



Wednesday, 14 October 2009

## **PES Discussion Paper – Entry Strategy into the labour market**

The crisis in the EU is far from being overcome. While there are increasingly positive signs of economic recovery, the unemployment crisis has just begun. It is likely that in 2010 more than 27 million people will be unemployed. Especially the young people will be hit hard. Already more than 5 million of them are unemployed and by forcing those who have recently finished their education term into long term unemployment, there is a huge risk of losing an entire generation. As result of the economic and employment crisis, large parts of society could become socially excluded and could be pushed into poverty.

The European discussion about an exit strategy of recovery programmes comes too early and is the wrong answer to this crisis. Even the G-20 came to the conclusion that it would be premature to withdraw from recovery programmes, since this would plunge economies back into recession: *“We pledge today to sustain our strong policy response until a durable recovery is secured. We will act to ensure that when growth returns, jobs do too. We will avoid any premature withdrawal of stimulus.”* [G-20 statement from Pittsburgh] Especially the sharp rise in unemployment, which is expected if no new recovery programmes are launched, will have enormous human and social costs and will affect potential economic growth and the national budgets. It would:

- jeopardise future growth prospects. The capacities of the European economy to generate sustainable growth have already been affected because of mass unemployment and could be hampered on even greater proportions in the foreseeable future. High long term unemployment rates reduce productivity of the European economy. It lowers the participation rate in the economy, and thus the labour input in production. The skill base of European employees, the most important asset of Europe’s economy, would deteriorate and the future growth potential would be undermined.
- endanger the sustainability of public finances. Large and sustained levels of unemployment translate into large and sustained levels of social transfers. Increasing



benefit payments in a depressed economic context add up into public debts, and limit the ability of the States to invest and conduct counter-cyclical policies.

- threatens the economy with the risk of undermining the level of demand and therefore falling into a negative spiral. If not addressed properly, the rise of unemployment can become self-sustained through endogenous mechanisms, and cause the collapse of output and prices, and in turn further job losses.
- Will increase social exclusion. Rising unemployment, especially long term unemployment will lead to increased poverty levels, social exclusion and greater imbalances in income distribution. People will lose hope for a better future and families will be destroyed, which is a risk for the cohesion of our societies.

Instead of an exit-strategy we need an entry strategy into the labour market, swiftly providing sustainable employment. Such an entry strategy into the labour market must include a carefully thought through policy mix, based on:

- new, labour intensive recovery programmes
- more efforts to create new jobs in growth sectors
- adaptation of tax policies and national legislation
- sustainable private and public finances
- active labour market policies
- reforming the Lisbon Strategy into a ten-year economic, social, employment and environmental long term recovery and development programme for the EU

The following measures can be implemented on the national and European level in the next twelve months.

### **Recovery programmes**

Contrary to what the conservatives claim, today's recovery programmes are far from being sufficient. More financial resources for productive investments are needed. Spending which aims at effectively lower unemployment should not be seen as an additional burden on public finances but as a way to generate future sustainability.

The previous recovery programmes have been focused too little on protecting viable employment and creating new jobs. New and additional recovery programmes are needed which focus on labour intensive investments and which allow for the creation of sustainable jobs, for example in renewable energies, the health sector and the digital economy.



Investment measures are to be favoured over consumption measures and most investments should be long term. In order to take advantage of the European spill-over effects on growth, Member States should furthermore coordinate their economic policies, including public investments, fair and effective tax incentives, and incentives for private investments, according to a common set of priorities. The precise policy mix should be decided by each Member State according to criteria of effectiveness and fairness and to national specificities, notably levels of debt and deficit and the scope of its problems.

The priorities for the recovery to be defined in the framework of the Lisbon Strategy should become the drivers of an investment strategy focusing on:

- Speeding up the construction of new energy and broadband networks;
- Promoting the greening of products and services, including houses and cars;
- Developing comprehensive programmes to support SMEs;
- Improving the coordination of research and education programmes with innovation in new areas of investment and job creation;
- Supporting existing jobs while helping to retrain the existing workforce, such as schemes to enable employers to prevent job cuts through “intelligent work-sharing”, combining reduced working time with publicly-subsidised training programmes;
- Providing tailor-made access to new skills for new jobs, including education and training programmes for the unemployed;
- Supporting the development of family care services and infrastructures. This can include maintenance work.

For the recovery to bring transformational economic change to the European economy, there must be better coordination of innovation, industrial, research, education and retraining and employment policies at all relevant levels. Member States should improve the coordination of these policies, in particular to support regional partnerships for growth, innovation and jobs as well as cross border initiatives. At European level, a single strategic platform should be created for bringing together all key actors to work together on growth, innovation and jobs in each sector and to coordinate existing instruments: technology platforms, skills expert panels, joint technology initiatives, lead markets, clusters and high level industrial groups.

### **Create new jobs in future sectors**

Despite the crises, there is enormous potential for new job creation in Europe. Many new jobs were created recently in renewable energies, energy efficiency and other green tech



sectors. In Germany alone, there are 1.8 million people employed in the green tech sector, making it one of the largest employment sectors.<sup>1</sup> But the potential for new employment is much bigger, especially in all those European countries not yet investing enough in renewable energies and energy efficiency:

- Renewable energies sources: this already very dynamic sector is likely to generate 500,000 new jobs within the next decade in the sole EU15 if current policies are continued. However, a more ambitious EU-wide policy could create up to 1.5 million jobs, to 2.463 million jobs by 2020 (MITRE estimates).
- Residential building: a study by the ETUC estimated the job potential of policies aiming at reducing the carbon emissions of the residential building sector by 75% to 2.585 million by 2030. The figure reaches 3.5 million when the entire building sector is considered.
- Other sectors for which job creation potentials are not available to our knowledge include transport, food, making basic industry more energy and raw material efficient, recycling, water management etc.

