



# EUROPEAN EMPLOYMENT STRATEGY AND THE INTEGRATED GUIDELINES FOR GROWTH AND JOBS

European Trade Union Confederation







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FINAL REPORT

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European Trade Union Confederation





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# 1 INTRODUCTION

In May 2005, ETUC submitted a report entitled *Contribution of the Trade Union Organisations to the Evaluation of the Actions conducted and their Impact in Terms of the European Employment Strategy* – the result of an extensive discussion on the trade union view of the development of the EES and its impact at European level.

In the course of 2006, ETUC asked the same team of researchers to conduct a follow-up of the application of the integrated guidelines for jobs, and to go further in the trade union view as to the success of the EES, while taking account of the events that had taken place since the last report.

This second report introduced a number of methodological changes compared with the first. Not only was a new survey conducted and sent to all the national trade unions; two seminars were organi-

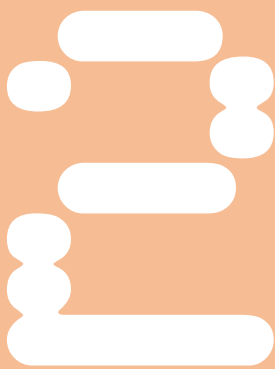
sed, the themes of which were focused more on the principal working hypotheses of the first report; and four case studies were conducted in Hungary, Sweden, Germany and Spain, so as to compare and contrast the discussions in the fields and to move forward on the national conditions in which the EES is applied.

The seminars were organised in Bratislava on 16 and 17 February 2006 and in Ljubljana on 20 and 21 April of the same year, and the different national trade unions were invited to attend.

In the end, the conclusions drawn from the discussions and the proposals of the reports were presented at a final seminar held in Brussels, and attended by experts, professionals, European trade unionists, representatives from the European Commission and from employers' organisations.



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# EMPLOYMENT TRENDS 2005-2006

Two years after the first report on the contribution of the trade union organisations to the evaluation of the actions conducted and their impact on the European Employment Strategy, developments in employment in Europe since the beginning of the European Employment Strategy in 1997 can be analysed with greater detachment at this time.

## 2.1. Employment in Europe 1997-2006

The recession at the beginning of the 1990s brought about high rates of unemployment in the Europe of the 15, exceeding the 10% mark. Nevertheless, the situation started to improve as of 1994, and the unemployment rate was gradually reduced. The European Employment Strategy charted in 1997 was intended to sustain and expand this improvement in the unemployment situation and to broach the stakes for the future. For this stage, running from 1994 to 2001, in a context of a generalised economic improvement, the EES had a positive impact: the rate of employment grew by two points, while the unemployment rate was reduced by one point.

It was against this background of a certain amount of euphoria, that the Lisbon summit adopted an

ambitious plan for tackling the stakes for the future of Europe that would enable it to become the most competitive economy on the planet, while maintaining the European model of social cohesion by 2010.

As of 2001, however, the change in the economic cycle had a serious impact on the Lisbon objectives: the rate of employment has practically stagnated, whereas the unemployment rate has started to climb, affecting many workers in most Member States. The strategy's guidelines for jobs had to be adjusted in 2003 so as to be brought in line with a situation that was growing more distant from the Lisbon objectives. The desire to continue working so as to reach those objectives in 2010 was reiterated, in terms of full employment and a better quality of jobs and greater productivity, whilst endeavouring to stimulate cohesion on an inclusive labour market.

As of 2004, the year in which the EU was enlarged to 25 members, we have noted a new improvement of the situation, with renewed growth in employment rates, as well as a reduction of the rates of unemployment affecting the different countries to unequal degrees.

EMPLOYMENT TRENDS IN THE EU-25			
Year	Employment rate	Unemployment rate	Key dates of the EES
1997	60.6		European Employment Strategy
1998	61.2	9.4	
1999	61.9	9.1	
2000	62.4	8.6	Lisbon Summit
2001	62.8	8.4	
2002	62.8	8.8	
2003	62.9	9.0	New European guidelines for jobs
2004	63.3	9.1	Enlargement to EU-25
2005	63.3	8.8	Integrated guidelines for jobs
2006*	64.6	7.9	

The employment rate refers to the second quarter and the unemployment rate to the month of October.

The EES was revised again in 2005 integrating the macroeconomic, microeconomic and employment dimensions to a greater extent, and redefining the strategic guidelines. This new employment step is still in force today.

From a strictly quantitative view as to the number of jobs, these three major steps in the development of employment since the adoption of the EES, have shown that the strategy charted in 1997 served far more as a guideline for generic objectives based on

diagnostics, updated and adapted to the changes of the economic situation, than as an efficacious instrument to engineer a significant impact on the development of employment in Europe.

The integrated guidelines of 2005 are still aimed at the Lisbon objectives, even though it is now assumed that these objectives will not be achieved by the date originally set; a sizeable part of the NRPs of the member countries have started to introduce extended deadlines.

## 2.2. EES monitoring indicators

Even if the employment situation has improved in terms of jobs, if we calculate the number of jobs created as full-time equivalents, there has been practically no growth at all in the last five years. The conclusions are even more discouraging if we also consider the inequalities on the labour market.

The gender variable has registered the most positive performance, in spite of the major differences that persist as to the employment situation between men and women. The growth that has occurred has been far more favourable for women, although the activity and employment rates between men and women are still marked by a 15 point difference, a reduction of about 2 points since 2000 notwithstanding. If we now calculate the employment rates in terms of full-time equivalents, the differences are even greater, 21 points, even if, there once again, there has been a reduction of about 2 points. And the differences between the percentage of those employed under non-standard contracts between men and women are more than 14 points, even though, once again, pay differences have been reduced by two points.

The situation of young people is still worse than that of adults, as the unemployment rates have separated these two groups even more in recent years. Only the employment rates of young women

have improved, but not those of their male counterparts.

Regional disparities in employment are still very wide, even if they have improved in recent years, as has the situation with occupational accidents.

The long-term unemployment rate of those experiencing the greatest difficulties to find a job has remained constant in the last five years. The differences between the unemployment rate among migrants and EU nationals remain high, at more than 8 points.

Finally, the percentage of non-standard employment is about 40%, with wide differences between countries<sup>1</sup>.

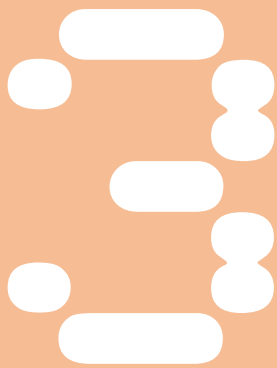
As regards life-long continuing training, access to training has improved considerably, from 7.8% in 2001 to 11% in 2005; the same applies for the other indicators for monitoring improvement in education and training.

Consequently, the recovery in employment in the last two years has meant neither a clear improvement in the status of employment, nor a consolidated reduction in the inequalities on the labour market, except with regard to gender differences, in the right direction, although their objectives are still far from reached.

<sup>1</sup> Cf.: Indicators for monitoring the employment guidelines including indicators for additional employment analysis. 2006 Compendium. 29-9-06.



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## YEAR 2005 OF THE EES

This new report on the contribution of the trade unions to the monitoring of the EES intends to analyse, in concrete terms, the integrated guidelines for jobs and their impact on employment and on the social dialogue between the social partners.

We can state that 2005 was a key year for reviving the EES. In addition to the new guidelines, the main reference points for 2005 are the launch of the EU programme on the Lisbon strategy by the Commission, the implementation of the new programming step 2005-2008, with the presentation of the NRPs by the Member States, and the drawing up of the Joint Employment Report of the European Commission and the Council 2005-2005 by way of follow-up evaluation of the EES.

### 3.1. Integrated guidelines for jobs

In view of the difficulties to attain the Lisbon objectives and the need to revive the EES, capitalising on the context of a lukewarm improvement in the employment situation, the Commission has proposed new guidelines that would integrate the open method of coordination (Luxembourg process), microeconomic and structural reforms (Cardiff process), and macroeconomic and budgetary instruments (Cologne process). This integration of processes aimed at creating greater coherence between the different economic, environmental and social policies so as to attain the Lisbon objectives, even if greater emphasis is placed on the process and on concrete measures, and far less on the objectives to be achieved.

The main objective of the guidelines consists of implementing policies to:

- ❖ Attract more people in employment, in particular, by making work pay, by doing away with unemployment traps, and by encouraging women and the elderly to join – or to stay in – the labour market;
- ❖ Improve the capacity of workers and of companies to adjust, while making labour markets more flexible through diversified contracts of employment
- ❖ Invest in human capital by improving education and skills.

These three objectives are broken down in eight guidelines which, together with macroeconomic and microeconomic guidelines, constitute all 23 new integrated guidelines.

- ❖ Guideline no. 17: Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

- ❖ Guideline no. 18: Promote a lifecycle approach to work.

- ❖ Guideline no. 19: Ensure inclusive labour markets, enhance attractiveness, and make work pay for job-seekers, including disadvantaged people and the inactive.

- ❖ Guideline no. 20: Improve matching of labour market needs.

- ❖ Guideline no. 21: Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.

- ❖ Guideline no. 22: Ensure employment-friendly labour cost developments and wage-setting mechanisms.

- ❖ Guideline no. 23: Expand and improve investment in human capital.

- ❖ Guideline no. 24: Adapt education and training systems in response to new competence requirements.

The Member States, in cooperation with the social partners, will have to implement these lines of action to cover the following objectives: full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

As we can appreciate, these guidelines are a painstaking balance between the different conceptions of employment policy, the role that the European Commission must play in promoting employment, and the varying situation of employment in each member country.

Four aspects are worth commenting on when analysing the guidelines:

- ❖ The difficulty of integrating the three components of the integrated guidelines. The integration of the economic perspective with that of employment undeniably constitutes a step forward towards a global conception that will take due account of the social impact of economic policies and the potential for involving the social partners for economic growth. Against the background of the open and inter-institutional coordination of the Europe of the 25, this integration is very complex and requires high doses of leadership. As a result of this situation, instruments tend to be juxtaposed rather than integrated, leaving coherence gaps between the desire to improve the competitiveness of the European economy and the macroeconomic policy instruments to use, or declarations advocating the European social model and its reform.

- ❖ A macroeconomic approach far too rigid and far too unbalanced to keep inflation under control and money supplies that do not pay sufficient attention to intervention in the economic cycle so as to revive the national economies. The limited experience with

monetary union, the success obtained notwithstanding, exerts excessive pressure for a conservative management of money supply in the face of uncertainty on how to coordinate economic growth and the cycles of the national economies. The difficulties of managing the coordination of national economies at European level give rise to fears, slow the capacity to react to the economic situation and to the wait-and-see and unconvincing attitudes of European leaders. Insecurity and suspicion set in among the economic and social partners, with negative effects on investment and consumption that extend, to no use, the reaction and recovery periods of the national economies<sup>2</sup>.

❖ The balances aimed at defining the guidelines show gaps that leave certain basic social objectives completely diluted, such as those for promoting policies to reduce the number of poor workers, or to prohibit salaries below the minimum levels of decent income.

❖ Be that as it may, the main problem, as we shall see below, is that these approaches constitute a coherent whole which, some qualifications notwithstanding, seems balanced and has received the support, at the outset, of the social partners and the main institutions active in the employment dimension; as defined, however, they risk not being interpreted and applied with the same global and unitary conception, and each partner, in particular each of the governments in charge of implementing them may, on the contrary, interpret them differently and place emphasis on one or another guideline or this or that aspect within each guideline, so that when transposed at national level, the results obtained may produce very different – and in some cases even contradictory – results from those expected when initially charted. The coherence of the guidelines, as defined, therefore risks disintegrating when they are applied at national level.

The attention must therefore be focused on the process for monitoring and implementing the new integrated guidelines for jobs. This comes down to asking up to when does their application manage to maintain the balances they contain, or whether their particular application by each government winds up disrupting the initial balances and entails that the results do not bring about the desired impact. Other measures that flank the guidelines on simplifying the monitoring (a single joint annual report, tri-annual integrated national programmes, a simplified committee for employment, etc.) that are more connected with the process of managing

and applying the guidelines are therefore gaining ground.

This ambiguity of the new guidelines is reflected in the scepticism of trade union leaders, which will be discussed in the next chapter. In fact, while agreeing with the proposal to integrate economic and employment approaches, these leaders fear that their application will have little impact on employment; they dread above all that workers will in the end pay for the consequences of efforts to improve the competitiveness of the European economies, with increasingly longer periods of employment crisis and a loss in the quality of jobs.

As well as the processes already mentioned, other instruments have been introduced to strengthen the EES:

❖ The approval of the European Pact for Youth and promoting active citizenship; this pact aims to improve education, training, mobility, integration in the world of work and social inclusion for young people, while facilitating the reconciliation between working and family life. Numerous NRPs include it in their aims, although without improving it or making it very visible; furthermore, in nearly all cases, participation by youth organisations was not enhanced.

❖ The approval of new rules for structural funds, in particular the ESF, strengthening the role of instruments in favour of European economic and employment policies.

❖ A globalisation adjustment fund as a new instrument to complement the reorganisation of the objectives of the structural funds, so as to facilitate the capacity to react to difficulties faced by companies and territories in adapting to the dangers of competitiveness as economies are globalised.

❖ The “Education and Training 2010” work programme that defines a global agenda for cooperation by and between the Member States to improve the education and training systems in Europe so as to encourage the development of human capital.

❖ The EU programme on the integrated Lisbon strategy integrates a set of measures for the implementation of the Lisbon objectives as an effort by the Commission to improve the visibility and coordination thereof.

❖ The measures intended to stimulate employment constitute a set of additional actions; with regard to employment, they are intended to encourage analysis, research and cooperation among the

<sup>2</sup> Cf. *More and Better Jobs for Europe: Europe needs more flexible macroeconomic policies*, as ETUC’s position on macroeconomic policy.

Member States, through the monitoring of the EES by the European Employment Observatory, and also thanks to the mutual learning programme under the auspices of which are organised theme seminars and peer reviews to exchange good practices and to encourage cooperation between the Member States.

All these instruments provide a complex view of the European Employment Strategy; the hardcore of this strategy consists of the guidelines and the NRP, but it nonetheless comprises a very vast range of measures, instruments and mechanisms that should be considered globally. It is moreover worth bearing in mind the potential and limits of the constitutional mandate of the Amsterdam Treaty. The new section on employment therein considers this matter as part of “matters of common interest” of the Member states, as well as one of the objectives of the EU. It vests additional competencies in the Commission while nonetheless reserving the competency for employment policies for the Member States.

We must also point out that the EES must be considered against the background of other European policies; not only those connected directly with the employment and the development of human capital, but also those geared to the completion of the single market. We have been able to perceive that in recent years, EU decisions with a greater potential impact on employment have stemmed from the approval of directives, such as the one on services.

### 3.2. The NRPs and the Joint Employment Report 2005-2006

The main instrument of the EES as applied at national level consists of the NRPs and the joint employment report which reflects the opinion of the Commission and of the Council. The last report for 2005-2006 is quite explicit on the progress and limitations of EES.

The main conclusion of the joint report is that the EES is being correctly implemented by the Member States, but that it is not sufficiently ambitious in terms of the proposed actions to be taken in order to face the major challenges and commitments of the Member States regarding employment.

...*“It is essential to move up a gear in implementing the Lisbon Strategy. Member States should be more ambitious in reaching the objectives of the European Employment Strategy: full employment, productivity and quality at work, and social and ter-*

*ritorial cohesion. Governance and social partnership are crucial to implement effectively the employment and social policies.”*

The report recommends that the Member States must step up their efforts and get more involved, and calls for more responsibility for the social partners and better governance of national policies.

The main criticisms levelled by the joint report are as follows; the measures adopted by the Member States focus on the deficiency of structural changes to achieve higher economic growth and to create more jobs; furthermore, the actions taken are fragmented, geared to a limited number of specific groups, while paying little attention to the efficacy of the measures for human capital; the fragmentary nature and the insufficient importance attached to new measures for improving the capacity of workers and companies to adapt, the imbalance between flexibility and job security that risks aggravating the precarious nature of employment and compromising the sustainable integration into the world of work, while limiting the creation of human capital in a number of Member States, as well as the scarce efforts to involve the social partners and all the social actors so as to implement the NRPs, also come under criticism.

In a world, according to European officials, the NRPs do not show major formal differences in the approaches to the guidelines. Analyses and proposals for action at national level are in line with European commitments. Nevertheless, things would be quite different if the NRPs were to draw up real strategic plans, setting out national commitments to reaching the Lisbon objectives by following the guidelines overall and with the same balances as established at European level. The response is clearly negative, and far from what was expected – and needed – to attain the objectives set.

In general, the NRPs are formal documents drawn up nearly exclusively by the governments, without the active participation either of the social partners, or other national political, economic and social actors, which would set in order the actions currently pursued by each government, so as to put them on the same course with the guidelines; yet the objectives would not have to be defined down to the tiniest and most complex detail, nor the programmatic and financial means and resources allocated to reach them; the scope of the guidelines would also be subject to interpretation, according to the economic and social options of each government.

The NRPs are far from being the national instruments of preference for structuring the decision-



making process and the involvement of society as a whole, so as to promote the structural changes needed for the recovery of the national economies, while bolstering the European social model which, for its part, would combine the flexibility and security needed to secure growth and the quality of employment.

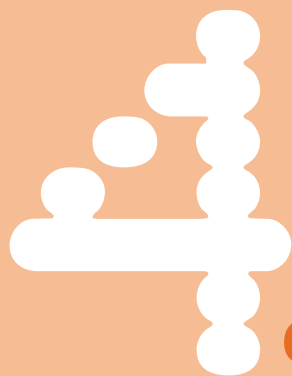
If the rare progress registered on employment, in terms of both quantity and quality, is added to

these deficiencies of NRPs, can we still state that the poor results obtained are primarily a problem of the speed and depth of the efforts made to encourage reforms and economic and social growth?

