibility and security*. In.: Social Agenda 3/2006. Brusel.
- EUROPEAN COMMISSION. 2005. *New solidarity between the generations in response to demographic changes*. The Green Paper. Brussels.
- EVROPSKÁ RADA. 2010. *EVROPA 2020: Strategie pro inteligentní a udržitelný růst podporující začlenění*. Sdělení EK. Brusel.
- KLAMÁR, R. 2006. Plánovanie rozvoja regiónov na lokálnej úrovni v nových podmienkach demokracie (na príklade vidieckého regiónu). In IŠTOK, R. (ed.): *Transformácia politicko-priestorových systémov a systémov domokracie*. Prešov: Prešovská univerzita v Prešove, Fakulta humanitných a porodných vied.

LIDDLE, R., LERAIS, F. 2006. *Sociální realita Evropy*. Úřad poradců pro evropskou politiku. Brusel.

RÝSOVÁ, L., JAKAB, K., DOBRÍK, M. 2007. Budovanie spoločnosti orientovanej na vedomosti a jej vplyv na tvorbu modelu regionálneho rozvoja. In: *Ekonomická teória a prax - dnes a zajtra II*. Banská Bystrica: Ekonomická fakulta Univerzity Mateja Bela v Banskej Bystrici.