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# A FRAMEWORK ANALYSIS OF EUROPEAN LABOUR MARKET POLICIES

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**Abstract:** *The purpose of the paper is to analyse European labour market policies and their integrated guidelines, by highlighting various measures that need to be adopted in order to increase labour productivity, with positive effects on long-term economic development. The paper methodizes the main conditions complied by structural reforms in order to encourage labour employment and the policies that frame a more efficient unemployment insurance system crucial to increase security while encouraging the unemployed to look for a job and to accept a job offer, respectively on flexicurity policies. We found that employment rates are generally associated with large expenses on labour market policies and with an increased number of participants to programs developed within these types of policies. The degree of influence and strong dependence between outcome and labour market policies are illustrated in various ways and discussed within the paper.*

**Keywords:** flexicurity policies, employment protection, unemployment benefits, job search

**JEL Classification:** J08

## 1. INTRODUCTION

„Europe 2020”, the new strategy of European Union, that replaced the Lisbon Strategy, considers, for different policy areas, realistic targets, according to the present context and to the specific conditions of each member state, aiming at an inclusive, intelligent and sustainable economic growth (European Commission, 2010, p. 21). The intelligent growth is based on knowledge, innovation, education and a digital society, and the increase of efficiency in production and competitiveness are the main features that lie at the heart of sustainable growth. In order to reach an inclusive growth, the labour market should benefit from a wider employment participation that will lead to achieving professional abilities. An important role in ensuring a flexible labour

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market is played by the reduction of the degree of poverty that is affecting a larger part of the population within the European Union. The targets set for 2020 are very important in order to follow the progress registered through implementing various specific measures. Thus, in the case of both strategies, the main objective was to monitor and assess structural reforms in order to highlight the progress achieved in reaching the targets. The progress accounted by the European labour market depends largely on the specific labour market policies and measures adopted in order to decrease the high level of unemployment, thus improving economic growth within the European Union.

The European Union faces multiple challenges in assuring growth and jobs, especially concerning the framework for the co-ordination of employment policy at EU level. Thus, the main objective of the European Employment Strategy, launched within the Amsterdam Treaty (European Commission, 2010), is to reduce the persistence of unemployment and labour market segmentation. The strategy represents the main instrument for the coordination of employment policies within the European Union.

Taking into consideration all these aspects, *the main objective of the research* is the analysis of European labour market policies. *The research methodology* is based on using a set of specific labour market measures and programmes that underline the effects of labour market policies on European labour market performance. At the same time, the research is based on the analysis of the conditions necessary for each adopted measure in order to increase employment and on the analysis of policies required for a more efficient benefit system for the unemployed that will increase labour security, by encouraging them to search for a job and to accept a job offer (flexicurity policies).

## 2. LITERATURE REVIEW

Labour market policy measures refer to public labour market interventions where the main activity of participants is other than job-search related and where participation usually results in a change in labour market status. These measures cover primarily interventions that provide temporary support for groups that are disadvantaged in the labour market, such as unemployed, employed at risk and inactive persons (Arpaia and Murre, 2005). Labour market policy measures are classified by type of action and cover the following categories: training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives.

Labour market policy supports refer to interventions that provide financial assistance, directly or indirectly, to individuals for labour market reasons or which compensate individuals for

disadvantage caused by labour market circumstance. These supports are classified by type of action and cover the following categories: out-of-work income maintenance and support (mostly unemployment benefits) and early retirement (Card, Kluve and Weber, 2009).

Boeri (2002) revealed the main conditions required for social and labour market policies in order to increase labour market performance, respectively *(i)* to reduce the level of poverty and inequalities concerning the level of income, *(ii)* to provide protection against uninsurable risks, and *(iii)* to generate an increase of rewards for labour market participation. At the same time, by making the connection to the main objectives of Lisbon Strategy, Boeri (2009) highlighted the fact that in order to become the most dynamic and competitive knowledge based economy in the world, the European Union should focus more on the third criteria, respectively on increasing the attractiveness for labour market participation.

The specific labour market policies are very different across EU Member States (Rovelli and Bruno, 2008). Thus, the protection against uninsurable risks is provided *(i)* through legal restrictions against dismissals, meaning employment protection legislation (EPL) and *(ii)* through providing unemployment benefits, along with other collective benefits (UB). The differences between the two categories is that employment protection legislation provides insurance for employed persons, while unemployment and social benefits offer support for persons in general, being financed through a tax on the income of employed persons. Thus, the insiders would rather prefer employment protection legislation, instead of unemployment benefits.