The deficiencies detected undoubtedly have deeper roots, entailing, in a certain way, the approaches, implementing instruments and leadership capacity.



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## CASE STUDIES AND DISCUSSIONS

The field work that served as the basis for this report consists of four case studies for the questionnaire sent to the national trade union organisations and for the discussions held during the two interim seminars and the final seminar. We shall now present the main conclusions of the talks and discussions held with the social partners, and then provide the conclusions of each case study.

#### 4.1. Results of the case studies: shortcomings across the board

The four countries examined in a case study were: Sweden, Hungary, Germany and Spain. These four countries have different situations, yet similar concerns: in spite of the importance of employment in each country, the EES is not the focus of the discussions.

Brief national case studies, carried out as supplements to the general survey, reveal a highly *differentiated panorama* of diverse degrees of *significance* accorded, within individual countries, to the reform plan process initiated on European level – a disparity of views to which not only the various governments but also the other social partners and, in the present context, particularly the trade unions contribute.

The *position from which Sweden begins is* – considered from the employment viewpoint – a comfortable one; the country has already exceeded all goals set by Lisbon.

Sweden is also one of the EU Member States in which the interaction between European and national strategies is – at least *under the formal aspect* – especially well developed. “Lisbon co-ordinators” have been put in place at the work level itself; there exists a “Lisbon Platform” between government and social partners which meets several times a year and closely follows the progress of the reform plan process; a joint statement by the social partners is *officially* added as an appendix to every report on the National Reform Plan which is passed on to Brussels etc.

We thus read in the “Conclusions” section of the case study: “The participation of trade unions in Sweden could be described as exhaustive and highly positive. The three Swedish federations are regrouped, together with the employers’ associations, on the Lisbon platform several times a year to follow the European process closely and agree on their common text. All trade unions confederations have indeed declared themselves highly

satisfied with the newly reformed Growth and Job Strategy. They see this reform as a positive way for different departments to work together and for the whole process to gain further transparency.”

Admittedly, there have recently occurred certain irritating little incidents which could well place a question mark over Sweden’s “brave new (employment policy) world”. In 2006, for example, no statement by the social partners was appended to the report on the National Reform Plan because the employers could not agree on a joint position statement. The Swedish unions have also been shocked and surprised by the plan of the new Swedish government to close down the famous *Arbetslivsinstitutet*. This closure would mean the unions being deprived of an important instrument for the scientific legitimisation of a labour and employment policy that might raise a claim to equal respect with every other form of political and economic discourse. Quite aside, however, from these present small irritations within the “Swedish model”, the question remains as to why the Swedish manner of proceeding has not produced the spur effect in the context of the whole trans-European reform plan and employment strategy. That this is devoutly to be wished for can be seen if we look at Germany, and even more clearly when we look at Hungary.

As regards employment, *Germany* remains - despite the present upturn, which is also having positive effects on the labour market – in a critical situation, and not only in comparison with Sweden. Against the background of a thoroughly macroeconomic orientation towards stability, the foreground of the 2006 report on the progress of the reform plan was taken up by an account of those so-called “structural reforms”, the health-reform and also the labour-market-reform aspect of which have been the object of severe criticism by the unions as regards their effects on the quality of the welfare state and on employment – to the point that the unions have even organised public demonstrations around this theme. In Germany, the quantity and quality of available employment and the issues surrounding “employment and poverty” are currently among the leading topics of public rhetoric. The same, however, cannot be said about the topic of European policy on employment and the specifically relevant reform plan process which is presently ticking over in the background as a part of “miscellaneous daily business”.

The German Trade Union Federation (DGB) – responsible, as an umbrella organisation, for labour market policy - is developing an increasingly critical

stance vis-à-vis the context for employment policy which has been established by the European strategy for macroeconomic stability. Such criticism is all the sharper inasmuch as the DGB perceives many points of concordance with the policy currently pursued by the German federal government. The DGB, moreover, feels it has been snubbed because the German federal government is tending to neglect, already in its second year, the established requirement that all partners in the social contract be drawn, in good time, into the political decision-making process. Since the deadlines hardly leave time to develop serious positions on the issues, and since integrated discussion is rejected as regards macroeconomic questions -- the recent so-called “structural reforms” and the effects of these on employment policy are perceived as a dependent variable.

Against the background of the noted German tradition of “co-determination” in industrial relations this is indeed a remarkable way of proceeding. For the time being, however, it does not look as though it is prompting the German trade unions to make the interaction between European and national policies a point of political contention and to insist, on this issue, on a right to participation and co-determination. Rather, the unions are once again tending to concentrate on the core themes of a national employment and social policy. It remains to a great extent still unclear what role would need to be taken on, within the context of a multi-level strategy, by the country’s trade unions if they are 1) to help to render genuinely effective the ETUC’s demand for a revision of the macroeconomic guidelines and 2) to strengthen their own position within the domestic struggle concerning an appropriate employment policy.

Hungary is, in a sense, opposite Sweden. From the point of view of stability, the European Commission considers the country to be very much on the right path. According to official figures, there are significant growth rates, falling inflation, and the official unemployment rate stood at just 7.1% in 2005. On the other hand, from the point of view of living and social standards, Hungary is one of the European countries with the biggest problems, with stark regional disparities, a stubborn core of long-term unemployment and a powerful growth in the “black economy”. Trade unions in Hungary are numerous and fragmented, but confronted nonetheless with increasingly difficult tasks.

There are three key reasons why the new EU Member States are having difficulties in establishing an effective interaction between European

strategy and national policy: (i) many of the problems faced by the new Member States were considered and addressed only belatedly – or often not at all – by the Guidelines (ii) mutual trust and confidence is lacking (iii) social dialogue is weak. This last point is one stressed above all by the Hungarian unions themselves, who, on the one hand, confess, self-critically, their hitherto lacking capacity to form and direct such a social dialogue but, on the other, find themselves objectively face to face with employers little concerned with such a dialogue, and governments unwilling to demand or enforce such a thing. In Hungary, then, we see a country which is (as yet) lacking in almost every respect in those preconditions and instruments which lie – in the form, at least, of “potentials” – at the disposal of both the German unions and, even more markedly, the Swedish unions.

The Spanish case reflects yet another position in the spectrum of employment situations in Europe. With a sustained strong growth in employment for more than a decade, Spain, formerly one of the countries hardest hit by unemployment, managed to reach the European average, more or less, and even to register a high number of immigrants, while increasing the participation of women in the working population. Spain produced nearly half of the jobs created throughout Europe in recent years. This job creation success story should be qualified however, given the high contractual flexibility – one of the highest in Europe – where a considerable number of workers are under temporary contracts of employment. Seen from this perspective, the Spanish situation reflects the discussion on employment and the EES in Europe: at a time when employment is recovering, the question of quality of employment is becoming a major theme for assessing the results of the EES.

The Spanish case moreover illustrates a contradictory situation, inasmuch as the social dialogue has been intense in recent years and has led to very important agreements between the social partners and the government, whereas the EES was not part of the priorities nor the hardcore of the negotiations, which included important measures to reform the labour market, among other aspects aimed at reducing the rate of temporary employment. In short, although employment was a key issue in the social dialogue in Spain, the EES monitoring process did not play a sufficient role for the development of the discussions and the decisions taken.

#### **4.1.1. EVALUATING THE INVOLVEMENT OF NATIONAL TRADE UNIONS IN THE NATIONAL REFORM PROGRAMMES OF THE NEWLY REFORMED GROWTH AND JOBS STRATEGY. NATIONAL CASE STUDY: SWEDEN<sup>3</sup>**

##### **4.1.1.1. Employment and economic situation in Sweden**

Sweden is a rather atypical country in the European Union (EU), within the realm of the newly reformed Growth and Jobs Strategy (GJS), as it already exceeds all the Lisbon employment targets including those for women and for older workers. The Lisbon targets set the objective of attaining a 70% employment rate by 2010 when the Swedish employment rate already stands at 78% and is forecast to carry on growing slowly in the next five years. The total Swedish unemployment rate stands at a record rate of about 5%. The trend seen in recent years of falling investments also appears to have been reversed as GDP grew by 3.5% in 2005.

The last few years have been rather unusual in cyclical terms, for Sweden, in three different respects. First of all the favourable trend of exports, in relation to imports, has made a major contribution to growth from foreign trade. Swedish exporters benefit from the fact that demand in other countries is generally very high. This is particularly important when considering that half of Swedish GDP is generated by exports. Moreover, Swedish companies making telecommunications products and motor vehicles are enjoying major export successes, which have helped boost the upturn<sup>4</sup>.

The second unusual feature of Sweden's current phase in the economic cycle is that the number of working days is considerably higher than normal. One implication of this 'calendar effect' is that hours worked are expected to increase by one percentage point more than they would otherwise, giving a temporary boost of 0.6 percentage point to GDP growth (see Table 1).

A third feature is that employment in 2004 fell by 0.6%, while GDP growth was strong.

Sweden's long tradition of a favourable employment situation started in the early 20<sup>th</sup> Century. In the 1970s and 1980s the Swedish economy experienced a further "all time high" which led to a situation, in the 1990s, where Sweden already accounted for a situation of full employment. The

economically active population participating in the labour market was 82%. The Social Democrat government in place until 17 September 2006, and consecutively for the last twelve years, adopted strong macroeconomic policies aimed at devaluing the Swedish krona. These macroeconomic policies consequently boosted the Swedish market, which has always been highly dependent on exports, and led to high demand for Swedish market export products. Although the nature of products exported has shifted drastically in recent decades, Sweden has managed to maintain a stable level of total exports for its national economy. In the first half of the century Swedish exports were dominated by mining products, whereas today the tendency is to develop engineering products, such as information and technology, and telecommunication products. The market has been highly efficient in following international demands and trends.

Although the country experienced an economic crisis at the beginning of the 1990s, which could be compared to a depression and during which unemployment peaked at nearly 13%, this only lasted for six years until the economy started to look up again and unemployment rate slowly dropped back down to today's levels. Of today's unemployment rate only 3% is considered to be long-term unemployed. However both government and social partners show a certain concern today. Even though Sweden has been experiencing significant economic growth in the last few years, this growth does not seem to generate further jobs. Although the social democrats have optimistically forecast that GDP growth in 2006 will be more employment-intensive since the rate of production growth in service sectors is expected to rise, this does not appear to be strictly true. Over the past few years, employment has been held back by the fact that many companies have improved their performance through far-reaching cost savings and highly restrictive recruitment policies. The high pace of rationalisation which has characterised recent development is not, however, considered sustainable in the long term. Accordingly, productivity growth will fall slightly and, to a higher degree, demand will be met with increased labour inputs (Swedish NRP 2005).

The issues of tax cuts and job creation have been at the heart of the recent election campaign, which saw the end of a 12-year Social Democrat govern-

<sup>3</sup> The case study was conducted by Céline Lafoucrière.

<sup>4</sup> Interview with Lena Hagman, Chief economist, TCO (The Swedish Confederation of Professional Employees), in August 2006.

TABLE 1: TRENDS IN SWEDEN 2003–2005

	2003	2004	2005
Number of people employed	-0.3	-0.6	-0.8
Rate of regular employment (1)	77.6	77.0	77.0
Unemployment rate (2)	4.9	5.6	5.1
Labour market policy programmes (2)	2.1	2.3	2.5
Number of hours worked (3)	3.5	3.4	3.5
Hourly pay	3.5	3.4	3.5
Consumer price index, annual average	2.0	0.6	1.4
Public sector financial saving	0.5	0.7	0.6
GDP growth	1.6	3.5 (3)	3.0

Source: Swedish National Action Plan for Employment 2005

(1) Regularly employed people aged 20–64 as a proportion of the population.

(2) Unemployed people as a percentage of the labour force.

(3) A calendar effect consisting of the higher number of weekdays in 2004 explains 0.6 percentage point of the GDP growth rate. During 2006, this effect is expected to be zero.

ment. On 17<sup>th</sup> September 2006 the Social Democrat party was replaced by the Moderate party, which takes a harder line on these issues, and mainly on the reduction of labour taxes. In early 2006, the former Swedish government set an employment target of 80% to be reached in the next five years. To attain this target, around 300,000 more jobs would have to be created. In 2006, however, only 64,000 jobs were created and it appeared difficult to forecast anymore job creation under the present taxation conditions. Sweden applies one of the highest rates of administrative taxes on small and medium-sized enterprises (SMEs) as well as the highest rate of taxes on low-paid jobs in the EU. This has generated strong and recurrent criticisms from the European Commission, and is a major worry amongst the Swedish population. The 2004 Council Recommendations, as well as all Council Recommendations issued since the creation of the Lisbon Strategy and the European Employment Strategy (EES), recommend a reduction of these taxes in order to stimulate the creation of SMEs and thereby further stimulate employment. This recommendation, although talked about within the Social Democrat government and amongst social partners, had so far been left aside, for it did not correspond to the national political ideology. The new Moderate government promises to tackle these issues fast. We believe that these promises have been a key to the Moderate's party getting elected.

#### 4.1.1.2. Government actions for employment

The former Social Democrat government had long practised employment policies which are in line with the EES. This particular focus was given as

early as the beginning of the 1950s and will probably be followed by the Moderate party, very close in many ways, as did the Social Democrat party. It creates a situation in which the Swedish government is highly supportive of the EES. The only and main controversy can be found in the reduction of labour taxes, as mentioned above. These controversies as well as the paradoxical jobless growth, experienced at the moment, were at the heart of the Swedish elections held this year. The result of these elections on 17th September 2006 show that, according to the Swedish population, the Social Democratic party had failed to create more jobs. In the near future, therefore, we can expect a change in tax policy. Although the Social Democrats had been quite successful in maintaining good living standards, high employment and economic rates, the taxation barriers - which they refused to tackle - did not allow them to foster the creation of more jobs and finally pushed them out of government.

In terms of economic policy the social democrat government's main goal was to achieve high, sustained growth and full employment. It considered these aspects essential in order to pave the way to improved quality of life and equitable welfare. To attain this objective the government envisaged macroeconomic stability as a precondition (NAP for Sweden 2004). The Swedish government set two general aims of budgetary policy: that public finances should show an average surplus of 2% of GDP in the course of one economic cycle and that expenditure should not exceed the budgetary ceilings. The foremost reason for the 2% surplus aim is the future demographic strains on public welfare systems. Sweden has is one of the EU countries with

the strongest public finances. Surpluses in public finances averaged 2% in 2000-2003. As for ceilings on expenditure, Sweden has met them every year since their introduction in 1997. Stable prices are also a prerequisite for a successful economic policy. The new Moderate government shows strong similarities with the former government. This situation leads us to think that the same policy line will be held by the Moderate government, although some changes will probably occur in the taxation system.

The Riksdag (Swedish Parliament) started to focus on achieving price stability in order to attain a well-balanced monetary policy, in 2004 (Sweden being outside of the euro zone). The independent Swedish Central Bank, the Riksbank, has defined price stability as a rise of not more than 2% in consumer prices, with a tolerance of  $\pm 1$  percentage point. The social democrat government supported the emphasis of monetary policy and the inflation target (Swedish NAP 2004).

In terms of labour market policies the government worked to give labour market policy a clearer growth orientation. The emphasis on work and skills seemed to be the prime focus of the former government's policy, i.e. that in every area and every part of the country, policy must concentrate on getting more people into work. Active measures for the unemployed in the form of education, traineeship and employment were given priority. All in all, this serves as a foundation for efforts to attain the goals of full employment, low unemployment, enhanced quality and productivity at work, and social cohesion pursued by the Social Democrat government, which will hopefully be continued by the Moderates.

In 2003, spending on labour market policy amounted to 2.3% of GDP, 1.1% of which was dedicated to active measures and 1.2% to cash support. In Sweden, active labour market policy is combined with unemployment benefit that combines income security with the requirement to adjust. The OECD5 has recently emphasised that countries with an active labour market policy and relatively generous unemployment benefits succeed in reconciling a dynamic labour market with a sense of security for employees. Swedish labour market policies are in line with this.

In terms of youth unemployment, in Sweden young people tend to be unemployed for shorter periods than other age groups. However, long-term unemployment among young people rose between 2001 and 2003, followed by a recovery and a further

decrease in 2004. Unemployment among young women is lower than that of young men, in general. This is mainly due to the existence of a generous, high-quality childcare system. In 2003 the National Labour Market Board (NLMB) adopted a target of halving the number of young people in long-term unemployment by 31 August 2004. This target was attained in June 2004. This decrease was largely due to the employment offices' intensified efforts and the fact that the Public Employment Service (PES) gave particular priority to employment and training for young people. In the autumn of 2004 the Social Democrat government proposed that the municipalities should be obliged to keep informed about the occupations of young people under the age of 20; ensuring that every unemployed young person should, within 14 days, draw up an individual action plan in cooperation with the employment office and offering those young people who do not find employment within 90 days organised job-seeking activities and temporarily making the general recruitment incentive available to young people aged 20-24 after only six months' registration, instead of the current 12.

These current measures for young people (known as the Municipal Youth Programme and the Development Guarantee) are constantly being evaluated and further improved. One of the recent actions is a programme of compulsory jobseeker activities.

The flexibility of the Swedish system also allows for ample scope to supplement qualifications according to the needs of the labour market and individuals (Swedish NAP 2004). However, and according to the yearly European Union's Recommendations, efforts should still be maintained to avoid labour supply constraints. In view of the ageing population, there will be a need to sustain labour supply by exploiting potential sources of labour among immigrants, the young and the long-term sick, and by improving incentives to work. The assessment of the Employment Taskforce and the analysis in the Joint Employment Report of the implementation of the EES guidelines and 2003 Council Recommendations show that Sweden should give immediate priority to:

- increasing the adaptability of workers and enterprises;
- facilitating the development of SMEs in particular by reducing administrative burdens;
- attracting more people to the labour market and making work a real option for all;
- addressing the rising number of people on long-term sick leave by promoting work-oriented solutions and improving conditions of work;



- eliminating remaining unemployment and inactivity traps;
- closely monitoring the results of actions to integrate immigrants into the labour force;
- investing more and more effectively in human capital and lifelong learning;
- reducing early school-leaving and increasing access to training for the low-skilled and the economically inactive;
- addressing the issue of emerging bottlenecks and skills mismatches in low- and medium-skilled sectors (Recommendations 2004).

