

Kaposvár University  
Faculty of Economic Science  
DOCTORAL SCHOOL FOR MANAGEMENT AND  
BUSINESS ADMINISTRATION  
Department of Economic and Regional Politics

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Dissertation Supervisor:  
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THE ECONOMIC ANALYSIS OF THE EMPLOYMENT  
POLICY OF THE EUROPEAN UNION

KLÁRA MAKSAY

2009

# **THESES of the PhD Dissertation**

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## **1. Antecedents and Aims of Research**

The Employment Policy of the EU was unregulated even in the mid-90s; labour market problems, long-term unemployment in particular, were expected to be solved by the growth of the inner market alone. Certainly, there was a substantial variation across member countries, which could be attributed to social, economic and cultural traditions and regulations. The variations were either mitigated or strengthened by the varying social layering, human and material resources and by the different approaches to development in different countries and regions. The regional impacts of the structural transformations of economies proved to be significant, which can be explained by the slowing of the growth and the strengthening of regional employment difficulties in the recession periods of the last decade. Member countries have struggled with high unemployment rates since the end of the 80s, which were caused partly by the deepening regional differences, and not even the later sharp expansion changed this. It became obvious that some regions are not capable of overcoming the shock caused by globalisation and structural transformations. As a result of the extending crisis phenomena, such as the drop in investments and the decrease in earnings etc., their existing capacities have been degraded, the occupations losing prestige, the lack of qualifications and the unemployment set a sub-cultural trap and eventually these regions' ability to create value was greatly weakened. The hypothesis and the aim of this research were formed on the basis of this context.

The dissertation aims (1) at a presentation and an analysis of the structural changes in the employment policy of the EU with respect to the processes

occurring in the global economic competition in economic and historical dimensions.

Furthermore, the dissertation aims (2) at analysing the employment policy processes which, together with integrated economic policies, forced a determined cooperation upon the member states.

Also, the dissertation aims (3) at a presentation of the measures and co-operations that play a vital part in the coordination of employment policy, thus, proving the orientation role and the development priorities of employment policy, particularly, in the case of depressed regions. (macro and micro-regions).

To achieve these aims the dissertation had the following tasks:

- A presentation of the economic and labour market processes determining the genesis of the common employment policy in the EU, as well as a tracing of the accompanying employment policy techniques and their impacts,
- an analysis of the results of the European Employment Strategy and their effects on labour markets,
- by revising the socio-economic problems in the EU regions lagging behind, an exploration of the reasons which decrease the regional variation in employment and unemployment at just a small extent, or rather, conserve present processes,
- a review of the methods launched by local regional initiatives strengthening EU employment,
- in the form of a case study, an examination of two previously underdeveloped Southern European countries', Spain and Portugal's

employment policies and cohesion results, which could set an example for the successful attempts to eliminate macro- and micro-regional underdevelopedness, and to mitigate variations in developedness.

## 2. Material and Method

On the basis of significant European and Hungarian literature, the **working hypothesis** of the dissertation tries to find out to what extent the changes in the employment policy of the EU were able to urge the transitions of the labour market, and how the success of the employment policies of certain member countries interacts with the employment performance of the EU. In addition to certain policy fields and transfers it is unavoidable to analyse the means and methods that can be expected to enhance the convergence of labour markets, particularly, of the labour markets of the regions lagging behind. **The analysis in the dissertation** relies on deductive research methods, i.e. on the analysis of secondary data based on:

- statements from theoretical works in the field of economics,
- analyses by Hungarian and international experts,
- documents related to employment and other macroeconomic facts issued by the EU, and mainly by the European Commission,
- and national convergence programs handed in to the European Commission.

To ensure comparability, data from Eurostat, OECD and ILO are the basis of the analysis.

The secondary analysis of the quantitative data and the research literature is complemented with the **case study** that is based on valid information and is

suitable for drawing relevant conclusions and revealing new relationships. Figures and tables were made mainly by relying on Eurostat data.

The terminology of the dissertation is equivalent to that of international research.

### **3. Results**

#### ***3.1. Changes and new tendencies at the European labour market at the turn of the millennium***

At the beginning of the 90s there was no common European intention regarding the formation of a common approach beyond labour market regulations within member states to answer challenges like unemployment, long-term unemployment and the employment of the socially disadvantaged groups such as women, the young, the elderly and the inhabitants of undeveloped regions. The advance of the economic integration was pressing for an examination of the interaction between growth and employment, particularly due to the spread of structural economic problems.

Economic growth is one of the determining conditions of employment. However, the practice in European countries showed that an increase in the number of workplaces was not in direct relationship with economic growth and in times of recession the rate of employment decreased faster than production. At the beginning of the 90s (the bottom was in 1993) the recession hitting European countries did not only mean a slowing of economic growth but also a significant decline in employment; and not even the slow recovery reduced unemployment substantially.

Employment policy was upgraded considerably by the fact that a **separate chapter on employment policy** became part of community legislation at the end of the 90s, then, with the launch of a macroeconomic dialogue in 2000, a new approach appeared in employment strategy. In this period Europe experienced an economic expansion, which influenced fundamental labour market processes, too.

### **3.1.1. Employment rates**

EU employment rose to 63.3% and to 63.8% in 2004 and 2005 respectively due to a **moderate improvement** of labour market conditions. Average employment rate increased by 0.5% in 2005, whereas female employment rate went up by 0.6% to 56.3%. This was **an especially significant advance in female employment**, as it was handled with particular priority by the employment strategy. The indicators of the member states that joined in 2004 still showed labour market difficulties, especially in the case of Poland and Slovakia.