Also a number of other sectors have a large, unused job creation potential:

- Europe has profited very little from the global IT boom, which has only slightly caved during the crisis. More investments in the IT industry as well as the content and creative industries are necessary. Broadband networks need to be strengthened and newly constructed. More public and private funds for research and development are needed.
- Nano-technology, biotech and other future sectors need more R+D funding and a better business environment for them most be created, to allow those fields to become a strong export industry, thus creating jobs. According to the European Commission, the nanotechnology sector alone has the potential to create up to 1 million direct and indirect jobs by 2015 in the EU.
- In an ageing society, health care constitutes another high-potential sector. In 2005, the WHO estimated that in order to maintain the current level of care, Europe must create 3.5 million health care jobs by 2025. On the basis of the growth trend between 1995 and 2005, a study by ETUI concluded that the entire health-care and social work sector could employ 8 million people more by 2020, compared to 2005.

---

<sup>1</sup> Bundesumweltministerium (2009): Green Tech made in Germany 2.0, page 51. See: <http://www.bmu.de/files/pdfs/allgemein/application/pdf/greentech2009.pdf>



- Social integration in Europe needs to be strengthened, which requires more attention for social services, which in turn would create a large amount of new jobs. According to ETUI, the Personal services sector could create 2 millions jobs by 2020.

These sectors must be at the core of Europe's shift in productive specialisation, towards highly competitive and sustainable goods and services. Europe needs to set the right conditions to support these sectors and therefore create new jobs, not only by granting subsidies, direct investment and funds for training but also through the right policy and regulatory framework, notably enabling market access for the new technologies. New standards for new products and services need to be set, for example for green products and services. In all sectors a special emphasis must be put on supporting small and medium enterprises.

### **Sustainable private and public finances**

Making private and public finances more sustainable is a precondition for more long-term and high quality jobs in Europe. Financial market regulation, should contribute to redirect capital into the real economy and allow it to contribute to job creation and economic growth. Public investments are urgently needed to avoid a further rise of unemployment with all its social and economic consequences. In the framework of the revised Stability and Growth Pact, Member States, able to redirect their public expenditure and tax structures, should be allowed to run higher public deficits, provided they can demonstrate that this will contribute to higher growth and a consolidation of their public finances.

By reforming our tax systems we can increase investments without negative effects on the well being of Europeans. Instead of taxing good things, we should tax bad things. High labour taxes should slowly be replaced by taxes on activities like financial speculation and pollution. The tax systems must contribute to sustainable growth and the innovation of Europe's economy, not hamper it. In this respect, the quality of public finance must be improved and regularly monitored.

Especially in times of crisis, more incentives must be given to create jobs, for example by temporarily decreasing labour costs for low skilled jobs. Furthermore, tax cuts favouring the consumption of lower income groups are needed. In order to stabilise consumption and to avoid a negative spiral, wages, pensions and social benefits for low income groups should be



increased, not reduced. European member states must collectively envisage converting national bonds into Eurobonds, in order to be able to launch new investments projects, to support business in general by decreasing the cost of capital, to attract domestic and foreign savings and to prevent hostile takeovers by foreign investors.

Better use must be made of all existing EU funds. They should be better focused on labour effective measures and should contribute more strongly to the transition towards a green and social economy, than they currently do. The EU must furthermore envisage the introduction of additional own resources, for example to help member states to finance programmes for growth and job creation.

### **Active social inclusion policies, labour market policies and training**

As a result of the economic and employment crises, poverty levels in the EU will rise even higher and many Europeans will become socially excluded. There is a very serious threat that the young generation but also elderly, women and migrants will be hit particularly hard. Especially the expected rise of long term unemployment will have serious social, but also economic consequences, since skills will be lost, productivity levels will decrease and Europe's growth potential will be reduced, making it even harder to compete with emerging economies.

The transition from an old job to a new job must be simplified by active labour market policy, by strengthening social security systems, improving training and education as well as increased mobility. However, without jobs, job placement will remain impossible. Therefore more must be done to avoid the destruction of viable jobs. Short term work and other measures to keep people in viable jobs need to be introduced, further extended or prolonged. Those measures must include targeted training offers or even obligations for those not being able to work fulltime during the crises. In case existing jobs are not viable, workers should be retrained to find new jobs. The upcoming European initiative for new skills for new jobs should be swiftly implemented and it must become an inclusive initiative. The creation of new businesses should be more encouraged. Especially existing small and medium enterprises should receive more support to overcome the crises and to start creating new jobs. European and national micro credits programmes are important instruments on this path.



**A long term strategy for sustainable growth is needed**

Such an entry strategy into the labour market must be embedded in a long term strategy for sustainable growth. We need to adopt a new growth model, putting the well being of the people first and giving equal attention to employment, social, environmental and economic aspects. The upcoming reform of the Lisbon Strategy is an opportunity not to be missed. The Post-2010-Strategy needs to strongly focus on decent work and creating new qualitative jobs as well as increasing social coherence in the European Union. For that the Lisbon Strategy needs to be completely reformed and developed into a ten-year economic, social, employment and environmental long term recovery and reform programme for the EU. (for more concrete ideas on the Post-2010-Strategy see the separate PES discussion paper on this issue)