#### 4.1.1.3. Swedish trade unions and employment

Sweden has a long tradition of smooth bipartite social dialogue. The unionisation rate stands at more than 80% and collective agreements are estimated to cover over 90% of all employees. Under national legislation, collective agreements are applicable to all employees within the sector, whether or not trade union members. Characteristically Sweden does not provide for any government mechanism or legislation which would extend the effects and/or the scope of application of a collective agreement to other sectors. This is the case for minimum wages. Minimum wages are solely defined by collective agreements and, therefore, the social partners at sectoral level.

Although bipartite social dialogue is considered to work better than tripartite social dialogue, government does generally show a strong interest in discussing and negotiating with the social partners. It can be argued that some of the tensions which can be found at tripartite level sprang from the close collaboration which existed between LO Sweden and the Social Democrats in power until September 2006. This has been the case for many years and the recent Labour Minister was a former LO official. LO therefore openly described itself as one of the main government supporters and further contributes to funding the Social Democrat Party's election campaign. Contrary to what common sense might dictate this situation did not however provide for a large imbalance between trade unions confederations. It did, however, seem to provide the employers' associations with an argument to refuse to negotiate in details at central level. This is one of the reasons why bipartite social dialogue is more successful in Sweden. Although it will be interesting to see whether this situation evolves with the recent change of government.

The Swedish system is composed of three trade union confederations, regrouping a large number

of sectoral trade unions. These are: the Swedish Trade Union Confederation (Landsorganisationen i Sverige, LO Sweden) representing the blue collar workers, The Swedish Confederation for Professional Employees (TCO) representing the white collar workers and Sveriges Akademikers Centralorganisation (SACO) representing academic workers.

LO Sweden's connection with the Social Democratic Party sprang in the post-war period. In the 1970s and 1980s the influence exercised by LO Sweden on the social democrat government was so significant that the organisation was able to secure legislation to give trade unions further negotiation rights. Although this helped trade unions to establish themselves firmly in today's social dialogue system, it created tension between them and the employers' organisations. The latter tended to distance themselves from negotiation at the central level for fear of further legislation on labour. This situation, albeit lighter, still persisted until recently and created a situation, whereby bipartite social dialogue, at all levels, worked better than tripartite social dialogue. It is worth noting a specific feature only found in the Scandinavian model (as it also happens in Denmark), whereby most decisions and changes affecting labour happen through collective bargaining<sup>6</sup>. This is also the case for European directives regarding labour which, in Sweden, are mostly implemented through collective agreements rather than through national legislation. Furthermore there also existed, until recently, a deliberate Social Democrat government policy to encourage social partners to work together and collectively bargain. This has been the case since the late 1930s. Trade unions are highly proactive in Sweden having created, in the last few years, a highly successful and international research centre on European employment issues: the Arbetslivsinstitutet (Research Institute for Working Life), within which all three trade union confederations are represented together with the Swedish government. The four institutions finance the SALTSA programme (Joint programme for Working Life Research in Europe) which enables researchers to study labour market trends and social dialogue developments in the European Union. This is probably the only such example to be found in the EU. It will, therefore, be crucial to follow future development of the Swedish social dialogue considering the recent changes of government and the shifts that this might bring.

<sup>6</sup> Interview with Prof. Lars Magnusson, national expert on the social dialogue and Professor at the University of Uppsala.

#### 4.1.1.4. The Growth and Jobs Strategy and national social dialogue

Regarding the newly integrated European employment guidelines, all three confederations welcome the reform<sup>7</sup>. They all approve the fact that both employment and economic policies should be integrated in the new GJS, as they recognise that it allows the different departments and ministries to work together and thereby gain greater transparency of the whole process. From SACO's point of view the newly integrated guidelines provide a solid base for assessing and restructuring employment policy in the Member States. However, all three confederations agree on the need to emphasise the role of the labour market organisations in the development of related policy. They consider that agreements between the social partners are often preferable to labour law and explain that, since political majorities vary, government legislation relating to labour market policy can be less efficient than that of the labour market parties which have a deeper and more thorough understanding of the rules and

circumstances on the labour market. The Swedish trade unions therefore recommend that the guidelines should further acknowledge the potential of agreements between the social partners. This demand remains, however, independent from the latest reform of the European employment process. They do not highlight any dilution of the employment guidelines or of the role of social partners within the newly reformed integrated GJS, on the contrary. They all agree on the fact that the EES has allowed the role of social partners and their responsibility to collectively bargain to be clearly defined in European texts<sup>8</sup>.

It is also important to highlight the fact that LO representatives explain that the Lisbon Strategy has also enabled the social partners to be informed, on a regular and consistent basis, of different employment developments. The yearly exercise, which brings all partners around the table, to draw up the NRP is seen as highly positive. It enables the social partners to be updated on a regular basis<sup>9</sup>.

#### APPENDING THE SOCIAL PARTNERS' TEXT TO THE NRP

As has been the case in Denmark, since 2004, the former Swedish government planned to append the social partners' contribution to the NRP 2006. The only condition for this to be successful is that this text should be produced by all social partners, by a common agreement. If this condition is met, the text will be published in full together with the NRP. Although this is an important step forward and represents a highly positive practice within the realm of the GJS, it is crucial to note that it has not been an easy target to attain. In 2005, for example, the same promise was made to the

social partners but the operation failed due to the private employers' refusal to cooperate on the central level and agree on the final text. Although all other social partners had agreed on the final text, the social partners' contribution could not be appended to the NRP as the government's condition that it represent all social partners, had not been met. It will be crucial whether the new government follows that same path.

In relation with the above-mentioned need for increased importance to be given to the social partners, LO's representatives explain that both national governments and the European Commission should take more measures to ensure no single

organisation can block the whole process. They explain that, in view of what happened last year in Sweden it is too easy for a single organisation to sabotage the entire process. They therefore demand that a specific element should be added to the guidelines so as to guarantee that the social partners' final text is not be jeopardised if one partner refuses to cooperate. The efforts of those who worked together should be represented and not simply diluted by the decision of one partner. LO further explains that if such measures were to be applied, such intransigent partners might be more stimulated to negotiate<sup>10</sup>.

<sup>7</sup> Interviews with SACO, LO and TCO in August 2006.

<sup>8</sup> Ibid.

<sup>9</sup> Interview with Lena Westerlund and Monika Arvidsson, economists, LO Sweden (The Swedish Trade Union Confederation), in September 2006.

<sup>10</sup> Interview with Lena Westerlund and Monika Arvidsson, LO Sweden, in August 2006

In terms of content several actions have been taken to coordinate the Lisbon process at national level and to stimulate employment. In response to guideline 18, for example, the social partners and the public employment services have cooperated to appoint a national coordinator to investigate whether labour market entry of young people could be facilitated by agreements between the social partners. This national coordinator published a text, in 2005, identifying different barriers to youth employment. These barriers included high wage costs and insufficient use of apprenticeships. Although this text has been highly criticised by all social partners, discussions are still underway to find solutions and boost youth employment.

This text, which also tackles the area of competences, raised an old national debate on the "competence account". Several trade unions had looked into the possibility of creating a competence account in order to stimulate and facilitate lifelong learning, mainly as a way to counteract demographic changes and to allow older workers to remain on the labour market for a longer period of time. Although the government supported the idea, no agreement was reached between social partners on the matter. LO Sweden argues that the competence account should be highly subsidised by government in order to avoid an unbalanced distribution amongst workers. As it stands today the agreement is considered, by a certain number of social partners and government, to give greater support to the higher educated and paid workers. As further subsidies from employers and government have not been agreed the draft text, although in existence, has been left aside for the time being. SACO is however a strong defender of this measure and will carry on working on developing it further<sup>11</sup>. The new government might, indeed, choose to investigate this action further.

In terms of organisation, a Lisbon group was set up as early as 1998 with the creation of the Lisbon Strategy. Within this Lisbon group all social partners are invited to discuss and participate in the European debates concerning employment. This has been a highly successful group from the start. This platform enables social partners to draw up their common text, which is then submitted to the government who tends to accept it as it stands and rarely asks for any amendments to be made. The text has so far been woven into the NRP, although government plans to append the common text to the NRP this year. This was also planned for the 2005 NRP. As mentioned above this was thwarted by the private employers' association, a highly powerful organisation in Sweden, which refused to go along with the final text. However, it is crucial to mention that this is the only incident of the kind to be recorded on this platform since 1998. It mainly sprang from the fact that the 2005 NRP had to take into account the newly reformed GJS and therefore had to re-evaluate all details included in the text. Historically employers have found it difficult to cooperate on the central level for the different reasons exposed above. This year should not present such difficulties as the process will be much lighter.

It is important to note that this platform is quite an innovation in the Swedish social dialogue, as the three confederations are not accustomed to working together on collective agreements. Interestingly enough, this is the case for structural changes actions.

Therefore, although trade union confederations do not tend to issue common texts or negotiate at central level, the bipartite social dialogue remains successful and tends to generate novel actions, often non-existent at national level.

### **STRUCTURAL CHANGES – SOCIAL PARTNERS' ACTIONS**

In order to tackle the restructuring process, the social partners have worked together to devise some solid measures and tackle structural unemployment. On one hand the Transition Agreements, often known as the Relocation Agreements, form part of these measures and cover

most sectors of the labour market. The aim of these agreements is to provide redundant workers with various educational and retraining schemes, which supplement schemes provided by the public employment services, and ease their return to work in a shorter period of time. These agreements are signed by the social partners and administered by the Job Security Councils.

These councils' activities are financed by employers, who contribute a share of their employees' wages into the Councils' funds. The first Council was established in 1974 and covered salaried workers in industry and service sectors. Government sector, banking and employees employed by municipal companies were only included in the agreements in the

<sup>11</sup> Interview with SACO's general secretary, Ake Zettermark (Sveriges Akademikers Centralorganisation), in August 2006.

1990s. Private sector blue collar workers were finally included in the agreement in the most recent text, signed last year. This lag between the inclusions of different sector workers is due to the fact that the three Swedish confederations do not tend to negotiate their agreements together. They each have their own negotiations, although a common text may ensue. The final agreement, however, implemented jointly by the social partners, allows for stronger cooperation between the employers' associations and the trade unions. They take responsibility for the necessary changes together (Zettermark, 2006).

On the other hand there is also the Industrial Agreement referred to in the Swedish NRP. This agreement was made in 1997 between twelve employers' associations and eight trade unions and effectively represents all sec-

tors of the industry, in Sweden. The agreement is unique in its scope for it:

- covers the entire sector of the Swedish economy which is exposed to competition;
- bridges old boundaries between blue and white collar employees on the union side
- introduces a completely new model for collective bargaining and conflict resolution.

On the basis of this agreement, the different parties take joint responsibility for wage determination, in their respective areas of the labour market, and contribute to more effective wage determination. This has made it easier to combine successfully low unemployment and prices stability.

In agreement, the parties also set out their joint assessments of the prospects for industrial activities, including international

competition, economic conditions, competitiveness and energy availability. Furthermore, the importance of research and development, as well as education and training, is studied in detail and submitted to the Industry Committee for evaluation.

Finally a framework for wage negotiation procedures is outlined in the agreement with the specific intent of not having to resort to industrial action. The parties are required to start negotiations three months before the previous agreement is due to expire.

These social partners' initiatives to face industrial changes have so far been highly successful and are highly regarded by the national government. The latter often uses this example in its own NRP to report on good bipartite social dialogue practices.

Pursuant to the Industrial Agreement, each trade union confederation, also has its industrial insurance (Omställnings). Although each of these has been created at different times and remains independent of the others, they all have the same aim: helping redundant workers to get back to work fast. This insurance could be described as a small account held by each of the trade union confederations and financed in cooperation with the employers. It is mainly used to provide information and job coaching to workers who are under threat of redundancy. This consists of a preventive early intervention. There are three agreements, one for each of the federations. In the case of LO Sweden, however, part of the blue collar industrial insurance is tax-funded, although it still remains smaller than the one for white collar employees. This insurance represents a percentage of the wages. Wage level, therefore, has a strong influence on the amount put aside. This is one of the reasons put forward by the trade union confederations for explaining why agreements could not be bargained and agreed collectively.

#### 4.1.1.5. Conclusions

Trade union participation in Sweden could be described as exhaustive and highly positive. The three

Swedish confederations are regrouped, together with the employers associations, on the Lisbon platform several times a year to follow the European process closely and agree on their common text. All trade union confederations have declared that they are highly satisfied with the newly reformed Growth and Jobs Strategy. They see this reform as a positive manner for different departments to work together and for the whole process to gain further transparency.

Trade union confederations in Sweden have welcomed the Lisbon Strategy right from the start. They claim that it has enabled them to gain information as well as a deeper knowledge of government policies. They also value the fact that it has helped establish formal recognition for social dialogue in European texts, as well as at national level.

When studying the case of Sweden it is striking to note that it is one of the rare EU countries to have exceeded the Lisbon targets, in all senses. As mentioned above the quantitative targets are already in line with the Lisbon targets. But most importantly, Sweden is already doing quite well with regard to the more implicit targets: such as a well functioning

social dialogue. Social dialogue works well at bipartite level in Sweden and collective agreements tend to replace legislation in most cases, such as minimum wage setting and implementation of European directives.

The trust given to social partners enables them to be highly proactive. This is the case in the examples mentioned above where each trade union confederation has created, in agreement with the employers' associations, their own industrial insurance. This measure aimed at helping redundant workers to find work before they are even out of work is a highly positive example of early intervention. Although these insurance schemes do not provide for large amount of money, they do help to inform workers about training and provide them with a certain degree of job coaching. This is a unique example in the European Union. Swedish trade unions tend to be highly proactive in developing, together with all social partners, training and life-long learning measures.

In general we can conclude that trade unions are well informed and make an important contribution to the drawing up of the NRP, together with government and employers. If the social partners' text is finally appended to the NRP this year, considering the recent change of government, this will represent a further important step forward. However, it is interesting to note that trade unions in Sweden do demand greater acknowledgement of their work at European and national level. In this sense, measures should be taken to ensure that the social partners' common text is not disregarded if one of the partners refuses to go along. As mentioned above, this was the case in Sweden when the common text was not annexed to the NRP due to the refusal by the private employers' association to sign the common text. One could argue that this situation could empower one single partner more than the others. Measures should therefore be taken in the GJS guidelines to mention that the common text should be apparent, although one partner might not have agreed with it. This situation might indeed stimulate all partners to agree and work together. The work of the working partners should not be discarded.

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### 4.1.2. NATIONAL CASE STUDY: HUNGARY<sup>12</sup>

Before addressing the questions that are at the heart of this report, i.e. the employment policies at national level and the connections with the European Employment Strategy, a number of parameters that place these questions in a more global context should be borne in mind. For instance, the map below shows how Hungary, a central European country with a very proud past, is a region at the crossroads of numerous geographic routes. Hungary has borders with no fewer than six countries (Austria, Slovakia, Rumania, Ukraine, Slovenia and Croatia). Its relations, both close and conflicting in certain respects, with its neighbours, are central to and for development, and in particular for the labour market. Against this background, Budapest, the capital, with its two million inhabitants, plays a central role in the country, all the more so as the other cities are far smaller (the largest have 200,000 inhabitants).

On the political front, the end of Communism in Hungary was followed by the emergence of new political elites clustered in three categories: wealth (professionals, artists, entrepreneurs), prestige (intellectuals, media) and power (senior civil servants, local notables)<sup>13</sup>. These new elites include the Hungarian members of parliament elected since 1990.

Finally, it is worth stressing the weight of history and the need for time in the long and complex change from a planned economy to its antithesis, i.e. the market economy. A radical change of the rules saw the introduction of autonomy and freedom of choice, decision-making and entrepreneurship by economic actors other than the State, thereby altering the

<sup>12</sup> Case study conducted by Pierre Tilly

<sup>13</sup> Catherine Horel, Les nouvelles élites intellectuelles et politiques en Hongrie, in : Le Contrat social en Europe. De Jean-Jacques Rousseau à la dimension sociale de Maastricht, Actes de la Chaire Glaverbel, Louvain-la-Neuve, 1996, p.205.

entire economic behaviour of these same actors, up to the highest private level. Far from having disappeared, the role of the state has, and continues, to develop after a complete turnaround, during which it went from the foreground to the background. For a significant part of the Hungarian population, the State continues to be the leading actor when it comes to addressing the daily concerns of the population. For its part, the private sector had already developed in Hungary under Kadarism, which enabled it to ride the privatisation wave faster than its neighbours.



#### 4.1.2.1. The employment situation in the country

Hungary can be considered to be close to the Rhenish model which comprises Belgium, Germany, Austria, Switzerland and the Benelux countries. In this system, the market economy is seen as a social economy, i.e. the market is not an end, but a means. The end is of a social nature, i.e. social cohesion.

Against this background, the main line of conduct of the Hungarian transition model relied on an increased opening to foreign capital. An early liberalisation of trade, active and open privatisation, and the introduction of regulations for foreign investments, enabled Hungary to emerge, along with Poland, as the main recipient of direct foreign investments among Central and Eastern European Countries. Accession to the EEC on 1 May 2004 thus brought to a close the first transition phase of the Hungary economy. Since 1990, Hungary has implemented a policy to privatise its economy, one that extends also to industry, agriculture and services.