In 2005, although economic growth lagged still behind expectations and GDP growth was only 1.6% compared to 2.4% in the previous year, employment increased moderately, and, at an increase of 1.4% it reached its peak of the period since 2000. In the following year, although the number of the employed increased by more than 4 million, the variation across member countries remained considerable.

The distribution of employment growth was rather uneven across the **different groups within labour force** with a big demand for more **highly qualified** workforce. The increase in employment was most significant in non-manual jobs, more particularly the highly qualified intellectual workers; the number of qualified manual workers grew at an even smaller extent than that of the non-qualified manual workers, actually, it did not grow at all. This meant that at the millennium the EU's inner market was determined dominantly by **capital-intensive** production, although the demand for less qualified workforce remained rather significant among the dynamically developing businesses, especially in traditional branches and labour-intensive technologies. As the **growth occurred mainly in the developed and technology-intensive branches**, employment expanded here concentratedly, labour-force flow accelerated, productivity grew and competitiveness strengthened. Meanwhile, we can say that the businesses built on the traditional product structure greatly challenged member countries in marginal regions, where low delivery costs, geographical proximity, state subsidies and labour costs used to ensure better positions. This competitive advantage now favours Asia.

### 3.1.2. Unemployment rates

In the EU the correlation between employment rates and unemployment rates was  $-0.62$  between 1994 and 2005, which means that an unemployment rate growth of one unit went together with an employment rate decline of 0.62 units. In the **countries with high unemployment rates** (Spain, Greece) **employment rates are generally low**, and where **unemployment rates are low** (the Netherlands, Ireland), **employment rates** tend to be **high**.



According to ILO<sup>1</sup> figures, unemployment rate in the most developed countries was 6.2% in 2005, while in the EU it was 8.8%. Between 2003 and 2005 US and Japanese unemployment rates declined. In the EU15 the absolute employment rates increased by 0.8% annually between 1992 and 2002, whereas the absolute employment rate in the OECD countries increased by 1%. The EU unemployment rate fell to 8.8% in 2005, and by 2006 it was as low as 7.9%. An examination of the member states shows that not all of them shared in this tendency; Portuguese, German, Polish, Czech and Slovakian unemployment rates were rising. Ireland, France, the Netherlands and Sweden were able to decrease their rates. In 1998, Denmark, the Netherlands and Portugal had the most favourable positions.

Concerning female and male unemployment rates, Poland reached the worst results, where female and male unemployment rates increased by 6.9% and 8.1%, respectively, in 7 years. By contrast, Dutch rates were especially favourable in 1998 as well as Danish male unemployment rates in this period.

### **3.1.3. The employment structure and its sectoral changes**

The **changes of the employment structure** can be examined with relation to several factors. They can be analysed in the context of **comparative advantages of the economy**, in the context of market and business structures and in the context of **cultural traditions**. In the Lisbon Process a determining role is given to the notion of knowledge-based society and economy, in which the production processes change and in this structural

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<sup>1</sup> International Labour Office, [www.ilo.org/public/english/employment/index.htm](http://www.ilo.org/public/english/employment/index.htm)

transformation a **new order of the distribution of work** is formed, demanding a transfiguration of the employment structure.

New requirements have been set for the workforce at the globalising markets, regarding changes either in dimensional aspects or in professional knowledge. In the knowledge-based economy **the information in production input has grown**, therefore a more and more widespread occurrence of outsourcing means another change, consequently, the emerging of businesses providing new services in often completely new branches. This process has **further expanded the tertiary sector** and decreased the scope of industrial branches. Due to outsourcing the employment structure has become more flexible. The Western and Northern European countries, where employment in mass production was still significant were put in a difficult position by the more and more frequent relocations, particularly in the field of jobs requiring low qualifications. This resulted in a decline in employment, which could not even be sucked in by the tertiary sector, because its **labour-intensive** units were also **relocated** to areas outside Europe. Certainly, this did not prevent the service sector from forging ahead, including the **exporting of knowledge industry** and of work-intensive services.

It can be concluded that the largest expansion occurred in the field of services; between 2000 and 2005 11.5 million jobs were created in this sector, whereas the number of jobs in industry declined by 1.6 million and in agriculture by 1.2 million.

The work productivity of the most developed industrial countries exceeded 1.4% between 1998 and 2005, and that of the Eastern European transition economies was above 25%. More new jobs were created in branches where productivity growth lagged behind; it can, therefore, be concluded that **the**

**employment expansion of European economies did not generally go together with a dynamic work productivity growth (EF., 2007).**

In the period between 1995 and 2005 the EU25 member countries created altogether 18.5 million new jobs, and the total employment grew by 8.5 million. **Behind the global growth there was an increasing extent of job creation and job losses:** the number of new jobs rose by 5-8% every year, while 3-4% of the old jobs disappeared.

#### **3.1.4. The impacts of the new member countries on employment**

**The new member states did not cause stoppages** in the operations of the EU; they have been basically active participants in community institutions. By examining the period since their EU accession, we can say that they have not slowed integration down but rather **supported its deepening and extension**, naturally, with varying performances. As far as the social position of the new member countries is concerned, – with special regards to employment – a number of problems arise, but on the whole, rather favourable tendencies appear. Owing to economic growth, **per capita GDP grew in every new member state** in 2006 and 2007, even if from different base and at different extent.