The main objectives of labour market policies (European Commission, 2008) refer to: *(i)* maintaining the existing jobs and employment, through flexible contractual arrangements and part-time work; *(ii)* supporting various persons largely affected by the crisis, through the social security system, according to flexicurity principles; *(iii)* investing in education in order to develop skills and abilities for labour market insertion; *(iv)* reducing labour market segmentation, especially through the protection of temporary and permanent workers.

Employment protection legislation, unemployment benefits and active labour market policies represent the essential elements for European labour market performance (Eichhorst and Konle-Seidl, 2005). On the one hand, they represent protection mechanisms against specific labour market risks that provide assurance concerning a certain level of income and job protection and, on the other hand, these mechanisms influence the capability of labour markets to adapt to economic changes mainly due to the fact that institutional characteristics affect the strategies of economic agents (Venn, 2009). The deficient capacity of labour market adjustment generates a high persistent level of unemployment. Thus, Member States need to adopt and implement a set of specific labour

market reforms and measures, in order to increase the adjustment capacity of European labour market.

### **3. INTEGRATED GUIDELINES FOR EUROPEAN LABOUR MARKET POLICIES**

For the period after 2010, the guidelines of employment policies and strategies refer mainly to a few clearly identified themes, hence a four ‘pillar’ structure in which the first two are predominantly about substantive policy content, the third is about the mechanisms of policy implementation, while the fourth tackles wider expectations of the labour market. These pillars are (Begg, Erhel and Mortensen, 2010, p. 11): *(i) labour supply and human capital enhancement (pillar 1)* with the objective of increasing labour supply for specific groups through making work pay (unemployment and social benefits) as well as undertaking reforms of pension and contractual terms that give incentives to older workers, a life-cycle approach to work (including specific obstacles to labour supply like the lack of childcare or elderly care), enhancing human capital (initial and vocational training), and formulating objectives concerning immigration; *(ii) boosting demand for labour (pillar 2)* that refers to job-sharing and other means of spreading the available demand for labour, including the incentives for over-time; regional balance in employment creation, job creation in the social economy and other forms of labour demand; *(iii) matching of demand and supply, adaptability and institutions (pillar 3)*: this would include proposals on institutions and labour market rules, including the functioning of public employment services; *(iv) quality and sustainability of work (pillar 4)*: bring together various aims concerning quality and sustainability of work, including equality of opportunity. The focus of this pillar is on working conditions, such as health and safety at work, but also the promotion of innovative work organisation, fighting against low-wage traps and under-employment and highlighting the life-course approach to work, including work and family/civil society reconciliation.

The *new employment guidelines* defined by the European Commission since October 2010 are: *(i)* increasing labour market participation of women and men, reducing structural unemployment and promoting job quality; *(ii)* developing a skilled workforce responding to labour market needs and promoting lifelong learning; *(iii)* improving the quality and performance of education and training systems at all levels and increasing participation in tertiary or equivalent education and *(iv)* promoting social inclusion and combating poverty.

Several policy areas are analysed in order to assess the labour market performance within the European Union, defined in the context of Europe 2020 Strategy (Arpaia and Mourre, 2005): *(i)* job

protection and labour market segmentation/dualisation; (ii) policies increasing working time; (iii) labour market mismatch and labour mobility policy; (iv) specific labour supply measures for women and older workers; (v) active labour market policies (ALMPs); (vi) make-work pay policies.

**Table 1 Specific labour market policies and integrated guidelines defined by the European Union**

Category	Integrated guidelines (IG)
Job protection and labour market segmentation/dualisation	IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners. IG 5 To promote greater coherence between macroeconomic, structural and employment policies. IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.
Policy increasing working time	IG 18 Promote a lifecycle approach to work. IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
Labour market mismatch and labour mobility	IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion. IG 20 Improve matching of labour market needs. IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
Specific labour supply measures for women and older workers	IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion. IG 18 Promote a lifecycle approach to work. IG 19 Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive. IG 21 Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
Active labour market policies (ALMPs)	IG 20 Improve matching of labour market needs. IG 17 Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion. IG 5 To promote greater coherence between macroeconomic, structural and employment policies.
Making work-pay: interplay of tax and benefit system	IG 19 Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive. IG 22 Ensure employment-friendly labour cost developments and wage setting mechanisms. IG 5 To promote greater coherence between macroeconomic, structural and employment policies.