This privatisation movement has accelerated the opening of the Hungarian economy: In fact, 80% of Hungarian exports go to the Europe of the 25, and 71% of Hungary's imports come from these same countries.

Hungary has for some 15 years now been pursuing a continued policy of structural reforms that seems

to have produced results: the creation of a legal framework favourable to the market economy, a bold privatisation policy, and the establishment of a credible banking sector from scratch. These different elements have unleashed private initiative and have become engines for modernisation and growth, according to analysts. This development has nonetheless been accompanied by a social ambition restricted by the shrinkage in public spending. Thus, less than 1% of GDP of the new Member States, compared with 2.5% on average for the Europe of the 15, is devoted to public market employment policies, in spite of new needs and the rise in the number of individuals concerned.

According to the European Commission, Hungary boasts sound fundamentals: a 4.1% growth rate; inflation standing at 3.6% in 2005 compared with 35% in 1991; an unemployment rate of 7.1%. Nevertheless, this country suffers from a structural budget deficit estimated at 10.1% of GDP in 2006, and a current account deficit that has been growing bigger since 2002. Instead of going down, as had been expected, the budget deficit (5.4% in 2004) exceeded the 6% mark in 2005.

Per capita GDP now amounts to 60% of the EU average. In terms of human development, in the beginning of the year 2000, Hungary ranked 43rd among 174 countries in the human development index, which puts Hungary far ahead of the other Central and Eastern European Countries on this front. Since the mid 1990s, the Hungarian economy has grown by 4% annually, one of the highest rates in the EU. The labour productivity rate is also well above the EU average. After a temporary acceleration in 2003, the employment trend turned negative in 2004, and the overall employment rate dropped to hit 56.8%, which is far below the Lisbon objective, while the unemployment rate went up (6% in 2004), but remained below the EU average. This low unemployment rate is nonetheless accompanied by a very low activity rate (60.5% in 2004).

Overall, the case of Hungary reflects the major trends in all the new Member States: low employment rates, wide regional disparities, extensive long-term unemployment and the development of the informal economy.

#### 4.1.2.2. Governmental action for employment

To gauge the current government's employment policy properly, it is necessary to examine it against a more general analytical framework. For some ten years, now, the Hungarian parliamentary system has veered towards a system characterised by the predominance of the Prime Minister (who can be

removed from office by Parliament only of his successor is designated concurrently), before a President who plays the role of arbitrator and a unicameral Parliament which has to share some of its prerogatives (in particular the legislative initiative) with the executive branch. The mixed electoral system, which combines voting for a single candidate with two elections of proportional representation (national and provincial), and which comprises a representation threshold fixed at 5%, has yielded net majorities and avoided too extensive a fragmentation of the political stage, without however leading to a strict two-party system.

This institutional stability has been coupled with frequent change-overs of political power: after the return to democracy in 1990, the elections in 1994 and 1998 saw changes of majority. After Mr Göncz (1990-2000) and Mr Madl (2000-2005), Mr Laszlo Solyom – elected by Parliament with the support of the right-wing opposition – has been the President of the Republic since August 2005. Whereas local (municipal and provincial) elections were held as of 1 October 2006, the legislative elections of 9 and 23 April 2006 re-elected the out-going socialist-liberal alliance (MSzP and SzDSz) to power, with a majority of 210 seats (out of 386) against 175 for the conservative opposition (42.03% of the votes in the second round for FIDESz-MPP (Christian democrats) and 5.04% for the MDF / Democratic Forum). Led by Prime Minister Ferenc Gyurcsany, the Socialist Party / MSzP obtained a majority with 190 seats (43.21% of the votes), the liberal party of the SzDSz retaining 20 seats (6.50%). Participation in the second round of voting was 64.36% (compared with 67.83% in the first round). The harmony between the two parties (in particular between Mr Gyurcsany and Minister for Economic Affairs Koka) really mobilised voters on the left.

Ferenc Gyurcsany, a billionaire from a poor background who made a fortune in real estate during the 1990s, and went into politics out of sheer interest, has performed a rare feat in Central and Eastern Europe since the fall of Communism: an outgoing head of government getting re-elected for a second term. His Socialist Party was allied with the liberals during the electoral campaign, but the success has seemed like a personal victory for this 42-year old man.

He immediately embarked on a wide-ranging programme of reforms that includes a complete over-

haul of the public services. *“The first one hundred days of my second term will see more than 100 measures,”* he promised. Hungary must reduce its public deficit as a matter of urgency, as at 6.1% of GDP it is the highest in the EU and tends to weaken the forint. Otherwise, as just reminded by Brussels, accession to the Euro expected in 2010 will be compromised.

This firm believer in social democracy, who recently refused to visit a Suzuki plant where trade unions are prohibited, wants to turn Hungary into *“a competitive country specialised in activities with high added value.”* But will he have the courage to reform the health and pension systems, both of which are in deficit, and would require reforms that will most likely be unpopular? This is the test that awaits the second Gyurcsany government that has promised to take Hungary *“to the change it has so long waited for.”* By way of illustration, his programme provides for a substantial reduction in the number of hospitals – an under-financed and under-equipped sector – in a reform that is needed given the financial crisis of the Hungarian healthcare system. But *“no one will believe that this project is feasible.”*<sup>14</sup>

#### 4.1.2.3. The government's action plan for employment

The new government seems to be more proactive than the previous one, but had to face a serious crisis in September, the effects of which are still difficult to assess. In its programme for the period 2004-2006 for a free and fair Hungary entitled *New Dynamism for Hungary*, the Hungarian government has embarked clearly on reaching the European objective, especially as regards competitiveness. *“The government will work out the second Europe Plan that defines the guidelines for Hungary's development within the European Union for the period 2007 to 2013.”* This programme was apparently drawn up without any prior consultation of the Hungarian social partners to speak of. *“It was finalised close to Lake Balaton by the main political leaders cut off from the world before being communicated to the social partners, who were expected to respond within a very short period (48 hours).”*<sup>15</sup> The employment programme is entitled *Jobs, Jobs, Jobs*, which inevitably brings to mind the European recommendations on the matter.

The different action plans adopted in recent years show that the countries endeavoured in particular to comply with the guidelines under the EES

<sup>14</sup>Interview with Lazlo Kovac and Erika Koller (Liga), 15 September 2006

<sup>15</sup>Idem

without necessarily always taking into account national specific features. It is worth underscoring, nonetheless, that as of the beginning of the 1990s, the EU allowed international institutions to shape numerous national public policies, including about employment. The recipes tried in Hungary are therefore largely based on the precepts of the World Bank and the IMF.

Hungary's national reform programme (NRF) identifies nine major challenges: reducing the budget deficit; R&D and innovation; the business environment; competition; infrastructure and facilities; the rise in the employment and activity rate; improving the situation on the employment market for less favoured individuals; reducing regional disparities on the labour market and capitalising on human potential by improving education and training. The government's programme provides in particular for sizeable reductions in the number of people employed in the public sector, the country's principal employer, which seems paradoxical at a time when the Hungarian government wants to raise the employment rate from 57% to 63% by 2010. *"The public sector is in the midst of a restructuring operation, but there is hardly any mobilisation by the trade unions to be seen."*<sup>16</sup> Other strategic sectors for the trade unions such as energy (gas, electricity, etc.) are likewise being restructured.

Even if the Government seems to show openness in accepting to negotiate a part of the budget resources available for an employment policy, drawing up the RNP posed two major problems, according to Lazslo Kovac of the trade union Liga, founded in 1989, which now has some 135,000 members<sup>17</sup>.

<sup>19</sup> *"The Reform Programme was negotiated at the (National) Economic and Social Committee meeting. Unlike the National Reconciliation Council, this board has only consultation rights, and consists of individuals (the presidents of the Social Partners) instead of Trade Unions or Employer organisations. This division of competence between the two institutions has caused some disturbances in terms of the flow of information, deciding the role and reactions of Trade Unions and in the preparation of the Trade Union statements (No official statement has been published to date)"*<sup>18</sup>.

<sup>20</sup> *The multiplication of Trade Union tasks, and the overload of responsibilities of our staff with the Government's propositions. In August 2005, the Government produced a Concept of National Development; in October 2005, it drew up a Report on Employment and Economic and Social Development; in December we received the National Reform Programme for Growth and Employment; in March 2006, officials presented the Programme of the New Hungary (National Development Plan). These, rather similar documents were prepared at the initiatives of the Commission of the EU, and the Hungarian Government made strenuous efforts to meet the EU requirements. However, the exact purpose of each document is not all clear for the parties involved ».*

The overall deterioration in working and employment conditions is considerable. The trend towards a fragmentation of the labour markets in the EU Member States is particularly worrisome, all the more so as it risks intensifying in the future. The mobility of workers remains low. *"Hungarians do not like to travel, unless it is really necessary. The problem of housing is crucial in this lack of mobility. We must encourage the industrialisation of the eastern part of the country with Ukraine, which is an important trading partner."* The serious discrepancy between the needs of employers and the skills and qualifications of workers is also a major characteristic of employment in the new Member States, including Hungary. *"There is a lack of labour force in certain sectors that require high qualifications. There are shortages in the technical occupations. We have to turn to immigration to fill these gaps."*<sup>20</sup> This is a serious structural imbalance, which explains in part both the long-term unemployment and the development of the informal economy.

The Commission shares this analysis of priorities, and considers the following to be the strong points of the employment policy programme:

- measures aimed at improving the efficacy of the public employment service and the intention to introduce an integrated programme for employment and social services;

<sup>16</sup> Interview with Edith Nemeth, Friedrich Ebert Stiftung [Foundation] Budapest, 14 September 2006.

<sup>17</sup> Source: Friedrich Ebert Stiftung [Foundation] Budapest, 2006

<sup>18</sup> Interview with Lazslo Kovac, 16 September 2006.

<sup>19</sup> Interview with Pal Gergely, Autonomous Confederation of Workers, a trade union founded in 1990, which now has some 150,000 members (source: ESF, 2006), 15 September 2006.

<sup>20</sup> Idem



- measures aimed at turning undeclared work into lawful work.

But points requiring more attention are not lacking either, such as the need to:

- define strategies to guarantee the viability of public finances;
- adopt clear and stronger measures to make the network industries more competitive;
- improve the business environment, and in particular access to financing by SMEs;
- reinforce the capacity of education and training systems to meet the needs of the labour market and to improve skills, in particular for unskilled workers.

#### 4.1.2.4. Trade union action for employment in the country

To understand properly how the labour market and, by extension, the employment policy of the trade unions, work, a certain number of parameters must be taken into account. For instance, the contract of employment in Hungary is essentially governed by the law. Individual negotiations have just been added. The formal nature of the contract of employment, and the conditions for firing and hiring are very rigid.

The guarantee of trade union rights is completed by a vast system of civil organisations. Part of these organisations was formed spontaneously, for a single purpose (e.g. the National Association of Tenants).

Nevertheless, most of these are the result of a well thought out development. The civil society in Hungary is very lively, and comprises organisations, associations, foundations, non-profit societies in the public interest, public bodies and foundations and ecclesiastical institutions engaging in charitable works and social actions.

The Hungarian organisation for the protection of rights also exploded after the political change in 1989. Unemployment appeared in the beginning of the 1990s, and the country had to establish a social welfare system. State benefits on social matters have been maintained, but supplements have emerged to gain access to certain medical services. The universality principle is henceforth limited.

In the New Member States, including Hungary, the role of employers' organisations is limited. They

still evidently lack legitimacy and remain very vulnerable<sup>21</sup>. IPOSZ (National Federation of Industrial Associations), a member of CEHIC, represents small enterprises and a part of medium-sized enterprises (60,000 member SMEs). It has been a member of UEAPME (European Association of Crafts, Small and Medium-sized Enterprises) since 1991, an organisation that represents SEMs/SIMs directly at European level before UNICE, according to a recent agreement. After the democratic changes in Hungary, they adopted a national structure, covering all the sectors of the economy (large corporations, public enterprises, SMEs, consumer cooperatives, trade and farming sectors). The eight existing Hungarian federations created CEHIC (Confederation of Hungarian Employers' Organisations for International Cooperation) to be able to join UNICE and BIAC (Business and Industry Advisory Committee to the OECD), and to be able to speak in a single voice. But CEHIC has no role in the national social dialogue, where each member speaks up in this process. SMEs and SIMs are facing numerous difficulties at this time. Their place in the social dialogue and the legislative process is not commensurate with the important role that these companies play in the economy and in job creation, in Hungary and in Europe as a whole. *"In the construction sector, for instance, they do not know who to negotiate with"*<sup>22</sup>. European directives and national laws take account only the point of view of large companies, and do little about the often excessive administrative and financial constraints imposed on SMEs.

On the other hand, the trade unions see their traditional bastions (mines, manufacturing sector, etc.) plunged in extensive restructuring operations, and job cuts in these sectors have led to a significant number in the workforce. Furthermore, it is still difficult for trade unions to get a foothold in SMEs and in the new private companies. Yet Hungary is a country with a very important SME fabric. The unionisation rate has consequently dropped heavily (cf. table appended). These structures are rejected by workers because the latter do not see them as capable of providing protection against unemployment and wage cuts.

The origins of the trade-union movement in Hungary go back to the Austro-Hungarian Kingdom, so that at the outset, the official language of the Hungarian worker movement was German. The National Trade Union Council, the offi-

<sup>21</sup> Vaughan-Whitehead, D., *L'Europe à 25, un défi social*, La Documentation française, 2004.

<sup>22</sup> Interview with Lazslo Kovac and Erika Koller, 15 September 2006.

cial association of trade unions that represented 70% of wage-earners under the Kadar regime, was dissolved. Six central trade unions came into being, and proceeded to oppose each other with determination. They were connected to the political parties, but were more reformist than in other satellite countries of the Soviet Bloc. *“There was cooperation between the six organisations, and when there was a need to be united, they were, but conflicts arose for political reasons, Pal Gergely points out.*

Since the political change, there have been elections for sectorial trade unions, civil servant councils and worker councils in Hungary. The trade unions associated with union confederations are also considered to be representative sectorial trade unions, because at least 10% of trade unions members have obtained voting right in the territory. This is how they obtained the right to conclude collective bargaining agreements in companies, to call strikes and to represent their members before the courts. However, the negotiating weakness of the sector continues to be a major difficulty in establishing a real system of industrial relations in Hungary.

The most powerful union confederation turns out to be the National Association of Hungarian Trade Unions, with a figure of 40%. This association, which exerts the greatest influence, is seen as an ally of the Socialist Party. The Democratic League of Independent Trade Unions supports the Union of Free Democrats. The Worker Councils and the Trade Union Solidarity Association are connected to the Hungarian Democratic Forum. The Autonomists can be considered to be independent, as can the Forum for the Protection of Trade Union Rights and the Association of Trade Unions of Intellectuals, who have had a great deal of success in wage negotiations and in defending the interests of their members. The protection of the rights of members is completed by the networking of civil organisations.

After the political change, the six central trade unions, connected to the different political powers, started to compete with each other for the division of trade union assets, an increase in the number of members and the election of civil servant and worker councils. The unification of Hungarian trade unionism does not seem to be in the offing. Pal Gergely sees two main reasons for this: *“Policy differences are very pronounced, and there are also*

*personal reasons on the part of the leaders, because a merger would mean only one president, compared to six at this time.”*

Since the 1990s, there has been a considerable drop in the number of unionised workers and in the power of their organisations. According to the ILO, Central and Eastern Europe has been the region in which the number of union members has dropped the most, shrinking by nearly 36% on average, chiefly because of the collapse of the Soviet Bloc<sup>23</sup>. Unionisation rates have dropped by 71% in Estonia, 50% in the Czech Republic, 45% in Poland, 40% in Slovakia and 38% in Hungary. Nevertheless, the number of trade union members has dropped by 60% since the change of regime.

The employment policy of the Hungarian trade unions is in the tradition of permanent negotiations in the tripartite dialogue. *“This depends on the strength of the local and sectorial trade unions. The social dialogue must in any event be bolstered at regional and local level,”* stresses Pal Gergely. The social dialogue and consultation constitute the basis of this employment policy of the trade unions – something that causes serious difficulties at times, as in the rail sector. *“In this sector, there are 17 or 18 trade union organisations, of which only 5 are really representative”*<sup>24</sup>.

There is nonetheless a tradition of unionisation at local levels in companies that can be counted upon.

It seems easier to conclude agreements in multinationals than in Hungarian companies in fact, because an agreement is important for the latter, and moreover there is the pressure exerted by trade unions in the West. These agreements must make Hungary attractive to foreign investment, but not under any condition whatsoever.

In the case of life-long training which is important for trade unions but also subject to constraining legal regulations, the employers are responsible for training the workforce. *“But in view of the modernisation of our industry, the major challenge is to maintain the skills of workers.”*<sup>25</sup>

#### **4.1.2.5. The EES and the social dialogue in the country**

Various studies seem to indicate that the deficiencies of the European Employment Strategy to guide

<sup>23</sup>Cf. the ILO site <http://www.ilo.org/public/french/bureau/inf/pr/1997/28.htm>

<sup>24</sup> Interview with Edith Nemeth, 14 September 2006

<sup>25</sup> Interview with Pal Gergely, 15 September 2006.

a national employment policy in a coordinated manner by the new Member States is explained by three main reasons:

- The very contents of the EES: several key problems for the NMS were broached late by the EES
- Mutual lack of confidence between the European Commission and the national governments
- The weakness of the social dialogue

The EES has consequently often been seen by the new Member States as an administrative exercise.