Table 1. The main economic indicators of the new member countries in 2006

Country	Population (million)	GDP per capita (ppp %)	Growth (GDP %)	Inflation (%)	Labour Costs Growth 2004-2006 (%)
Cyprus	0,8	56,5	4,7	2,8	1,1
Czech Republic	10,2	76,1	6,1	2,1	0,1
Estonia	1,3	64,8	11,4	4,4	0,1
Hungary	10,0	63,1	3,9	4,0	-3,9
Latvia	2,3	53,9	11,9	6,6	2,7
Lithuania	3,4	55,8	7,5	3,8	2,1
Malta	0,4	60,2	3,0	3,1	0,8
Poland	38,1	51,1	6,1	1,3	-2,0
Slovakia	5,4	60,0	8,3	4,3	-0,9
Slovenia	2,0	83,8	5,2	2,5	-0,1
EU15	459,0	107,8	1,5	2,8	-0,7

Source: Eurostat 2007

It is also a result of the EU expansion that with the accession of the Eastern European countries **new work distribution** and a **new labour market** could emerge, although with a delicate structure. After 2004 businesses were able to relocate a part of their production to Eastern Europe, where labour costs were much lower. The direct capital investments concerned mostly the sectors with fierce competition. In the new member states the temporary comparative advantages **induced an economic growth grossly exceeding the average of the old member states**. It is also remarkable that all this was accompanied by considerable productivity growth, which **could result in employment decline but also in employment growth**. Namely, during a structural change it is common that productivity increases due to a

slack employment. Consequently, a relatively high unemployment rate is coupled with a fall in employment rate.

Increasing the employment rate and tackling unemployment are vital tasks for the new member countries, too. Almost each newly joined country **could exploit the economic growth** to reduce the unemployment further.

Table 2. *Indicators determining labour market performance in the new member countries in 2006*

<i>Country</i>	<i>Unemployment rate (%)</i>	<i>Employment rate (%)</i>	<i>Work productivity (%)</i>
Cyprus	4,7	69,6	54,2
Czech Republic	7,1	65,3	68,0
Estonia	7,1	68,1	60,7
Hungary	5,6	57,3	72,2
Latvia	6,8	66,3	51,0
Lithuania	5,6	63,6	56,6
Malta	7,4	54,8	50,3
Poland	13,8	54,5	59,4
Slovakia	13,4	57,0	68,0
Slovenia	6,0	65,3	80,5
EU15	7,4	66,0	106,3

*Source: European Commission*

## ***3.2. The effect of the European Employment Strategy on the EU labour market – the advance of new principles and measures***

### **3.2.1. Flexible security**

**Flexible security** is employers' and employees' **answer of adapting** to the quickly changing labour market (*Wilthagen, 2005*).

Flexible security in EU member countries is materialised on the basis partly of outside flexibility and partly of earning and employment security.

**Outside security** means the simplicity of hiring and firing employees as well as an application of **variable forms of work contracts**. Their disadvantage is that they might reduce the employment prospects of women, the young and the elderly and slow down the flow of workforce and increase the threat of long-term unemployment. By softening the employment regulations regarding permanent work contracts, member states increased the outside flexibility in the case of people on social peripheries. Flexible security proposes the unified softening of the rules regulating the typical and atypical work forms, which might result in labour market flexibility. However, a continuous improvement of unemployment services might mean a better protection for the employees than the regulations for protecting employment, although the relatively high levels of unemployment services might also lead to a decline in the intensity of job search, which, in turn, conserves the time spent without work.

Flexible security is an opportunity of an interim between unemployment and employment, job opportunities and workplaces, education and labour market, forms of work and types of work contracts.

It ensures the abilities required for work as well as the necessary transfers, so it provides equal chances for everyone, mainly in the case of the low-qualified.

In 2005 **permanent work contracts** accounted for 85% of all work contracts in Europe. However, the proportion of employees with **temporary work contracts** increased from 12% to 15% from 1997 to 2005. Ten member states shared this tendency, especially Poland, but variable trends could be observed regarding the growth in Romania (2.5%) and Estonia (33%).

The protection of the temporary work contracts shows a variable picture by countries; spreading from 0.4% (Great Britain) to 3.6% (France).

Developments in this field are most salient from 1994. Legal regulations in connection with temporary employees were largely softened in Germany, Greece, Denmark, Italy, Belgium, the Netherlands and Slovakia, while rules became stricter in Spain and Portugal.

According to practical experiences, **part-time workers** were more likely to be employed in temporary positions than full-time employees. Enterprises tend to hire temporary additional workforce for particular needs; for example unexpected larger and more urgent tasks, but the possibility of firing redundant temporary workforce is also considered.

**Within the atypical work forms**, the ratio of part-time employees increased, too, especially in the period between 2000 and 2005, thus contributing to the global employment growth. Still, no significant relationship can be revealed between employment growth and part-time work. Also, there is a variation of the frequency of part-time work across member countries. In Bulgaria it is 2.1%, while in the Netherlands it is

46.1%. Most Dutch part-time workers are women, their proportion increased mainly in the service sector. In the EU, 32.3% of female employees had a part-time job in 2005, while the corresponding male rate was only 7.4%.

The mostly female part-time workers choose this form of employment voluntarily. The Dutch state spends 1.3% of the GDP yearly on active labour market policy, which is more than double of the EU average.

The employment strategy has already proposed a shift of emphasis from a passive labour market policy to an active labour market policy, and this should be combined with relationships between tax and social contributions systems.

The principles of the employment strategy have emphasised from the very beginning that the active labour market policies should help as many unemployed people as possible to return to work and prevent them from sliding into long-term unemployment.

In 2005 0.5% of the GDP was spent on **active labour force policy**, including state employment services, enterprise incentives, job sharing, job rotation, training and retraining, compared to the 1995 figure of nearly 1%. This was accompanied by a restructuring of the spendings. Almost 30% was spent on trainings, which is nearly unchanged compared to the 1995 data. However, there was a substantial change in two categories: the state employment services and the job sharing together with job rotation received a larger share from the total spending. This has reduced the resources spent on direct job creation, trainings and programs for people with reduced work ability, but, on the other hand, it promoted ‘job keeping’ (*OECD Employment 2007*).