Source: European Commission (2008), „The LIME assessment framework (LAF)”, *European Economy*, Occasional Papers no. 41, October 2008.

*Job protection and labour market segmentation/dualisation* comprises two dimensions. Job protection, also called employment protection legislation refers to regulatory provisions relating to “hiring and firing”, particularly those governing unfair dismissals, termination of employment for

economic reasons, severance payments, minimum notice periods, administrative authorization for dismissals and prior consultations with trade union and/or labour administration representatives. Relaxing job protection will raise flexibility for firms to recruit and dismiss. On the other hand, this dimension is to be considered in close relation to the need of avoiding increasing dualisation of the labour market, which reduces labour market security, as well as firms' incentives to supply training and could lead to cost pressure.

*Policies increasing working time* cover a number of policies: (i) a first strand of policy is of legal nature - relevant policy measures may emerge either from legislative processes or as the outcome of the bargaining process between social partners (such as legal ceilings and overtime rate, daily working time or public holidays); (ii) a second series of measure concerns incentives to work longer or to work overtime; (iii) a third aspects concerns the work conditions which could provides further incentives to work longer hours (e.g. the rate of serious or fatal accident at work).

*Labour market mismatch and labour mobility policy* refers to a wide range of regulatory provisions that aim at stimulating labour movement across regions and across occupational sectors, as well as to improve the conditions for workers to take up a job which is distant from the main centre of interest or in sectors other than sector of former employment. Labour market mismatch and labour mobility policies include a disparate set of measures ranging from those providing economic incentives for housing, to the recognition of acquired qualifications and skills or improving the portability of supplementary pension rights.

Specific *labour supply measures for women and older workers* aim at encouraging women to enter the labour market and remain economically active, as well as encouraging older workers to remain in employment and thus economically active. These measures involve old-age pension systems, early retirement schemes, policy aiming at promoting a gradual withdrawal from the labour market, while combining working and private lives.

*Active labour market policies* (ALMPs) are public spending aiming at encouraging the unemployed to take up a job or remain in employment. The five main traditional categories of active labour market policies are: (i) public employment services: placement, counselling and vocational guidance, job-search courses, administration of unemployment benefits, all other administration costs of labour market agencies including running labour market programmes; (ii) labour market training: training for unemployed adults and those at risk, training for employed adults; (iii) youth measures: special programmes concerning measures for unemployed and disadvantaged youth, support of apprenticeship and related forms of general youth training; (iv) targeted measures to promote or provide employment for the unemployed and other priority groups

(but not youth and the disabled); (v) measures for the disabled: special programmes concerning vocational rehabilitation and work for the disabled.

The objective of the *make-work pay policies* is to attract more people in the labour market. The main priority of these policies is to reduce unemployment benefit dependency and provide effective incentives to take up jobs and remain in work by making work an economically attractive and rewarding option relative to welfare.

#### 4. CONCLUSION

The European labour market is influenced by targeted employment and labour policies addressing the impact of the crisis, as well as by structural changes that may be caused by the economic crisis. Thus, it is essential to take into consideration different labour market policies that aim at lowering the impact of crisis on workers and reduces the gap between economic growth and labour market improvements. Labour market policies should play a complementary role in response to economic crisis, through maintaining labour demand by creating new jobs and maintaining the existing ones, improving the possibilities of employment for persons seeking for a job, improving compatibility between labour demand and supply and by giving support to those who lose their jobs. Overall, the lack of a monitoring and labour market evaluation policy systems generates difficulties in establishing adequate labour market measures in time of economic crisis. Thus, there are several priorities which can be the basis for revised employment guidelines concerning more jobs, which is explained as the creation of new jobs and the mobilisation of a larger working population by increasing the participation and employment rates as well as managing economic migration, by combining aspects of labour demand and supply, also concerning better jobs from two perspectives of, first, higher quality that raises productivity and, second, improved working conditions that also contribute to productivity while improving pay and job satisfaction.

In economic terms, the employment policy has to mediate between the new long-run influences and the shorter-term consequences of the crisis. There is an analytic justification for the focus on employability motivated by the need to tackle high and persistent long-term unemployment, but that in the coming decade, a focus on activation, segmentation and labour market flexicurity. Yet in recovery from crisis, priority manifestly has to be given to policies and measures aimed at boosting labour demand. At the same time, the importance given to human resources and labour demand is motivated by the accent on creating new jobs within the framework



of Lisbon and Europe 2020 strategies, but also by the challenges ageing and of intensifying global competition in the knowledge economy.

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