The transition process has led the new Member States to acquire all the institutional and legal mechanisms necessary for a social dialogue (for instance, the tripartite practice has existed since the beginning of the 1990s). By keeping with the tripartite practice, the Hungarian social partners have sought to legitimise their role and their representativeness. The unitary organisations of the Soviet era made room, not without difficulties, for a certain pluralism through the creation of independent trade union and employers' organisations. But this diversity can only be beneficial, as the implementation of the EES is suffering from the weakness of the social partners, the inefficacy of the tripartite practice, and the breakdown in the autonomous social dialogue. The governments have their own share of responsibility, as their volition to gear their action more towards job creation and growth than towards the European social model and the protection of workers have contributed to this. Far greater attention focused on the real implementation of the *acquis communautaire* could however have produced more positive results on this front.<sup>26</sup>

According to the trade unions, resistance to the implementation of the EES comes essentially from employers owing to conservatism, because many have a short-term approach, which handicaps the European policy, and by a problem of culture and mentality (many employers are not organised). An example of this resistance on the part of the employers is the implementation of the Reach directive in the chemical industry.

But according to Lazlo Kovac, the EES does not seem to constitute a priority regarding the situation in Hungary today: *"The Hungarian Trade Unions supported the ETUC decision on the European*

*Employment Strategy and the new guidelines, but have not paid attention to the control and evaluation of the presence of European strategic guidelines in the National Reform Plan. Similarly, they have not compared the European objectives to the national ones and they have not gained enough experience to identify good practices and to fight for their implementation"*.

The social dialogue has made a lot of progress in the last twelve years. But the intervention of employers' and trade union organisations in the legislative process is still very limited. The major stakes in the years to come will be: participation in the social dialogue, cooperation between trade unions and employers' organisations, wage agreements and collective bargaining agreements. There is also the establishment of a social dialogue at local level: *"with hundreds of thousands of small and medium-sized enterprises, it is impossible to control undeclared work in particular. We have only 400 labour inspectors for that purpose for the entire country,"* Pal Gergely points out.

Hungary does not have a sectorial tripartite social dialogue mechanism either. Nevertheless, issues concerning a sector in particular are at times treated in the National Tripartite Council, albeit only informally<sup>27</sup>. Forms of bipartite social dialogue covering road transport have been introduced in most new and candidate Member States. Nevertheless, the operating procedures – as well as the levels – of these negotiations vary considerably from one country to another. In Hungary, for instance, collective bargaining agreements in the road transport sector are signed at the sub-sectorial -- and at the company -- level.

Likewise, the social dialogue for road transport in Hungary is conducted at the sub-sectorial – and at the company – level. According to the Hungarian Labour Code, the conditions negotiated at company level may differ from those negotiated at the sub-sectorial level only if such changes are in favour of the workers. Nevertheless, employers rarely implement this provision, but negotiate less favourable conditions at company level than those agreed at the sub-sectorial level.

One of the most heated points of the current discussions on the inter-professional level has to do with the guaranteed minimum wage.

<sup>26</sup> PALPANT CATHERINE, La stratégie européenne pour l'emploi: un instrument de convergence pour les nouveaux Etats membres? p.18 [http://www.notre-europe.fr/uploads/tx\\_publication/Polycypaper18-fr\\_01.pdf](http://www.notre-europe.fr/uploads/tx_publication/Polycypaper18-fr_01.pdf),

<sup>27</sup> IST, Monographies sur la situation des partenaires sociaux dans les nouveaux pays membres et candidats, secteur du transport routier, Louvain-la-Neuve, 2003.

#### 4.1.2.6. Conclusions

Hungary is currently going through a period characterised by sharp social tensions about the cost of living which has risen considerably. One of the basic questions that trade union organisations have to face is to invest more in economic issues and to contribute to the formation of a growth model that combines competitiveness with social progress. The main problems cited include a lack of trade union expertise, and the necessary change of mentality for the Hungarian population. The trade union Liga wants to renegotiate the tripartite agreements of 2005 because of the drop in purchasing power. Protests have been organised towards this end.

The commitment of the social partners to the EES has been relatively formal and restrained. Has the Phare programme contributed to improving the situation in the social dialogue? Some joint committees are operating well, such as that of electricity (Lazslo Kozak), though this is still rare in Hungary.

A more realistic approach seems to have been adopted to take on the current and future challenges that Hungarian trade unions are facing. Some lines of action would, in our view, entail:

❖ Putting greater weight on the content of the employment policy charted by the Hungarian government and, by extension, on the Lisbon strategy which must be more in line with the Hungarian national policy and that of the other new Member States, by taking due account of their specific realities. Pressure must also be exerted on the government, in our view, so that it does not follow to the letter the structural adjustment policies dictated by the IMF and the World Bank, without any critical input. The Hungarian government must be able to chart its own path on social policy, by creating a model that meets the expectations of the population while taking due account of budgetary and external constraints.

❖ Choices must be made, given the low budgetary margins. A certain number of priorities must be set for the contents of this employment policy, with concrete proposals in areas such as training needs, the alleviation of regional disparities, and the reduction of the informal economy. Youth training in technical sectors should be organised in a programme and subjected to extensive monitoring involving the social partners in fund management.

❖ The development of labour market management tools appropriate for the mentality, culture and reality in today's Hungary, taking into account and promoting the development of the creative potential of local actors.

❖ The renewal of trade union leaders to make room for a new generation and greater trade union autonomy in relation to the public authorities.

#### Annexes

When the total real wage increases are considered, the highest such rises in real wages were noted in the new Member States. This indicates that the gap with the richer European countries (which is still very sizeable) is being filled up somewhat. The average annual growth rate in real wages is particularly pronounced in Hungary and Estonia, with 8.0% and 6.7% respectively between 2001 and 2004<sup>28</sup>.

<sup>28</sup> Maarten Keune, La coordination des négociations collectives en Europe, Rapport annuel 2004, ISE.

<sup>29</sup> Case study conducted by Wilfried Kruse

TABLE 7: MINIMUM WAGE

	2001	2002	2003	2004 <sup>1</sup>	AVERAGE <sup>2</sup>
<b>Minimum wage increase (%)</b>					
BELGIUM	2	2	2	--	2,0
FRANCE	--	--	--	2.0	2.0
IRELAND	--	6.7	7.1	2.9	5.6
LUXEMBOURG	--	2.5	6.1	2.4	3.7
PORTUGAL	5	4.1	2.5	2.5	3.5
SPAIN	2	2	2	8.8	3.7
UK	10.8	2.4	7.1	8	7.1
<b>Minimum wage as% of the average wage</b>					
BELGIUM	39	--	--	--	
FRANCE	--	--	--	--	
IRELAND	53	50.7	50	49.6	
LUXEMBOURG	28.3	28.5	--	--	
PORTUGAL	--	--	--	--	
SPAIN	36.8	36.2	35.6	39.3	
UK	--	35.8	38.4	--	
CZECH REPUBLIC	34.2	36.3	37.1	37.6	
ESTONIA	29	30.1	32.1	34.4	
HUNGARY	38.7	40.8	36.4	35.8	
POLAND	36.9	35.3	36.3	35.3	
RUMANIA	32.5	31.4	36.4	34.4	
SLOVAKIA	39.8	41.2	42.3	41.3	
SLOVENIA	53.3	54	54.9	55	

<sup>1</sup> Mid-year forecasts or data.

<sup>2</sup> Average of years available.

<sup>3</sup> Net minimum wage. There has been no nominal minimum wage rise this year, but the tax on the minimum wage has been done away with, which leads to a real rise.

#### 4.1.3. NATIONAL CASE STUDY: GERMANY<sup>29</sup>

##### 4.1.3.1. Employment in Germany: Current Situation

In Germany, an unemployment rate tending to remain stable at high levels has gradually established itself over many years. At the beginning of 2005, it officially exceeded the 5 million mark, though it has since been falling very gradually. In September 2005, it stood at 11.2%; in September

2006, due to economic recovery, at 10.3%; in October at just under 10%. Worth noting, however, is the fact that those leaving, in this period, unemployment benefit for a job consisted to a significantly greater degree of persons previously in receipt of “Unemployment Benefit I” – that is, of persons who had, as a rule, been unemployed for less than a year – than of persons previously in receipt of “Unemployment Benefit II”. 341,000 per-

sons from the former category found work, and only 68,000 from the latter category. (We will attempt to throw more light below on this complex of problems associated with these two great “divisions” of unemployed individuals arising as a result of the so-called “Hartz Laws” attempt to reform the German labour market.)

Even greater cause for concern is the situation in that particular sector of the labour market represented by the market for *apprenticeship and training positions* as currently governed by the so-called “Dual System for Vocational Training”. Here, the situation in autumn 2006 was actually worse than in the previous year. According to the calculations of the *Deutscher Gewerkschaftsbund* (DGB, the umbrella organisation for German trade unions) there were, in September 2006, still some 43,000 young people looking for training or apprenticeship positions, i.e. 14,000 more young people than in the previous year. In view of this enormous demand, only a minimal offer of available training and apprenticeship opportunities could be noted - one, moreover, which has continued to shrink in comparison with previous years.

Germany displays, however, a very uneven *state-by-state* distribution of this general high unemployment rate. The so-called “new federal states” - i.e. those which joined the German Federal Republic only after the post-1989 reunification of the country and which include the reunified city of Berlin - rank highest on the unemployment table. Mecklenburg-Vorpommern, for example, registers 18% unemployment, while unemployment in Baden-Württemberg lies at only 6%. We have, then, on the one hand, the significant fact that an average German unemployment rate calculated only on the basis of figures from the “old federal states” - that is, from the states making up the Federal Republic of Germany before German reunification - would amount to only 8.5%, as opposed to a rate for the “new states” (including Berlin) alone which would amount to 16.4%. Even this fact, however, should not lead us to overlook the significant differences obtaining *within* the various (“old” and “new”) federal states. Thus we find, for example, in many towns and cities in Western Germany’s North-Rhine/Westphalia - a state which has recently seen radical changes in the structure of its industry - unemployment rates of 16% to 18%.

A second characteristic of the German labour market is the comparatively high proportion of *long-term unemployed*. While the average EU rate for long-term unemployed lay, in 2004, at 3.3% calculated across the 15 countries forming the European

Union before its expansion and at only 4.0% when calculated across the 25 countries making up the Union as of May of that year, Germany continues to display an exceptionally high 4.9%.

Germany’s rates of gainful employment tend to lie somewhere around the middle of league tables calculated across the 15 pre-2004 member nations of the European Union - although even here the country makes a relatively poor showing as far as older employees are concerned (41.8%, compared to the 42.5% average of pre-2004 EU member nations). Admittedly, gainful employment in Germany does appear to be experiencing a period of radical transformation both in terms of its legal and material structures. The first fact that needs to be noted is that, according to the Federal Agency for Employment, the current German economic upturn is being driven by, among other factors, a marked increase in temporary and part-time work. Short-term employment contracts are booming, as well as part-time “mini-jobs”, while those jobs hitherto considered “proper jobs” - since they brought with them those contributions from the employer side which help sustain the German social security system - have severely diminished in number, some 1.7 million such jobs having vanished (according to DGB figures) since 2000. Fewer and fewer employment contracts involve the employer undertaking to pay in accordance with established collective bargaining agreements; the low-pay sector is growing, and with it the number of the “working poor”. One of the key indicators of this development is the fact that some 950,000 people current in employment - of which 300,000 even work full-time - nonetheless remains recipients of supplementary payments from the “Unemployment Benefit II” system, since their earnings from their job are not enough to raise them above the stipulated minimum income.

It was against this background that we saw in Germany in the autumn of 2006 a passionate public debate - involving, among other forums, the German *Bundestag* itself - on the issues of *Work, the “New Underclass” and Precarious Living Conditions*. This debate was sparked off by the results of an opinion poll conducted by a well-known opinion research institute on instructions from the *Friedrich Ebert Stiftung*, a foundation with close links to the German Social Democratic Party. These results suggest that approximately 8% of the population see themselves as belonging to the hard core of those individuals who are virtually “outside society”; they feel distant from and unconnected with the political system and are convinced that it is they who suffer most from the current reforms.

Much greater, indeed, is the number of those who express at least the view that the last few years have brought them more losses than gains.

In this connection there is renewed public debate on the effects of transfers under the “Hartz laws”. One controversial aspect is the effect of passive payment of benefits. Whilst there are insistent demands from some quarters for those receiving Unemployment Benefit II – i.e. benefits from tax-financed social security/“welfare” – to be penalised with further cuts in benefits if they are reluctant to re-enter active working life, others – e.g. the German Federation of Trade Unions (DGB) – partially blame the low levels of standard benefits and the extensive list of possible deductions for the current rise in poverty in Germany. The low success rate of those falling under Unemployment Benefit II regulations (on this, compare the excursus on reform of the labour market) in accessing employment is increasingly attributed to insufficient provision of targeted support – e.g. high quality case management and training measures – of the requisite quality.

#### 4.1.3.2. German government’s employment policy measures

The German debate on labour market, which had a high profile from the outset in 2002, needs to be understood against a backdrop of unemployment figures which have remained resolutely high for more than a decade, with particularly severe effects on certain groups – e.g. older people and women – relative to other OECD countries. The effects of German reunification in 1989/1990 are seen in very pronounced regional variations in unemployment, but they amplify one special characteristic of the German situation in particular, namely the high level of long-term unemployment. In Germany, then, there was an especially high risk of *remaining* unemployed for a long time.

Also, in association with the pressure for legitimacy, as created by the European Employment Strategy and the Open Method of Coordination and inspired by Danish and Dutch models, the German federal government (the “Red-Green” coalition between the SPD and Green Party, in office since 1998) cautiously initiated labour market policy reform with an emphasis on “activating measures” (JobAQTIV legislation of 2002). But this was overtaken in the very same year by the establishment of the “Hartz Commission”, a fifteen-person commission led by Peter Hartz, the director for human resources at Volkswagen (VW). The primary mandate of this Commission on “Modern Services in the Labour Market” was to put forward proposals

to reform the Federal Employment Service (the agency hitherto responsible for the labour market) such that its central focus would be successfully placing individuals in work. A further mandate, that of making proposals for merging the former second stage of unemployment assistance with social assistance, was initially a separate issue alongside the Commission’s main mandate to reform services in the labour market. The two were brought together in the Hartz Commission’s 2002 report by introducing the concept of Job Centres as a single point of contact for all access to the labour market. But in this respect, too, the outcome of the parliamentary decision-making process would be different (see the excursus on reform of the labour market). Nevertheless, by the time “Agenda 2010” was launched in March 2003 by the re-elected Red-Green government, the two sets of issues were becoming indivisibly mixed in the political and public debate, under the slogan “Challenge and Support”. As a consequence, there was no further discussion of whether there was any objective connection between these areas of regulation, and whether they could not have been tackled equally well as separate issues rather than at the same time. The most contentious question, that of the transfer for unemployed people no longer covered by insurance, had now become inextricably interwoven with the issues surrounding labour market reform.

Even during the Red-Green coalition’s period in government – and accentuated by its ministers for economics and labour – the labour market reform is stripped of the “singular” character that was strongly emphasised by the Hartz Commission, and is incorporated into a package of so-called structural reforms aimed at bringing about a readjustment of the state’s role, under the dictum of the “activating state”. The new German federal government, the “grand coalition” formed in 2005, continues with this reform and accordingly welcomes the new integrated approach of the Lisbon Strategy. The German “National Reform Programme” of December 7, 2005 bears the title “Driving innovation – fostering security in change – completing German unity”.

Employment policy does not feature as an independent policy area within the framework of the German National Reform Programme (“*Nationales Reformprogramm Deutschland 2005 bis 2008*”) and the Progress Report (“*Umsetzungs- und Fortschrittsbericht 2006*”). Rather, “increasing employment” is a key underlying aim: “The core priority is and remains the orientation of economic, finance and labour market policy towards increa-

sing employment" (Progress Report, ch. 1, para. 2). There is an expectation that, more than anything, favourable conditions in the national economy are a critical factor enabling the full benefit to be derived from structural reforms in terms of growth and employment. One of these general conditions in particular is the consolidation of public budgets: "On the level of the national economy, a foremost concern is to put public finances back onto a sustainable footing" (Progress Report, ch. 1, para. 4). Positive effects on employment are expected from the processes of structural transformation already initiated, which are the central focus of the report's commentary. No separate chapter on employment – even in summary form – is included; similarly, the section on "Orientation of the labour market to new challenges" (chapter 4) is worded primarily from a "supply-side" perspective; it concentrates on the – individual – preconditions of integration and employability for various target groups, and the requisite institutional measures for achieving them (structural reforms in the labour market, promoting transition from unemployment to self-employment, improving the compatibility of work and family life, etc.).

#### 4.1.3.3. Trade unions and employment policy

For some time, the debate on employment and the labour market in Germany has been dominated by the set of labour market reforms which became known as the "Hartz laws". Criticism of these reforms' design flaws and, especially, shortcomings in their implementation was a key element of the proceedings at the 2006 Federal Congress of the German Federation of Trade Unions (DGB), and featured in several relevant motions from the executive. The *motion on labour market policy* passed by the Congress contains a long list of demands for the correction of current labour market policy, but initially classifies this as a sub-element within the *employment policy framework*; the point being that "labour market policy is indispensable as a flanking element of successful employment policy. But it can never replace employment policy." What is demanded, therefore, is an employment policy offensive with greater emphasis on macroeconomic components. "Without higher private and public investment, reflation of domestic demand, more ecologically responsible growth and a revitalisation of the working time issue, mass unemployment will not be remedied. The trade unions propose a qualitatively framed policy of growth, oriented along

the lines of 'innovative and better rather than cheaper'." They contend that due to the lack of proactive employment policy together with past structural policy failings, the social state is under pressure, whilst itself also being "branded as the cause of problems" in the public policy discourse.