Lifelong learning as a principle of the knowledge-based society was declared most saliently in the Lisbon targets, but raising the level of investment in human resources is emphasised by all employment approaches. Due to the globalisation and the new working conditions, an employee might be forced to change jobs several times, which might lead to participation in frequent and specified trainings. Thus, the possibilities and the incentives of learning **require a counselling system that is gradually expanding and being institutionalised**, which primarily means an orientation function but also enhances individual motivation by providing training information based on individual needs.

Lifelong learning and the adjustment of educational institutions to the new requirements at the workplace were key issues of the **2005-2008 employment policy**. A proposal confirming the targets of the employment policy was made that at least 12.5% of the adult working age population should participate in lifelong learning.

The state programs alone were no longer able to deal with the **regional economic and social** impacts of unemployment; not even with the help of significant financial resources. At the second half of the 90s the increasing failures and tensions raised the activity of local representative bodies, local governments and labour unions, and in the areas hit by employment crisis a strategic orientation employment development began. Agreements built on horizontal relations and co-operation became increasingly emphasised. Mainly those regions' development began where unemployment became permanent. These were mainly:

- undeveloped agricultural regions with a threatening depopulation,
- urban agglomerations where slumming strengthened social problems because of the emigration of unqualified workforce,

- regions lagging behind, with branches in crisis, where no investments arrived,
- so-called mixed regions where, because of the close interrelatedness of industrial and agricultural sectors, a downturn could threaten the whole employment.

The strategic decentralised employment-developing co-operation that is coordinating targets, tools, programs and institutions was confirmed and widened into a complex procedure by the 1997 Luxembourg process. The **Regional Employment Pacts** materialised an integrated and partnership-based strategy, but these were not put into the national action plans. Some member states have composed regional action plans (Finland, Portugal and the UK), whereas other member countries made local action plans (Greece, France, Ireland and Sweden). There was no uniform practice in this period. The target of the local/regional employment strategy was formulated so that **the local diagnosis must be determined** with specific regards to the particular area and the **regional and national authorities** must be involved.

The local strategies must be in compliance with **national action plans**, and they must be composed together **with local partners**. The application of the integrated strategy was expected to contribute largely to reaching full employment, sustainable economic development and social cohesion (*NAP 2003*).

**The innovative activities** have gained a significant role among the community means supporting local employment. In the programming period of 1994-1999 **the European Social Fund** granted support for numerous projects **in the field of job creation and vocational training**, most of which included a local approach. The Commission statement issued in January 2001 emphasised the importance of co-operation between

European institutions, national, regional and local authorities and social partners and non-profit organisations. The statement stressed that the innovative measures must be applied in **particular priority areas** including **“local” employment strategy**.

In this period the local dimension was not included in the priorities of the European Social Fund, which was primarily due to the fact that it was not in direct connection with community regulations.

However, support for **gender equality** appeared even at local levels.

Supporting **women in getting into the labour market** was a particularly significant element of local initiatives; it was considered as a part of the regional diagnosis, and a particular attention was paid to female job opportunities.

Local authorities as main employers were made to support female employment. **Women’s career and career balancing opportunities** were regarded as priority in the cooperation of social partners.

In connection with the local realisation of the employment strategy, member states have considered the **social economy** as more and more important, as it became one of the basic factors of **local developments**. Although the interpretations of the social economy are largely different in different member countries, one feature is common: social partners are more and more involved in the formation of local strategies. (*Campbell, 1999*).

In accordance with the notion of the social economy, the direct focus of the job-creation centred employment policies is not so much the various groups of the unemployed, but rather the activities with which it is possible to expand employment with the least possible supplementing effects.

According to the employment strategy of the EU, 3 million new jobs can be created by organising the local services for households and individuals into a market within the frames of the social economy. These new jobs are actually a **second labour market**; its aim is the **reintegration** of individuals who have been out of the labour market for a long time, through the necessary social preparation, training and employment. The participants of the second labour market are working age people who were temporarily or permanently excluded from the first labour market, and **instead of unemployment benefit they get support for employment**. Therefore, the second labour market is mostly organised by local governments and other budgetary institutions mainly with state support but with the involvement of local and regional businesses and organisations.

The birth of the second labour market can be interpreted as an answer to the process leading from **short-term** conjunctural unemployment to **permanent, global, mass** unemployment. The model is based on the German practice induced by the mass unemployment subsequent to the collapse of the East-German economy; it succeeded in linking active human resource developing labour market programs with local employment demands.

The organising principle of the second labour market is the **public interest of the activities**, accordingly, governmental, for-profit and non-profit spheres all participate in its organisation. All budget participants benefiting

from the employment growth and unemployment decline are involved in the creation, operation and the financing of the new jobs.

The supportability of the activities is primarily defined by **local agreements** between labour market participants. The decentralised regulation allows that the sector can give regionally specific and efficient answers to arising challenges. The subsidies are usually valid for periods of 3-5 years.

The second labour market is a giant step forward from the passive aid systems to the **active employment-expanding solutions**, but it is basically still built on **continuous subvention** – central budget, local resources – therefore this approach did not get a decisive role in the employment strategy.