This current dispute about the relationship between macroeconomic and employment policy and the role of labour market policy in the stabilisation of employment and employment conditions has – it seems – given rise to a more critical view within the DGB than it previously took of the Lisbon Process and its Mid-Term Report. Indicators of this are, firstly, the contributions and discussions at a "Macroeconomic Congress" held by the DGB in autumn 2004, now published as a volume on ways to sustainable growth, employment and stability ("*Wege zu nachhaltigem Wachstum, Beschäftigung und Stabilität*"<sup>30</sup>) and, secondly, a recently-published DGB information brochure on growth and employment in Europe ("*Wachstum und Beschäftigung in Europa*"). This contains the DGB national executive's response to the Mid-Term Report, which was passed in 2005 and includes such statements as: "To achieve the Lisbon objectives, and for growth and employment, Europe needs a *reorientation of economic policy*. A central element for a reorientation of European economic policy towards growth and employment is, from the perspective of the DGB, a macroeconomic policy mix which stabilises the short-term economic trend. To this end, a reorientation of macroeconomic levers is required: financial policy should no longer be geared solely to stability of the currency, but also towards the employment target; and the potential for fiscal policy intervention should be broadened to reinforce the stability and growth pact." In this connection, what is called for is the establishment of a *macro-political dialogue* at *national level* as well.

The *German Federation of Trade Unions (Deutsche Gewerkschaftsbund, DGB)* is the central umbrella organisation for trade unions in Germany. Following a series of mergers in the last few years, its affiliated membership now consists of eight unions: the Trade Union for Building, Forestry, Agriculture and the Environment (IG BAU), the Mining, Chemical and Energy Industrial Union (IG BCE), the Union of Education and Science (GEW), the German Metalworkers' Union (IG Metall), the

<sup>30</sup> Heinz Putzhammer (ed.), *Wege zu nachhaltigem Wachstum, Beschäftigung und Stabilität*, Düsseldorf 2006 (Hans-Böckler-Stiftung)



Trade Union of Food, Beverages, Tobacco, Hotel and Catering and Allied Workers (NGG), the German Police Union (GdP), the German transport workers' union (TRANSNET) and the United Services Union (ver.di). The DGB is structured into 9 regional areas; member unions in turn have their own regional and local subdivisions. The division of work between the DGB and the member unions is organised on the principle that member unions are responsible for their own sectors and policies pertaining to them, as well as for negotiating collective agreements, while the DGB is responsible for the collective political representation of the unions at the various institutional levels of the German state and within Europe. This calls for a continuous coordination process. In total, 6.8 million people are organised in the member unions of the DGB. The DGB is an ideologically neutral, politically unified trade union. In addition to the dominant DGB there is also a small Christian Trade Union Federation (CGB), a German Civil Service Association (DBB) and a few associations for specific occupational groups such as pilots, engine drivers and doctors.

#### 4.1.3.4. Excursus: Reform of the Labour Market

As of 2003, four laws took effect bearing on the reform of the German labour market. These laws are often referred to in public as the “Hartz Laws”, after the chairman of a committee set up by the government then in office. This legislative package led to an extensive rearrangement of the structures and services which had hitherto characterised policy on the labour market and social security, a rearrangement distinguished by a new and fundamental orientation toward a philosophy of “work first” which dictated that the decision on whether to provide or to refuse to provide social security services would henceforth depend on the active willingness of the individuals claiming these latter to make an effort to find gainful employment. This new principle gave rise to the slogan “*Fördern und Fordern*” (“Help Back To Work – For Those Willing To Work”).

A first application of this principle was the reduction of the period of eligibility for unemployment benefit to 12 months, extended to 18 months for claimants over the age of 55. During these periods, unemployed individuals belong to the class of those entitled to benefit by virtue of that unemployment insurance to which both employees and employer make their regular contributions. Individuals who remain unemployed for longer than 12 (or, if over 55, 18) months then fall under the ambit of the new “basic provision for the unemployed, which has evolved out of what had pre-

viously been the “second level” of unemployment benefit together with the former welfare benefit system. While unemployment benefit in the first-mentioned sense, along with the advice and facilitation of the work-search which go along with it, are paid for, for a period of up to a year, out of unemployment insurance (*Arbeitslosengeld*), the “basic provision for the unemployed” which kicks in after this year (*Arbeitslosengeld II*) is funded by tax receipts.

So, we have two separate spheres regulated by quite different laws. In the course of the legislative process and the hammering out of political compromises always associated with this process, two different *institutions* were assigned to these two spheres. For those unemployed persons who are still drawing benefit on the basis of the insurance principle the responsible institutions remain, as before, the “Labour Offices” (although they are now called “Labour Agencies” and are undergoing a radical reorganisation).

In the case of those who fall under the remit of the “basic provision for the unemployed”, the institutional issue is how to combine the jurisdictions of the “Labour Offices” and the municipal Social Security Offices. Here, three different organisational models have emerged: in the majority of cases “joint working groups” (*ARGES*) were formed between the “Labour Agencies” and the municipal offices so-called; in 69 so-called “opting-in” municipalities, these groups alone have taken over these tasks; in a further 19 municipalities the tasks in question continue as before to be carried out in a system of separate responsibility. The “basic provision for the unemployed”, which henceforth covers all individuals who have been unemployed for more than a year or who have never been in gainful employment at all (with the exception of a small group of people who fall within the scope of social welfare), is – and this forms, as it were, the very core of the reforms – an idea oriented by the principle of (re)integration into gainful employment. Aims and goals; claims to services and benefits; potential sanctions imposable on these latter; instruments required to promote integration – these are all found in *Sozialgesetzbuch II*, which, as the fourth in the series of reform laws, is referred to in public as “Hartz IV”.

Public discussion and controversy in Germany on the issues of employment and unemployment – and on the wider issue of poverty – are currently focussed on the regulations and practices associated with “Hartz IV”.

With regard to benefits drawn in terms of the “basic provision for the unemployed“, a distinction is made between an *in-principle ability to work* – which is taken to exist where persons aged between 15 and 65 possess the capacity to perform, under normally obtaining conditions, gainful labour for a period of at least three hours a day – and a *state of neediness*, which is taken to exist where the capacity just outlined does not apply. In the case of persons living within a “household characterised by a commonality of needs and resources“ (a family, or a family-like unit) the calculation of financial support to which he or she is entitled is made with account taken of the income and personal wealth of the person or persons living with him/her. The standard monthly benefit for recipients of *Arbeitslosengeld II* who live alone amounted, in 2006, to €345. Certain situations of special neediness are taken to justify supplementary payments (such as housing benefit), but these payments are governed by very narrowly defined criteria.

Anyone who receives *Arbeitslosengeld II* also incurs a corresponding obligation to make an active effort to find gainful employment. Those who fail to meet this obligation may be subject to sanctions taking the form of cuts in the benefit they receive. At the disposal of agencies administering the “*SGB II/Hartz IV*“ system (*Arges, Optionen...*) is a whole range of instruments designed to support the (re)integration of the claimant into the world of gainful employment or into some pattern of activity (“qualifying measures“) intended to prepare him/her for this world. These instruments range from “profiling“, through “on-the-spot“ measures and support services (such as child-care or provision of home carers) right up to so-called “*work opportunities*“. What is meant by this latter term are forms of employment intended to serve the purpose of reintegration, being of such a nature as to be in the public interest and as not to work out to the disadvantage of normal jobs and job opportunities. Out of the overwhelming majority of all such “*work opportunities*“ as hitherto achieved, no employment relation has emerged comparable to those real and steady employer-employee relationships on which is based, for example, the system of employer and employee contributions to social insurance. Rather, the individuals granted such “*opportunities*“ receive, in addition to *Arbeitslosengeld II* itself, only a minimal recompense for their effort amounting to one or two euros an hour – a circumstance which has meant that this employment-promotion measure has acquired the popular designation: “1-Euro Jobs“.

The social significance of “*SGB II*“ is clear from the sheer number of cases involved: In March 2006, some 3.92 million separate “households characterised by a commonality of needs and resources“ were registered – i.e. 3.92 million individuals, or persons living together, who fell within the sphere of this new law. This figure is much higher than was originally expected, which is to say that the reforms have brought to light a significant degree of hidden unemployment. These individuals, however, who are claiming benefits under “*SGB II*“, include approximately 900,000 who are presently engaged in some form of gainful employment – albeit employment insufficient to secure them a living, so that they need supplementary income which they hope to derive from the “basic provision for the unemployed“.

Back when the reforms were still in the planning stage, the DGB (the main association representing Germany’s trade unions) had greeted them warmly, as it was of the opinion that an improvement in measures to promote employment was urgently required and very much in the interest of the unemployed and jobseekers. However, the DGB is of the opinion that the reform laws as actually passed by parliament and their subsequent implementation are, in many respects, flawed and counterproductive in terms of employment policy. It is urging the government to revise and correct the laws and their administration in certain fundamental respects.

Right from the start, the DGB has demanded that the benefits providing financial support be of such a kind and level as to *positively secure* the claimants against the possibility of falling into poverty. It should also be seen to that those areas of the labour market to which claimants are directed by those providing services supporting the search for work are such as to make available to the claimant jobs which can actually provide him/her with a living wage. It is in this connection that there has emerged the demand for one or another sort of “minimum wage“.

The criticism levelled against the practical implementation of “*Hartz IV*“ focuses on, *inter alia*, the circumstance that the range of instruments already placed at the disposal of the agencies with a view to the promotion of work and employment has not been used to the limit of its capacities and potentialities. In 2005, for example, some 50% of the means and materials made available with a view to services aimed at claimant reintegration were simply not used. The range of tools and instruments accessible in principle for use in the agencies’ work of employment promotion is – according to the criticism – left

almost entirely unutilised. The plans and targets drawn up as regards the agencies' advisory and support activities (persons per case-manager) have, it is alleged, not yet been met. The bureaucratic difficulties associated with this, as with any, system in the initial construction stage have still not been overcome. In short – say the critics – claimants' "willingness to work" remains the object of a dubiously rigorous scrutiny, while the declared quid pro quo of "help getting people back to work" is conspicuous by its relative absence.

In general terms, the DGB considers the division in two of the responsibility for employment promotion (between the agencies on the one hand and the "SGB-II agencies" on the other) as constituting an infringement of that very principle – "promotion from a single source" – originally declared to be the goal of the reforms. The trade union association believes that what we are seeing is, on the one hand, close cooperation between various firms and companies and the (non-"SGB-II") agencies which tends to result in just those people being placed in work who had counted in any case among those claimants not so far removed from the functioning labour market, while the "SGB-II" agencies are increasingly losing contact with the primary labour market altogether. The DGB sums up the situation thus: "The fact is that the division of the systems in this way has not only not achieved the main aim of the reforms – namely, getting the long-term unemployed back into work as quickly and efficiently as possible – but has, on the contrary, made this problem even worse." The DGB sees a further problem in the inadequate integration of the "SGB-II" agencies into the various regional contexts. Regional advisory councils with representatives from commerce, industry and the trade unions, which had previously only existed on a voluntary basis, should be introduced in a more compulsory manner and provided with powers of intervention.

These critical comments and suggestions are supplemented by the idea of a **secondary labour market that is honest in respect of its own nature** which is currently being introduced into the debate by the DGB. Since one honestly has no choice but to recognise that the capacity of the primary labour market to absorb labour is, and shall remain for the foreseeable future, a restricted one, there does indeed exist a kind of lacuna in the range of instruments available to an active labour market policy as regards the creation of *forms of employment com-*

*parable to those firm employer-employee relationships on which the system of contributory social insurance is founded.* The basic consideration: employment creation is brought about by means of forms of employment which, were they not promoted from public resources, could not continue to be provided for any foreseeable length of time. In such a "secondary labour market that is honest in respect of its own nature"<sup>31</sup> the aim of returning to the primary labour market is, when considered realistically, no longer one which stands in the foreground of concern. What is at issue here is rather the facilitation, as the only feasible alternative to total unemployment, of some meaningful form of employment performed under decent conditions. Two paths are considered possible here: firstly, the employment of claimants, on the basis of long-term subsidies and support of such employment, in companies operating in the primary labour market; secondly, the development of a system of employment in the non-profit sector, that is to say, above all in charitable organisations. In order for these models to be put into practice, a whole series of arrangements will be required, especially at local level – most particularly agreement as to goals, and consultation, with the figures and personalities playing central roles in the localities concerned.

#### 4.1.3.6. The European employment strategy and the social dialogue

From the 2005 National Reform Programme to the 2006 Progress Report. The *Commission's Assessment* of the National Reform Programme (NRP) submitted in December 2005 is conciliatory; there is particular recognition that the change of government made it more difficult to prepare the report. Nevertheless, besides the points which are highlighted as positive (measures for improving business conditions, especially for SMEs, fostering ecological innovation and approaches to combating youth unemployment), explicit mention is made of other points which require closer attention in future.

These three points are:

- improving competition in professional services and in provision of "broadband networks",
- a more comprehensive approach to improve the integration of low-qualified workers, including immigrants,
- a more concrete and operational plan to achieve the intended increase in childcare facilities.

In the paragraphs relating to employment policy,

<sup>31</sup> Annelie Buntentbach, Member of the Executive Board of the DGB, on 2 October 2006, in the *Frankfurter Rundschau*.

the Commission also expresses a whole range of critical comments.

Overall, Germany is urged to implement the proposals in its reform plan energetically, paying particular attention to the above three points; clearer prioritisation is expected, and – particularly on all aspects relating to employment policy – *close cooperation with the social partners*, the Länder (federal states), municipal and local government is called for. In relation to the preparation of the NRP in 2005, the point is expressly underscored (in point 4 of the Commission's Assessment):

*“The NRP recognises that, owing to the recent formation of a new government, efforts to develop ownership of the document have been rather limited. It presents a firm commitment by the authorities to involving all stakeholders much more closely in the period ahead.”*

*De facto* and despite the Commission's warnings, however, between submission of the National Reform Programme and preparation of the draft progress report in the summer of 2005 there was no sign of better involvement of social partners and other stakeholders.

(Consultation). During the preparation of the first *National Reform Programme* in 2005, the social partners had not been consulted at all. The Federal Chancellor's Office, which coordinated that phase of the work, justified this on the basis of the shortage of time as a result of the general election which had just been held. The trade unions had only been given the opportunity to make written comments on the draft within a six-day response period. The DGB rejected this option at the time, also requesting the deletion of a sentence from the introduction stating that the social partners had been given the opportunity to respond.

In its Assessment of the NRP, the European Commission expressed sympathy for the exceptional situation created by the election and the new government, but made it clear that thorough consultation of the social partners would be expected subsequently (see above).

After 2005, responsibility and coordination for the NRP was transferred from the Federal Chancellor's office to the Ministry of Economic Affairs. Nothing was done to catch up on the missing NRP consultations and, evidently, neither did the DGB or other organisations clamour for this. On the contrary, the consultations on the *Implementation and Progress Report* in summer 2006 took place under time pressure once again. In July, a forthcoming consultation

was announced; this was then convened on August 9, 2006. Just one week before, the 91-page draft of the report, marked “Confidential”, was issued to the invited organisations. None of the organisations invited could envisage being able to draft a well-founded written response within the space of a week. Apart from the DGB, four of the organisations invited can be classified as employers' representatives - the Confederation of German Employers' Associations (BDA), the Federation of German Industries (BDI), the Association of German Chambers of Industry and Commerce (DIHT), and the German Confederation of Skilled Crafts (ZDH) - and two represent local authorities. Each of the organisations had the opportunity to make a ten-minute oral statement.

To the recollection of attendees, representatives from the Ministry of Economic Affairs ruled out questions on macroeconomic policy because in their view there was another forum for such discussions, i.e. the “Macroeconomic Dialogue”. Furthermore, it was indicated that the draft was the basis for a Cabinet Paper which would have to be taken forward the very next day, ready for the meeting of the Federal Cabinet on August 21. Amendments to the text could therefore only take place on the same afternoon, and then only as long as they were editorial in nature and did not require departmental consultation.

The ongoing time schedule remains tight. After the Cabinet decision, the report will be forwarded to the Bundestag (German federal parliament) and the Bundesrat (upper chamber) and sent to Brussels in mid-October. Meanwhile the DGB, with the utmost haste, had drafted a wide-ranging 60-page response, in which the various relevant specialist departments of the National Executive were involved. As there was no suitable opportunity to place this response within the consultation process, it is now determined to bring it to the attention of the federal government, the Bundestag, the Bundesrat, the public “and Brussels, too” in the coming weeks, before the report is officially submitted to Brussels. To do this, however, a DGB internal consultation and consensus procedure and a formal resolution are required.

The draft response has meanwhile gone out to affiliated trade unions with a request for responses; a meeting of the chief executives of affiliated trade unions at the end of August is an opportunity to gain a profile of opinions. It is anticipated that the National Executive will formally approve the response document in early September to clear the way for publication. This most certainly cannot be called an in-depth consultation of the social part-

ners by the German federal government, of the kind urged by the European Commission.

Judging from the procedure, the atmosphere and the way in which consultations were handled, in the DGB's view the Ministry of Economic Affairs is treating this report as an onerous obligation, imposed by Brussels, with which they have to comply, and is inviting attendees at the session to view it in the same way, i.e. more as a technical and administrative process for the sake of maintaining a positive national image, which has little or nothing to do with "real policy".

It is therefore an urgent necessity to negotiate with the federal government on the entire consultation process, the structure of the schedule, its mechanisms, issues surrounding the relative status of the parties, etc.

As far as content is concerned, declaring macroeconomic policy to be a taboo subject during the consultation (see above) and broadening the topic areas as a result of the "Integrated Guidelines" appear to have narrowed down the thematic breadth *de facto* to what can only be described as "structural policy" – and consigned employment policy issues to a more marginal role. At least, this is the impression created by the structure and priorities of the Progress Report, and equally by the DGB response which follows the same structure. However, the DGB expressly points out that several key areas from the "Integrated Guidelines" are simply not mentioned. Consideration must be given to whether the DGB response should settle for framing its comments so stringently in line with the structure imposed by the federal government's report, or whether a more original form can be used which spells out the priorities and views of the DGB with greater coherence.

(Critique of Progress Report). Thus the *response* prepared by the relevant departments of the DGB National Executive under considerable time pressure – and later consulted upon with affiliated trade unions – follows the same structure as the Progress Report in its major elements, and contains a wealth of detailed comments on it. This detailed response, the internal consistency of which is difficult to ascertain because it lacks a systematic line of argument other than the cumulative structure imposed by the government, is preceded by a four-page *Fundamental Assessment* ("*Grundsätzliche Bewertung*"). In this section, what comes through clearly is a broadly critical attitude to the underlying policy stance and direction of the National Reform Programme, and – by association – the Progress Report.

This *Fundamental Assessment* criticises, in concise

terms, the underlying flaws in the architecture of "economic governance" in Europe, a principle which is felt to have been adopted without critical reflection as a basic assumption of the Integrated Guidelines and the German National Reform Programme.

It asserts that the agreed margins for price stability and the regulations of the Stability and Growth Pact (the Maastricht criteria) are not designed to produce employment-promoting growth. It objects that the various "structural reforms" have been designed from a macroeconomic perspective to shore up this kind of (restrictive) stability policy, a flaw running through the entire German reporting on so-called "structural reforms". But abstract growth potential cannot create employment, it contends; only real growth can do so. If growth is restrained because the demand side is weak, and is only weakened further by excessive wage moderation, then growth can "arise solely and exclusively from macroeconomic intervention by means of monetary and/or fiscal policy". It takes issue with the reorientation of the Lisbon Strategy for reinforcing an approach focused exclusively on competitiveness and stability, and warns Europe to anticipate "long-term social costs" from this fundamental macroeconomic orientation.

It concedes that even a different macro-policy cannot, of itself, produce growth. At present, however, the given macro-policy orientation and the lack of macroeconomic coordination at European level have been preventing effective coordination between macroeconomic policy, micro-economic policy approaches and employment policy. It is contended that the resulting lack of coherence could give rise to social costs and damage social cohesion.

These fundamental arguments are followed up with three associated general demands, based on the connection between macroeconomic policy and employment policy; and the document concludes with a warning. Firstly, during the forthcoming German Council Presidency in 2007, it is urgently recommended that the German government should address, with vigour, the problem that the existing governance approach is unsuitable for creating employment-promoting growth. Secondly, criticism is voiced in categorical terms that the list of measures put forward by the federal government reflects only parts of the Integrated Guidelines. Thirdly, a constructive dialogue with the trade unions is called for: "For this, however, it is not enough merely to involve the trade unions in an Implementation Report; instead they need to be involved before-

hand in defining the objectives and designing the concrete policies.” Finally, the federal government is urged to remedy the flaws censured by the DGB in order to prevent disputes.

#### 4.1.3.7. Conclusions

❖ a. The DGB (German Trade union Association) is developing an increasingly critical stance vis-à-vis the context for employment policy which has been established by the European strategy for macroeconomic stability. The criticism here expressed is proving all the sharper inasmuch as the DGB perceives here many points of concordance with the current policy of the German federal government.

❖ b. The DGB, moreover, feels itself to have been snubbed because the German federal government is tending to neglect, already in its second year, the established requirement that all partners in the social contract be drawn, in good time, into the political decision-making process, the deadlines set being such as hardly to leave time for the development of serious stances on the issues and integrated discussion being refused as regards macroeconomic questions, the recent so-called “structural reforms” and the effects of these on employment policy conceived of as a dependent variable.

❖ c. These reservations, however, have not yet resulted in the DGB’s refusing to participate, or threatening to refuse to participate, in the consultation process until reasonable forms and procedures for the timely inclusion of social partners have been put in place. Rather, the effort continues to push through, by means of statements of position, corrections of detail in the course of the process itself, imperfect as this latter is recognised to be. There has, as yet, been no public *contestation* of this process of a sort that could possibly come to the ears of the EU authorities in Brussels. Whether the DGB took, at the time of the passing on of the progress report to the German *Bundestag*, any public position on these issues cannot be ascertained from the media; they did not, in any case, succeed in placing, as regards general public opinion, the consultation procedure and/or its substance in question.

❖ d. For this reason, it should by no means be automatically assumed that the increasingly critical position of the DGB vis-à-vis European strategy and the goals pursued by it will lead to an intensification of debate and struggle conducted both within the unions and in the public sphere, finally resulting in turn in the raising of claims for change and

for a role as co-designer of such change. Equally – if not more – likely is an increase in scepticism and a growing tendency on the part of the unions to avert their attention from European issues.

❖ e. These events are occurring against the backdrop of a perspective on “Europeanisation” which remains in any case comparatively underdeveloped within the trade unions. On the level of the umbrella organisation, the DGB itself, a kind of “Task Force for Europe” has been formed and position papers on European topics are regularly drawn up. On the level of the individual member unions, however, it is generally only a very small number of “specialists” who concern themselves with European issues. Forming a certain exception here are the supporting services offered to “Trans-European Works Councils”.

❖ f. A further important reason for this relative abstention on European issues is the circumstance that the attention and the energies of those who would normally concern themselves with questions of employment and labour-market policy are presently absorbed to an exceptional degree by the debates around that current reform of the labour market which is familiar to the public under the name of the “Hartz Laws”. The unions had originally taken a very positive view of combining - as a unitary duty of the “job centre” - the provision of advice to the unemployed and helping the unemployed back into work, and also the principle underlying this of “helping those who really want to work to get back to work”. Their criticism is now directed at significant bureaucratic failings in the implementation of these ideas. Seen as especially problematic is the treatment of the claimants after a year on unemployment benefit, since the financial support offered them is, from this point on, severely restricted while the responsibility for re-joining the workforce becomes, for all intents and purposes, theirs own alone. The position of those unemployed for more than a year is made still worse by bureaucratic deformations in the areas of advice and support, training and communication of job opportunities.

❖ g. It remains quite unclear what role would need to be assumed, within the context of a multi-level strategy, by the country’s trade unions if they are to 1) help to render genuinely effective the demand made by the ETUC (European Trade Union Confederation) for a review of the macroeconomic guidelines and 2) strengthen their own position within the domestic struggle concerning an appropriate employment policy

## Annex: 2004 indicators (from the Annex of the German National Reform Programme)

STRUCTURAL INDICATORS: GERMANY 2004 <sup>1</sup>				
	Germany	EU 25	EU 15	Target by 2010
Per capita GDP (PPS, EU-25 = 100)	109.2	100.0	109.4	
Labour productivity per person employed (PPS, EU-15 = 100)	101.0	100.0	106.8	
Employment rate(%)	65.0	63.3	64.7	70.0
Women's employment rates(%)	59.2	55.7	56.8	60.0
Employment rate of older workers (%)	41.8	41.0	42.5	50.0
Level of education (20-24)(%)	72.8	76.7	73.8	
R&D expenditure *(as a percentage of GDP)	2.52	1.92	1.98	3.0
Business investment(a percentage of GDP)	16.0	17.0	17.0	
Comparative price level *(EU - 15 = 100)	108.9	100	104.0	
At-risk-of-poverty rate #(%)	11.0	15.0	16.0	
Long-term unemployment rate(%)	4.9	4.0	3.3	
Regional spread of the employment rates	6.2	12.2	11.1	
Greenhouse gas emissions * (initial year = 100)	81.5	92.0	98.3	92.0
Energy intensity of the economy *	159.50	209.49	190.82	
<b>Total traffic *</b>	<b>104.5</b>	<b>99.7</b>	<b>100.6</b>	

1) Source: Eurostat. Unless otherwise specified, all the data refer to the year 2004.  
\* 2003  
# 2001

#### 4.1.4. NATIONAL CASE STUDY: SPAIN - GROWTH IN POOR-QUALITY EMPLOYMENT

##### 4.1.4.1 The employment situation

The Spanish case illustrates the discussion on employment in Europe. Spain is one of the countries where employment has risen the most in recent years; however, the jobs created are of poor quality.

For more than 10 years, Spain has registered sustained GDP growth, higher than the European average, with a difference of around 1.4 points compared to the EU-25 average since 1996. This growth has boosted employment, as during this period the employment growth rate has averaged 3.69% per annum. This has reduced the unemployment rate by nearly one half, from 22.4% in 1994 to 8.15% in the third quarter of 2006, whereas the rate for the EU-25 during the same dates was 7.9%.

This growth in employment represents nearly one third of the entire net employment produced in the EU-25 during the last decade; furthermore, during the same period, the Spanish labour market absor-

bed a considerable wave of migration of more than 2,000,000, and registered sustained growth in female employment.

This positive context for employment actually put an end to a long employment crisis that had commenced in the second half of the 1970s and lasted until 1994, when the employment volumes of the 1970s were reconsolidated. This long crisis gave rise to patterns of behaviour on the labour market, both among the population and among entrepreneurs and institutions, that have had a profound effect on the market during this period which, in spite of the radical change registered in the last decade, still exert an influence on current patterns of behaviour.

Some indications of this behaviour on the Spanish labour market include:

- A high rate of temporary contracts of 32% (2004) – more than double the rate in the EU-25 of 13.5% (2004). Contracts for a specified period have consolidated their position as the Spanish way of dealing with flexibility and have proved stubbornly resilient, in spite of various efforts adopted in recent years;

and, in anticipation of the results obtained thanks to the most recent measures, it would seem that they have had a certain positive impact.

❖ A wide difference between male and female unemployment rates of more than 22 points in employment rates, and more than 5 points in unemployment rates between men and women, thereby harming the situation of women on the labour market.

❖ High rate of youth unemployment. In spite of being reduced in the last decade, the rate of unemployment among young people under 25 is still 18% overall, with 22% for women, but down to 15% for men; this undoubtedly reflects the lack of appeal of jobs on the labour market, and is also due to the attitude developed by young people during the period of employment crisis to invest in education and thus extend their training period.

❖ Very wide regional disparities between autonomous communities. For instance, the highest unemployment rate, in Extremadura, was 13.7%, compared to the lowest in Navarra, 5.6%.

The Spanish employment situation can therefore be characterised as magnificently dynamic, in quantitative terms, though this statement must be qualified by another basic characteristic: the wide disparities between groups, territories and sectors. This suggests a highly contradictory situation: whereas in some groups (for example, men over 25 years of age), the current situation can be considered one of nearly full employment; for other groups, on the other hand, especially women and young people, the unemployment rates are still very high. The same applies for certain territories, where labour is lacking and where migrant labourers have to be called upon, whereas labour surpluses are still abundant in other territories. This is what happens in the sectors too. Sectors that are not attractive, either because of their social consideration or their working conditions, have enormous difficulties finding a labour force on the internal market (construction, agriculture, hotel and catering, etc.), in spite of high unemployment rates in some territories and for certain groups.

The other observation about the development of employment in Spain is that the good years in terms of good employment results, have not been capitalised on to reduce social differences on income. The proportion of the population with an income below the poverty threshold is still high and has remained practically constant in the last decade, at about 18-20%.

In fact, wages have risen moderately, but the purchasing power of wage-earners has remained virtually the same in real terms, while the contribution of wages to the national income has even dropped. This points to a perceptible collective consent to create jobs in exchange for personal income moderation, offset by the family mutual assistance mechanism characteristic of Spain, in as much as the number of gainfully employed members increased. The family income increased as a result, even if individual salaries are not high. Conversely, extensive dependence on the family has been created for members most affected by unemployment or those with a precarious or unstable job. In spite of this apparent contradiction between income and quality of employment, Spain has decidedly registered progress on per capita income convergence with the European Union, to be at 98.5% of the per capita income in the EU-25 in 2005.

The poor quality of employment in terms of pay, qualification and temporary nature is part and parcel of a structural situation of the country's production fabric which reflects low productivity that has gone down in recent years. It corresponds to sectors that have taken the lead in employment, especially construction, with low added value and rare investments in technology and innovation. This poor productivity in Spain constitutes the most serious danger for the sustainability of economic growth.

To complete the analysis, we should cite the surplus of about 1% of the public accounts in 2005, which is compatible with an increase in social spending and public investment policies. On the other hand, an inflation rate higher than the European average (4% in 2005), the deficit in the balance of payment (7% of GDP), and the high rate of indebtedness of families (110% of income)<sup>32</sup> must be placed in the negative column.

#### 4.1.4.2. The National Reform Plan

Spain is one of the countries that has created the post of a "Mr Lisbon" to coordinate the national strategies for reaching the Lisbon objectives. This has improved the formal quality of the National Reform Plan that Spain presented to the European Commission in October 2005. This plan defines very coherent measures with a capacity, recognised by all parties, to diagnose problems affecting the economy and employment in Spain and to propose remedies. It also includes a chapter on indicators aimed at

<sup>32</sup> Cf. Aragón, Jorge. *Making labour market reform deliver more and better jobs: The Spanish case*, report for the seminar on *Labour market reforms and macroeconomic policies in the Lisbon agenda*. ETUC. Brussels. 20-21 March 2006.



encouraging transparency and undertaking to monitor the situation, thereby entailing substantial progress for the management of public policies in Spain.

The Plan sets two main objectives: achieve full convergence in per capita income by 2010, and exceed the employment rates of the EU on that date.

The first objective has a great impact on public opinion in Spain, which has always considered Europe as a goal to reach and a model of well-being. Achieving the European average implies overcoming a long period of lagging behind. This is why the Plan stipulates: “it is crucial to insist on productivity;” since, in the first part of the decade, employment assumed the leading role in the convergence process, it is hoped that said process will rely on the relative progress of productivity for the rest of the decade.

The second objective is to attain an employment rate of 66% by 2010, one point more than the current European average. Today (2005), the Spanish employment rate is very close to the European rate (63.3% in Spain, compared to 63.8% in the EU-25, and 65.2% in the EU-15), although this objective does not reach that fixed at Lisbon, of about 70%. To achieve this, the Plan stipulates that the male unemployment rate must be well below the European rate, while the female unemployment must be equal to the European rate. In terms of participation, the male activity rate must still grow, and the female activity rate must be equal to the European rate.

The seven basic planks for the objectives and mechanisms are:

- Plank 1: Strengthening the macroeconomic and budgetary stability.
- Plank 2: Strategic Plan for Infrastructure and Facilities, Transport, and Water Programme
- Plank 3: Increase and improvement of human capital
- Plank 4: I+D+ i strategy
- Plank 5: Greater powers, better regulation, efficiency of public authorities and competitiveness
- Plank 6: Labour market and the social dialogue
- Plank 7: Entrepreneurial development plan

Plank 6 broaches aspects that have a direct link with employment. Twelve measures are proposed, aimed at:

- Increasing youth employment
- Increasing female employment rate and eliminating discrimination at work
- Promoting the reconciliation of working time and personal life

- Organising the personal autonomy and attention to dependents act
- Supporting the extension of working life and the modernisation of social protection systems
- Promoting the integration into the world of work of the disabled and other people or groups at risk of social exclusion
- Improving the way labour market institutions function
- Managing migration flows correctly
- Reducing temporary employment contracts
- Promoting self-employment and the community-based economy
- Improving the system of health and safety at work
- Supporting the upholding and consolidation of the inter-confederal agreement for collective bargaining

The government drew up the NRP and then asked the social partners and other public and private institutional representatives for their point of view, within a brief period of time, so as to be able to react and to prepare a discussion on their proposals; they were also invited to take part in the monitoring and evaluation of the plan. The low rate of real participation by the social partners in drawing up and discussing the plan gives an impression of remoteness and makes it difficult to integrate the plan in the social dialogue as an instrument for guiding strategies for employment.

Thus, for instance, the trade unions would have preferred to insist more on the measures necessary to improve the quality of employment that are accorded little attention in the steps proposed in the plan.

As we have seen, employment is one of the planks of the plan. In spite of the coherence between the different planks, the degree of detail and the breakdown of measures for employment, the plan seems to be an operating guide for developing employment policies.

#### 4.1.4.3 The Social Dialogue and the NRP

The social dialogue has been gradually consolidated in Spain as a consultation mechanism between both sides of industry, and in a three-way arrangement with the government for industrial relations. This regulation of this framework has to go through the social dialogue between the parties, at times with an agreement, and at other times without; nevertheless, the working method always consists of trying as much as possible to reach a consensus between the social partners and, for certain matters, with the government.

Bilateral agreements between trade unions and employers' organisations on the stability of employment and the structure of collective bargaining since

1997, or inter-confederal agreements on collective bargaining since 2003, or even tripartite agreements such as the Social Dialogue Declaration of 2004 on competitiveness, employment stability and social cohesion stand guarantee for this approach.

The social dialogue is organised by work tables that broach different topics quite independently, so that agreement can be reached on some topics, but not on others. For instance, there is an agreement on the regularisation of migrants, extra-judicial solutions for labour disputes, observatories for the modernisation of the industrial sectors, for the prevention of risks at work, for continuing vocational training, a dependency law for the autonomy of individuals, the social dialogue for the public sector, improvement of how the labour inspectorate operates, minimum wage, minimum retirement pensions, etc.

There are differences, however, as to the gender equality act, or the transposition of the directive on employee involvement in European companies.

In fact, the NRP links the measures proposed therein with the open-ended process of the social dialogue and bases its approval on the results of the discussion. In reality, however, the parties do not connect the two things, given their scant formal participation in drawing up the NRP. This entails a lost opportunity to analyse all aspects to do with employment. Employment is consequently flanked by two vaster sets: in the different measures geared to improving the competitiveness and productivity of the Spanish economy and in the convergence process, and, in the measures relative to the labour market, where it is buried under the wider perspective of industrial relations. The very structure of the social dialogue and the NRP do not help make the topic of employment more visible, which remains dispersed over numerous different aspects.