### ***3.3. The connection between regional inequalities and employment in the EU***

Regional inequalities have been present in Europe for decades; they can mainly be connected to **structural change in economy** and its employment consequences. Some regions can **adapt** to the challenges caused by structural change and have new opportunities for prosperity; other regions are incapable of exploiting the advantages of the change, what is more, through a devaluation of their existing economic resources their disadvantages become permanent tendencies. The regional inequalities caused by underdeveloped regions are **economic and social traps**, which

the EU attempts to mitigate with great efforts. While the majority of the least prosperous regions have showed a more considerable growth since the end of the 90s, the most prosperous regions also increased further. Thus, during this period, both the worst and the best performing regions' contribution to total GDP rose.

The performance of the regions lagging behind improved further between 2004 and 2005, so the number of those regions where the growth was below the EU average (75%) decreased. The **productivity differences** are significant also in regional dimensions. Productivity was below the EU average (25%) in 15 regions; in two regions it did not even reach 20%. The growth in regional productivity is **more characteristic of the regions of the new member countries**; in the regions with the most significant productivity growth the rate is more than 4%, which is partly due to the **accelerated structural change**. There are some regions (Northern Italian regions, Catalonia, Navarra) where there is a **sustainable growth** coupled with a **relatively low productivity**, but there are some, particularly in the newly joined countries (Polish regions, Baltic states) where the productivity of 6.0-6.6% is accompanied with just a **small employment growth** (EC,2007).

The regional labour market differences appeared mainly as the consequence of the **structural change of the economy**. Sharp tensions arose in the regions where there was a high proportion of agricultural employment or where there was a significant difference between the qualification structure and actual job opportunities. However, no significant activity rates were measured even in successful regions. At a relatively low level of economic development, the differences of newly joined member countries in **regional performance** were larger than in the case of the old member states; the

difference between regions with the lowest and highest performances was sevenfold in the former and four-and-a-half-fold in the latter case. In addition to a similar performance of the Eastern-Central European economies, most of their regions did not even reach the half of the average EU performance. It is a special feature of the newly joined member countries that the majority of their regions are mainly agricultural and heavy industrial regions, which intensified regional differences. The regions where the GDP per capita was below the 40 and 50% of the EU average are characteristically agriculture and industry oriented (mainly textile, clothes and processing industry or specific traditional branches), and they have the lowest income-producing ability.

Among the **industrial regions** (where the proportion of employment in this sector is 38-43%) there are **fast growing regions**, where high-technology demanding branches, machine industry, and electronics are significant. The **struggling branches** characterising the European industrial structure are also in competition with relocation processes, so the **demand for less-qualified workforce** had declined here by 2006 and 2007. This is reflected in the employment data by sectors: employment in agriculture decreased by 11% between 2000 and 2005, employment in processing industry decreased by 5.8% while employment in services, particularly in business services went up by 23.6% a (*EFI, Restructuring, 2006*).

A significant decline in regional variations in employment occurred in Bulgaria, Spain, Italy, Finland and the UK, and this is also reflected by their NUTS 2 regions.

In the EU15 and EU27 **there was no significant growth in employment**; for example in almost all regions of Sweden, which had had excellent positions previously, employment fell in this period. Employment did not

grow in Portugal, either, with the exception of Alentejo and the islands. On the other hand, nearly all regions of Spain, Latvia and Lithuania experienced a considerable increase in this respect in this period. The employment rate of **the least prosperous regions** is still **low**. An employment rate above the average can be measured in very few regions where per capita GDP is below the 75% of the EU average. The **employment rate** tends to be **higher in more prosperous regions**, in spite of the fact that there are a few very highly prosperous regions where employment rate remains **low** (for example in Northern Italy).

Examining **the social structure of employment**, social disadvantage appears to be the most determining, so the labour market positions of **women, the elderly and the permanently unemployed** belong to the **priorities of employment policy**.

The female employment rates in the half of the member states do not even reach the Stockholm interim targets, although the tendency is growing. The NUTS2 regions show an opposite tendency; most of them have exceeded the interim targets.

All regions of France, Greece, Italy and Spain had an increase in female employment rates in the period of 2000-2006. Although an employment decline was registered in the Netherlands in this period, the Dutch female employment rates are outstandingly high. This shows that male workforce is replaced by women at the labour market.

Although **elderly employment** (age of 55-65) shows a remarkable increase, it stood at 43% in the EU27 in 2006, **this rate of increase is not enough** to reach the 2010 target of 50%. 12 member countries lag behind in this respect. The UK, Ireland and Portugal have high elderly employment



by regions, whereas Slovakian and Romanian regions show substantial variations.

Considering **unemployment rates**, in 2005 **the negative trend turned around** in the EU (average 9%). From 2000 to 2006 the difference between male and female unemployment decreased from 1.9% to 1.4%. The variation across the member states remained large, with Ireland's 4.3% and Poland's 17.7%. A considerable rise can be observed in Portugal and Germany, where the rates grew by 3.6% and 3.4% respectively, mainly due to youth unemployment. This tendency characterised more than half of the EU regions, particularly Poland's north western, and Slovenia and Germany's eastern regions, but unemployment grew in Portuguese and Swedish regions, as well. By contrast, there was a decline in almost all regions in South Spain, South Italy and the Baltic States.

The **difference between male and female** unemployment **shrank** further from 1.9% to 1.4%. Calabria and Sicily are outstanding regions in this respect, because the decline is more than 4% there. In some Spanish regions (Ceuta and Melilla) as well as in some Greek regions (Voreio Aigaio and Ionia Nisia) there is an opposite tendency. **Long-term unemployment** proves to be a **permanent problem** in the EU. In 2006 46% of the unemployed could not find a job for more than a year. Their proportion is especially high in France's coastal areas and in almost all Slovakian regions; there are regions where the proportion of the permanently unemployed is 70%.<sup>2</sup>

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<sup>2</sup> Source: Eurostat Regional Yearbook 2007

### ***3.4. Employment prospects in the practice of the Iberian countries***

The example of the two countries shows the changes in their employment policy by illustrating the **principle of good practice**.

**Portugal and Spain** joined the European Community in 1986. During the years following the accession **Portugal showed** an average annual growth rate of 4.5%, **exceeding the European performance**. Thanks to the foreign capital inflow, **unemployment decreased**; 120,000 jobs were created yearly on average. The **employment policy aiming at job keeping even at the expense of wage decrease** proved to be **unique** in Europe. EC membership meant a substantial change in the life of the country, because it underwent significant economic and social transitions, which were reflected by the macroeconomic data and the quality and structure of human resources.

Before the EU accession **Spain** struggled with **high budget deficit** and **high unemployment** with a strong regulation of work markets. Spain's subsequent economic growth was primarily determined by the extent of the capital inflow, which resulted in substantial investments together with an increase of earnings and a growth in consumption. The stabilising macroeconomic environment and the **extensive growth lead to employment expansion**; unemployment rate, which was often 20%, fell sharply from 1997.

From 1997 to 2000 1.5 million jobs were created in Spain in addition to an **extensive flexibilising** of the labour market. The 2005 national reform program marked two areas in accordance with the European employment

targets, mainly in those areas where the indicators were below the European average.

1. Although there was an increase in the extent of employment, – the rate in 2000 was 56%, the rate in 2004 was 61% - it reached not even the Stockholm interim target.

2. The **dominance of temporary work contracts** remained one of the determining features in the fragmented labour market (every third employee had such a contract, which is double the EU average. However, in the period between 2000 and 2005 there was a slight decrease in this field in the private sector (from 35.08% to 34.69%), while the index changed from 20.37% to 22.86% in the public sector. Temporary work contracts were especially popular in seasonal jobs (tourism, agriculture), as this segment provides temporary jobs for the socially disadvantaged groups, such as the young, women and the low-qualified.

Two kinds of pressures were put on state employment policy in this period. Firstly, in accordance with the guidelines of the **Maastricht Treaty** and the **Stability and Growth Pact**, the **number of the public sector employees was limited** and according to the regulations, every fourth vacant job due to retirement had to be filled with an employee with a permanent work contract. Secondly, in compliance with the Lisbon targets, the EU subsidies for the local governments had to be spent mostly on **active labour market programs** that supported the temporary employment of female, young, permanently unemployed and low-qualified workers. (*Jimeno, 2002*).

On the basis of the employment targets of the Lisbon Strategy, the Spanish employment policy set the following tasks for the period of 2000-2005:

- raising female employment rate to 57%,
- raising the employment rate of the elderly (aged 55-64),

- decreasing the rate of youth unemployment from 22.1% to the European average (18.6%),
- raising social security,
- cutting the number of permanent work contracts
- decreasing unemployment rates, especially long-term unemployment rates,
- improving the activities of employment services.

In order to reach these targets the Spanish state initiated a dialogue with the social actors, professional, educational and labour market organisations, and the dialogue was aimed at guaranteeing flexible security. **Portugal's economic growth** was 3% between 1998 and 2001, then, after a decline of 1.1% in 2003 due to the recession, the GDP increased gradually. In spite of the economic growth, there was no significant change in employment. The rate was 68.7% in 2002, 67.6% in 2007. It can still be concluded that the Portuguese **expansion of total employment compared favourably** to the EU average since 1995, apart from falls in recession. The 2001 shock, which decreased European average employment by more than 0.5%, did not change the Portuguese rate so considerably.

Particularly **good results were reached** concerning the **elderly employment** and their reintegration. Following a growth in the employment of the elderly aged 55-64, their rate was 50% in 2006, but also the female employment rate - another demographically marked population – rose moderately from 61.7% (2002) to 61.9% (2006). Thus, **regarding female employment, Portugal is above the Stockholm interim target.**

The **personal employment plan** was developed for the **young age groups** and later it was expanded to the registered permanently unemployed

people, thus supporting individually the finding of jobs appropriate to qualifications.

All unemployed individuals below 21 years of age who have not finished their compulsory education or secondary school were provided with training opportunities, by creating 16,500 possibilities of vocational practice.

**Social security contributions** were completely **eliminated** or minimised for **employers hiring young, permanently unemployed or disabled** employees.

Comparing Portugal to the EU average **by qualification levels**, the Portuguese employment rate **exceeds** the European average **in all age groups** but one. The greatest difference can be seen in the groups of the lowest qualified. Although there was an apparent improvement in this field and youth participation in education is much closer now to the European average, the proportion of those who have finished just the compulsory nine years in education is still high.

The **role of labour market trainings** have strengthened considerably **during the period of 2000-2004**, as the presence of qualified employees has unequivocally proved to be a determining factor in economic development.

## 4. Conclusions and Suggestions

Although a **common political intention** to include employment issues in common policy **was not yet present** in the 1990s, the outlines of a possible consensus have become visible since the publication of the Delors White Book, because unemployment rates (those of member countries and the EU average) were high, much higher than US and Japanese rates. European firms did not reach **their growth through job creating** investments; they reacted to the recession of the 90s mostly with **layoffs**. The slowing of economic growth has deprived the economic policies of the member countries even of the means they used to have at the second half of the 80s. In the majority of the European countries the recovery following the recession has not brought with it the desired improvement in unemployment, particularly long-term unemployment. The reasons lay in **high levels and low flexibility of wages, high corporate costs of recruitment and layoffs** and the **low intensity** of job search due to **extended and generous unemployment services**. No wonder that employment policy, including tackling unemployment was a central element of the 1994 Essen Summit. Among the here formulated targets, supporting vocational training with large-volume investments was a decisive segment. The most important target groups were the young whose career start had to be facilitated. Disadvantaged groups, low-qualified permanently unemployed people and the older groups whose professional knowledge needed to be made compatible with labour market adaptation also needed support.

According to the Essen recommendations the **bulk of the active employment policy**, 0.5% of the GDP, was focused on the **improvements**

**of the requirement systems of the trainings.** It is remarkable that a significant idea of the later employment strategy appears in the financing, notably, that the **education and training costs should be shared** among government, firms and individuals.

As a result of important coordination processes (Luxembourg, Cardiff, Cologne) **several common dialogues have been launched** since the second half of the 90s, but one of the most significant element is that the Amsterdam Treaty devoted a separate new chapter to employment, declaring the formation of a **community employment policy** for the member countries through **their own employment** policy. Based on regulatedness, the European Council analysed the position of employment every year, drew conclusions and confirmed **employment guidelines** with qualified majority, which were regarded by the member states in their own action plans, and commented on their results in their annual reports. The open coordination mechanism was formed in this process, which also meant planning the main guidelines of the following year through the best practice of member countries. One of the **main messages** of the European employment policy was the **investment in human resources**. The primary action directive was improving employability, but several priorities were formulated as further targets, including the one that employees should be capable in their qualifications and skills to react flexibly and adaptively to labour market changes and challenges. All this education-training meant encouraging lifelong learning and also promoted the flexibility of the labour market through demand factors.

The European Council Lisbon Summit in 2000 **appointed full employment** as a main target to achieve in addition to the realisation of social cohesion and knowledge-based society beyond strengthening competitiveness and the permanent economic growth.

Between 1997 and 2005 the strategy, which was reformulated in 2003, was expanded with several new guidelines, because the growth of employment slowed down or came to a halt in several member countries, and unemployment stagnated at high levels. The process was restarted in 2005 by elaborating on the coherence between employment and economic policy guidelines. The strategy represented the view that member countries should form their employment policies so that:

- employment is protected and raised,
- the regional and professional mobility of the labour force is increased,
- the labour force can adapt continuously to economic and social conditions through raising qualification,
- and the active labour market policy fosters the supply-demand balance.

In the achievement of these targets the following ideas are formulated: a **life-cycle based approach to work, making work attractive and profitable** for the job seekers and a **better harmonisation** of the labour market requirements.

The lesson of the first generation of guidelines was primarily the **omnipotence of active labour force policy**; the later following guidelines were expected to strengthen economic and social cohesion. The efforts for **structural change made in the regions lagging behind** were supported by mitigating **local employment inequalities**.

Also the 2005 strategic concept supported primarily the raising of employment, which meant measures **to tackle the structural problems of**



**the labour market.** The problems remained unchanged: the employment rate is low especially among the unqualified, the disadvantaged, women and elderly, there is a structural imbalance (regions lagging behind), and the mobility among sectors is also low.

As positive effects of the strategy, particularly after 2006, **employment performance** in the EU as well as the **structural features of the labour market** have improved significantly. The **coherence** of employment policy guidelines and general economic guidelines integrating macroeconomic aspects served **the long-term goals of the EU with more success.**

Wage reform methods were applied less significantly or just late in the strategy (first in 2005), not even the structural indicators reacted to this issue. Furthermore, the integrated planning of employment, the proposed reforms and **the costs of their realisation were not balanced in the national budgets.**

The European labour market has been characterised for several years by structural crises of the economy, which were manifest in **wage inflexibilities, low employment rates, high proportion of long-term unemployment and a workforce with low mobility.**

As a result of the Lisbon process, mainly through the restructuring of the economic policies, economic growth and employment expansion have started in different ways in different groups of countries.

The average real GDP growth in the EU was 2.4% during the period 1996-2006, which equalled to the average economic growth in the previous decade. In spite of the favourable tendencies, the 3% target set in the Lisbon strategy in 2000 cannot be achieved easily.

Behind the development seen at European level there are **significant variations** across member countries and across regions within member

countries. The expansion of the EU has changed the picture of employment through the new tendencies appearing in migration. Although the newly joined member countries have successfully caught up with old EU members, they show different features at their labour markets. Their performance was improved further by the fact that the results of some larger economies in the EU are modest.

In the last 10 years the continuously rising employment rate has affected the growth positively (yearly 0.8% in EU15 and 0.5% in EU25). The EU15 employment rate improved from 59.9% to 65.4% between 1994 and 2005. This result is thanks to the decreasing unemployment which is due to a more efficient functioning of employment policy measures. The **employment policy performance** of the EU has grown, which is shown by the rising employment rate, however, it **was not accompanied by a significant growth of productivity indicators**. The improvement resulted from the bigger activity potential of older employees and women, particularly due to specific employment policy measures. By 2006 unemployment rate had decreased to 7.9%, but it is shown by the 16 million unemployed citizens that the Lisbon target is still far ahead. Long-term unemployment, particularly among women and the young, changes very slowly mainly because of structural reasons. Behind the development at European level there is a significant variation of results among member countries and also among regions within member countries.

**Flexible security** has become a decisive tool in employment; it refers to two important factors: **labour market factors** that are significant for employers and employees, and the **security of employing and being employed**.

Flexibility and security have a very short history in community policy. Flexible security is basically a collective notion whose constituents involve

the unusual employment forms reacting to labour market changes. It is significant that the rate of employment in this area has not increased at all or just slightly since 2004.

For example the proportion of contract employment – and similarly part-time employment – varies largely by branches and also by countries. There are some branches such as construction, accommodation services, catering and other community and personal services (cultural, sport and recreational activities), where every fifth employee works with a temporary contract, moreover, the proportion of young and unqualified employees is high, two groups that are usually considered as endangered by economic downturn. So the **active labour market policy** and **lifelong learning** remain **significant factors as principle and practice.**

Flexible security has an outstanding role in the significant structural changes of economy, where the performance of employment and social security system are unsatisfactory. The labour market integrity of those on social security is an important aspect here.

Spain and Portugal's examples have shown how it is possible to reach significant results. Before the accession the two countries had already restructured their economies, stabilised their macroeconomic environment thus created the necessary conditions for working capital inflow. Following their accession they underwent spectacular development, which resulted in employment expansion, mainly in Spain. Due to the growth of work productivity there was a decrease in unemployment, which varies greatly among member countries, mainly because of the differences of their labour market regulations.

**The sectoral composition of the labour market has transformed;** there has been a shift from agriculture to industry and services and from the raw

material-intensive industries to work-intensive ones, then, due to technological transfers, to capital-intensive fields. The transformation induced a short-term increase in unemployment rate, as it was shown by the Spanish example, but in the long run this structural change resulted in more favourable employment indicators.

Another lesson from the Spanish example is that **too strict employment laws inhibit** structural change and **growth**, and, contrary to their original aim, they cannot influence job losses. A strict institutional framework might conserve the effects of a temporary economic shock, which can be changed only by the flexibilising of labour market regulations. But the employment policy measures have different effects on national and local labour markets in different countries; no regulation can mean a solution everywhere to reach the desired level of employment and create the necessary labour market environment. For example, while in the Netherlands the atypical employment forms have largely contributed to the decline of employment rate, they had a much less salient effect in Spain. The burden of the transition is mainly borne by women, the young and agricultural and industrial employees. The number of young people was growing in higher education, in-service vocational training and adult education and in the more and more widespread apprentice programs, and this influenced favourably their employability. Raising educatedness as well as a more widespread application of the atypical forms of employment like part-time work or telework might be a solution for women. Redundant agricultural and industrial workers were supported with specific vocational training and retraining programs in order to be able to adapt to the structural change especially in the service sector. The two Iberian countries put a large emphasis on reducing unemployment and using productivity factors more extensively. Owing to **state orders**, most investments were

construction and infrastructure investments, under market conditions but with protectionist measures, which were influencing the labour markets.

Portugal has managed to catch up with regards to **human infrastructure development**, through which national as well as regional inequalities were mitigated (next to a trade off effect) and productivity grew, but the employment stimulating and mobility strengthening effects of all these are not always positive.<sup>3</sup> The reasons for the inflexible labour market position are cultural, social and geographical, particularly in Portugal, and the employment policy measures for flexibility are often ineffectual.

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<sup>3</sup> Employment growth at unchanged technology level means a decline in work productivity, but an increasing employment through significant structural changes leads to a productivity growth.

## **5. New and novel research results**

1. Since its emergence in 1997, the ultimate goals of the EU employment policy have been raising employment rate and decreasing unemployment thus improving the position of the union in the global competition. The community principles and the possibilities of member countries having different budget conditions and public policies were inconsistent, and the so-called principle of good practice for cooperation was not supported by outside incentives.
2. Due to a lack of financing conditions of the European Employment Strategy, member countries were not motivated to develop their education, labour market subsidies and social policies with significant investments. An analysis of the data shows that the variation among member countries regarding labour markets and social spending determines their employment conditions in different ways; i.e. a small country with low social spending does not necessarily mean low employment or high unemployment.
3. It is evident that the expansion of production in the EU was triggered primarily by productivity growth; labour force use was only a secondary factor. Therefore, work-intensive production was pushed into the background by technology-transfer, which can reduce the utilizable workforce even in the long run in the restructuring economies. The advance of the capital-intensive branches, which is one of the key factors in productivity in European economies, might reduce employment.  
The upgrading of human resource investments combined with the advance of atypical employment forms mean a great deal of insecurity for

employees (lack of motivation and protection, lack of in-service trainings, poor working conditions), but even employers could expect several negative effects (high staff turnover, volume fluctuation, worker shortage).

Thanks to the effects of the community employment policy, the labour market has become more flexible, which causes employment insecurities for workers. The issue of security is regulated by outside conditions and this means large social security costs. Part-time employment, which is a significant element in flexible security, is used by larger organisations by getting subsidies.

The impact of part-time employment on employment growth, which was taken for granted by European practices, cannot be proved, since it is possible for a member country with a lot of part-time employment to have lower employment rates (e.g. Poland) and a high employment rate can coincide with a relatively low proportion of part-time jobs (Slovenia, Czech Republic). However, it is without doubt that no significant employment expansion can occur without part-time employment; an employment growth above EU average can be reached only with a higher than 5% proportion of part-time employment.

Regarding developed and undeveloped regions, the latter must face the challenge that their present economic structure conserves their uncompetitiveness, because it is built on production with low cost and low labour cost. This applies to the traditional branches of developed regions, too. As the sectors using innovative technology and workforce tend to locate into innovative networking regions, the employment difficulties of micro and macro regions lagging behind might persist.

4. The EU employment policy with its orientation role was unable to have a direct influence on the employment policies of member states; this is also proved by Spain and Portugal's example, namely, their economic success including labour market success did not result merely from cohesion support but also from fiscal efforts to ease strict regulations and the rigid labour market.



## 6. Publications within the field of the dissertation

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Maksay, K.: *Munkaerő-piac – foglalkoztatás – álláskeresés, oktatási jegyzet*, [Labour market, employment, job search, university textbook]  
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