## 4.2. Results of the surveys

The *ambivalent attitude* of the various national Trade Union Confederations vis-à-vis the Integrated Guidelines manifests itself in almost all the stances adopted. Some examples:

Unanimously positive signals come from *SAK Finland*; likewise from *AKAVA Finland*, the trade union association for academic employees. *LO – DK Denmark* emphasises the importance of continuing to maintain a proper balance between competitiveness and social solidarity. *FTF Denmark* expresses the following apprehension: "FTF is generally positive on the integrated process. But fears that the

employment guidelines are in practice becoming weaker."

More ambivalent, on the other hand, is the position taken by the *Luxemburg trade unions CGT-L and LCGB*, who adopted a joint stance: "The Luxemburg unions are, in principle, for an integrated approach combining the three dimensions of European Economic Policy (macroeconomic, micro-economic, and employment) but the Council should insist that these three spheres all receive equal treatment. There is reason to fear that, under the present manner of proceeding, employment will become the 'poor relation' among the related themes addressed by the revised integrated Lisbon Strategy." The Luxemburg unions also note that the environmental dimension, which always formed one of the three central pillars of the Lisbon Strategy, is now lacking: "The Integrated Guidelines appear to minimise the importance of the environment and of that social cohesion and solidarity which cannot be conceived of in terms of high employment rates alone."

The *Belgian trade union confederations* express similar views in their joint response to the questions put by the ETUC. They stress that "the various partners in the social contract have already expressed their shared view that it is impermissible that the present Strategy's focus on growth and jobs should work out to the disadvantage of other social and environmental aims."

The *French CFDT* stresses that it stands, indeed, for a stronger relation of mutual support and supplementation between the principal economic orientations and the guiding ideas behind them – something that would need to take concrete form in the National Reform Plans. It also, however, recognises the imperative that this integration apply to both sides with the same force. Because: "We know that growth does not automatically favour employment, and that growth without employment has especially destructive consequences for those who find themselves in particularly disadvantaged positions on the labour market." Beyond this, the CFDT's criticisms are directed above all against the French National Reform Plan, which it sees as lacking real reference to European issues and proper articulation with one another of economic and social dimensions; here – so the criticism – real social dialogue is absent and paths forward conceived of one-sidedly in terms of competitiveness alone.

*Spain's UGT* declares that the integration of the economic guidelines with those for employment appears to them an interesting idea. Unacceptable, however, was the fact of this having occurred in a manner such

as to push into the background the aims of qualitative and quantitative progress in the sphere of employment. Moreover, the proliferation of guidelines was tending to hinder the formulation of clear goals stipulating how a model for growth and jobs could be stimulated which would prove structurally strong and sound.

*Comisiones Obreras (CCOO)*, also from Spain, combines a general approval of Integrated Guidelines with a nuanced critique of their specific content, formulated in terms of "concerns". These "concerns", as related to the Integrated Guidelines, are:

- The concentration of hope almost exclusively on the reduction of the costs of labour as a means of creating new jobs,
- The declared aim of making labour profitable – which the CCOO sees as amounting above all to a revision of the tax and social security systems,
- The renunciation of the once-declared aim of finding viable solutions for the "working poor",
- Insufficient attention paid to the necessity of dealing with the consequences of restructuring and with the problem of how to ensure the quality of available work even in conjunction with the tendency to labour's "flexibilisation",
- The lack of attention paid by the labour market reforms to the "social dimension" and the loss of that perspective on the problem which sees it as one of how to reinforce cohesion and social inclusion,
- Insufficient consideration of regional disparities in employment.

*Portugal's UGT* expresses a generally positive view of the project of Integrated Guidelines and stresses the need for an equilibrium between the three pillars: economy, society, and environment. Portugal's CGTP, however, sees in the Guidelines in their present form a dominance of economic competitiveness at any price and nothing that serves the welfare of European citizens. The Guidelines as they stand – so the CGTP – are, insofar as they tend to place their accent on the deregulation of the labour market and on the weakening of social security and of measures to reduce yawning disparities in income, inadequate to the social reality of Portugal and Europe.

*CMKOS, from the Czech Republic* views – for all its positive attitude, in principle, to the Integrated Guidelines – these latter as having been so seriously deformed by goals conceived in terms of economic competitiveness that it would almost make more sense for each country to retain its own independent guidelines. CMKOS's statement includes the passage: "According to our view, it is extremely important to achieve better synchronisation in the sphere

of economic and social policy, because in particular social policy, where it is subordinated to economic aims, suffers. (...) Despite this, we can see signs of a tendency to prefer competitiveness, profitability and other market economy principles to social ones. Therefore we insist on maintaining the position and role of employment policy guidelines and objectives in order to perceive the social dimension of the reforms as one of the main instruments to achieve real effectiveness."

#### 4.2.1. INADEQUATE INTERACTION BETWEEN THE EUROPEAN AND THE NATIONAL LEVELS

All the national trade union confederations which participated in the survey express support, in principle, for the Integrated Guidelines. They are seen as offering the chance to perceive and to comprehend as a whole, and to collectively influence and direct, phenomena – namely, the phenomena forming the object of macroeconomic, micro-economic and employment policy – which will in any case, regardless of the attitude we adopt toward them, inevitably exert, as an integral and mutually inextricable whole, enormous effect on our lives as a social collective.

Counterbalancing, however, this opportunity created, in principle, by the Integrated Guidelines and the reform plan process to treat questions of employment policy with the same degree of priority accorded to other political and economic questions – an opportunity which, if taken, would constitute a significant promotion of these questions up the political agenda – are initial experiences of a directly opposite tenor. The domestic installation and practical realisation of the Guidelines have clearly often resulted – particularly given that responsibility for these operations has tended to switch repeatedly from Secretary for Labour to Secretary for Commerce and back – in questions of employment policy and strategy being shuffled into the "miscellaneous" tray. In particular, they have tended to take a back seat to the so-called "structural reforms" and to the macro-political forces subtly determining and directing these latter. As much is indicated both by the detailed criticisms and by the general apprehension that employment policy might be becoming the "poor relation". By contrast – as some participants argued – the earlier Employment-Policy Guidelines had been more clearly focussed and more nuanced, which had meant they had aimed, at least, at being binding.

The first study had had among its results the recognition of *inadequate interaction* between national employment policy and European employment strategy. We see here, in most cases, little improvement – and in some cases even deterioration – since the half-

time revision of the Lisbon Strategy and the introduction of the Integrated Guidelines. Of course, when considering the question of the interaction of the European Strategy with, and its impact on, national policy, a distinction must be drawn between, on the one hand, the mere *de facto* interaction between European and domestic politics, which occurs, for example, through voting processes via the Council of Ministers and via the less than transparent bureaucratic consultations and, on the other, the more ordered *consultation procedures* and national decision-making processes which enjoy a higher degree of transparency for the general public. Or, in other words, the question is: whether and to what extent this *de facto* interaction between European politics and national politics – and most particularly between European and national employment policy – is going to become a theme and a topic within the individual nations’ “public spheres” and a focus of these spheres’ characteristic debates and arguments.

#### 4.2.2. NATIONAL REFORM PLAN – MAKING THE PROCESS MORE SIGNIFICANT

Many of the recommendations formulated by the national trade union federations take up this set of problems.

The questions of national *significance* and of national-European interaction are taken up, for example, by *FTF Denmark* in its recommendation: “The National Reform Plan should be adopted by parliament and the discussions in parliament should be added to the final parliamentary document. The bilateral contacts between European Commission and Denmark should be open to all stakeholders (government, the social partners and the opposition parties).” The *Belgian trade unions* would like to see a campaign concentrated on employment, at the centre of which should stand the issues of enduring job-creation and health in the workplace.

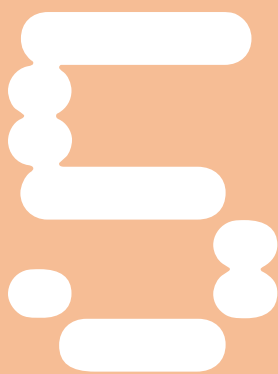
For France’s *CFDT* the task is, besides strengthening the social dialogue in France, also that of transforming the political culture and the attitude of the public administrative bodies in such a way that European strategy can come to play a more than merely marginal role. The *Luxemburg trade unions* emphasise in their joint statement the areas which require particular attention: the question of the quality of employment, with particular reference to the “working poor”; the question of the security of employment; the strengthening of social dialogue at the level of the enterprise; innovative approaches in the field of “Lifelong Learning”.

*Comisiones Obreras from Spain* place particular value on a stable framework for the further develop-

ment of a model for economic life which would accord importance to the quality of the jobs available, to productivity, and to an adequate wage level for those in employment. *UGT, likewise from Spain*, directs its recommendations rather toward the necessity that the reform plan processes acquire greater significance on the national level: a Standing Committee with participation by all social partners should follow the course of the whole Strategy Process; there should be established better coordination and liaison between all those administrative bodies involved in the various aspects of the Lisbon Process; the Spanish parliament and the parliaments of the Autonomous Regions must be made more closely participant; and, finally, it would make sense to set up a separate system of regular reporting on the progress of the reform plan process.

*CGTP-IN from Portugal* notes a failure really to ensure that the reform plan process can be continuously followed and observed by the various social partners, the government having hitherto failed to make any suggestion in this regard. *UGT-P from Portugal* once again emphasises the need for a better articulation of the relations between macro- and micro-policies on the one hand and employment on the other, and demands a strengthening of the social dialogue. Finally, *UGT-P* also points out that the current primary stress on “more and better jobs” should not lead us to forget *unemployment*.

1. INTRODUCTION
2. EMPLOYMENT TRENDS 2005-2006
3. YEAR 2005 OF THE EES
4. CASE STUDIES AND DISCUSSIONS
5. CONCLUSIONS ◀
6. PROPOSALS



# CONCLUSIONS

Launched in 1997, the EES is supposed to be one of the culminating moments of all the reforms and progress towards European construction, with a clearer emphasis on a balance between the economic and social prospects that underpin the European social model. This strategy is bolstered by the Lisbon objectives which also constitute an ambitious definition of leadership to which Europe aspires as a model for growth opening up expectations that have mobilised European public opinion. After 9 years of implementing the EES, and four years before the target date set for the Lisbon objectives, the employment situation and the position of Europe in the world seem more critical than had been expected from those objectives.

Having analysed the employment situation, the implementation of reforms to improve the efficacy of the proposed measures, and having heard the trade union leaders and officials who are implementing strategies and programmes in day-to-day work in the field, a shift in the vision of actors emerges as to what separates the reality of the employment situation and the objectives set. This second report is marked by greater scepticism and more hindsight on the part of the actors as to the capacity of the proposals to pave the way to economic growth and to improve the quality of employment, which would in turn preserve confidence in the announced objectives.

The conclusions drawn to prepare this report are based on two fundamental aspects:

- In spite of all the efforts, the reform has had rare repercussions, for the moment; a discussion must therefore be engaged on how to move forward with this strategy, while considering developments nine years after.
- What impact has the reform had on the joint responsibility and on the participation of the social partners in the social dialogue?

We shall now present the main considerations on these two questions.

### 5.1. After the reform, what about the strategy?

Central to this second study is the question of how matters stand with employment policy after the review of the Lisbon Strategy and the emergence, from this review, of a set of Integrated Guidelines for Growth and Jobs.

#### Questions from which to begin...

The starting points for the ideas developed in this chapter can be stated as three basic questions:

❖❖❖ (1) Within the context of the first study, carried out in 2004/2005, many trade unions had expressed the positive expectation that the formulation of Integrated Guidelines and the drawing-up of Integrated National Reform Plans would lead to a re-evaluation of strategies for employment policy. Has such a development actually occurred, or is it about to? In other words: what impact is the revised Lisbon Strategy *really* having, via its Integrated Guidelines, National Reform Plans, and method of “open coordination”, on the various national policies regarding employment?

❖❖❖ (2) The results of the second study – which was conducted after the review of Lisbon – go more or less to confirm the conclusions of the first: In many cases, the drawing-up of a National Reform Plan is treated as something obligatory but fundamentally without practical consequence for governments of EU member countries. That is, the Plan is not treated as a component part of national reform strategy. The question remains as relevant today as it was two years ago of whether, and how, European and individual national reforms – and most particularly European and individual national employment-policy strategies – are *really effectively* to be correlated and coordinated with one another. The question, then, is: how can the mutual interaction between European and national strategy be *made more effective*?

❖❖❖ (3) Taken together, the various assessments, expressed in the surveys and workshops, of the successes and failures of European employment strategy prompt to a sobering conclusion. A further question, then, is: Is there a chance that, within the framework of the new Integrated Approach and in view specifically of the further development of that “European Social Model” which became, thanks to Lisbon, the focus of such high hopes, European employment strategy might be *revitalised*?

#### Integrated guidelines: Yes, but...

Attention was drawn at the beginning of the discussion to the fact that, at least as far as public discussion and expression of opinion in the public media were concerned, the process of the emergence of a trans-European reform plan was going almost unnoticed. This was the case even in countries – such as present-day Germany – in which the employment situation and policies bearing on it were generally highly topical and the object of intense public attention. Although recent weeks have seen a broad public debate in Germany on the related topics of unemployment, poverty and the reform of the labour market, that process of the drawing-up of reform plans which has been, in this same period, underway at European level has

enjoyed only a marginal presence in the media, so that people are hardly aware of it. For all that, however, the Lisbon Process has undoubtedly altered political reality for all the Member States, obliging these states at least to discuss and debate a perspective on European integration which can only be commonly and collectively guided and directed. For this reason each national perspective already implicitly *includes* a European perspective, even if this latter has not yet been sufficiently integrated into the various national political processes. What continues to be lacking here is *communication* and *participation*. Similar assessment of the significance of the *Integrated Guidelines* can be expressed: they are useful inasmuch as they make the connection between macroeconomic policy, structural reforms and employment policy – a connection which in any case already objectively exists - accessible to discussion. This is not to say that there are no contradictions between the goals set by one of these great political spheres and those set by another - and indeed between the goals set for itself internally by one of these spheres alone. Such inevitable contradictions, however, form a starting point for work in which the trade unions, as spokesmen for both employed workers and the unemployed, can play an outstanding and indispensable role. To this extent, the process of the drawing-up of reform plans is an opportunity which must be seized.

The European Commission has also, for its part, pointed up what a good chance exists for the development of a broad dialogue taking as its points of reference the different “pillars” of the Lisbon Strategy. From the Commission’s point of view, this process has lost nothing of its vitality – although, of course, it is vitally important that all partners in the “social contract” be participants also in it. More critical tones were heard from the side of union representatives – although here too the “Integrated Approach” was affirmed in principle. For example, the Hungarian view was that responsibility for the reform plan process remaining comparatively “toothless” at home lay not just with the weakness of the dialogue between social partners but, above all, with the inconsistency of the efforts of the various national governments to implement this process. In Hungary, it was pointed out, no directed effort was being made to combat the serious disparities in employment matters; insufficient attention was being paid to the growing poverty within the country. From the other side, Sweden is often cited as a “model pupil” with regard to the implementation of the Lisbon Strategy. And indeed, the question put by the Swedish representative was whether, in the face of current domestic developments

- e.g., the newly elected Swedish government’s threatening the renowned *Arbetslivsinstitutet* with closure – but also in the face of all that was coming to light in the discussions of the present ETUC project, Swedish trade unions were not perhaps pursuing the reform plan process in rather too “routine” a manner, and without bothering to set specific strategic goals. Others voices expressed the concern that employment policy within the framework of the *Integrated Guidelines* was gradually becoming less politically weighty, and this in face of the fact that, in those countries in which the employment rate was rising, this was occurring mainly in sectors lying outside of permanent, full-time employment. The issue, then, was no longer just “Jobs, jobs, jobs”, to use the Commission’s formulation, but rather, ever more emphatically, the *quality* of the jobs on offer. The general recognition is that many trade union members have been deeply disappointed by the Lisbon Process. That idea of a “European Social Model” which had made many so enthusiastic about the Process, has now – according to the consensus – slipped too much into the background.

On the other hand the reform-plan process founded on the *Integrated Guidelines* counts among the very few political instruments which might be used to develop and expand, in specifically socially participatory spirit, this very “European Social Model”. This could only happen, however, if constructive use were made of the contradictions inherent in the *Guidelines* and the shortcomings in terms of employment policy were *made the subject of contestation on the national level*, albeit with this contestation’s also being documented in a manner such as to make it comprehensible on the European plane.

## 5.2. After the reform, what about the social partners' ownership?

The central question of the present chapter is that regarding the rather fundamental issue of the social partners' ownership of the process of drawing up of reform plans and issuing guidelines for implementation.

### Our starting point

From the end of 2004, the research team is studying the issue of the role and participation of Unions and more broadly the involvement of social partners in the framework of EES and the Lisbon Strategy. From a general point of view, it’s a rather differentiated panorama that emerges within the

different Member States. According to information provided mainly by Union representatives at national level, one can argue that even if some differences have to be taken into account from one country to another, we are faced with a very weak partnership of social partners. This statement is not new. In 2004, as part of their first two-year work programme, EPSU and CEMR-EP carried out a survey on their members' participation in the National Action Plans on Employment and on the priority issues being discussed in the local and regional government sector. This survey found that, although a 1997 statement on employment has recommended the establishment of mechanisms at national level to involve the sectoral social partners, especially in the local and regional government sector, in the design and implementation of their respective national action plans, only in few countries do such mechanisms exist to date.

This statement remains valid for 2005, the partnership was really weak. Could we consider the situation in 2006 better?. According to information obtained by the survey or provided by social partners' representatives during the panel discussion, there has been no significant improvement. It's quite obvious that implementation is currently lagging in a major part of the European Union.

The scene at the Commission is a bit different. According to information from the European Commission itself, the EU Member States may be classified into three different categories<sup>33</sup> :

- partnership rather weak (Germany and Great-Britain)
- partnership based on the search for a consensus and the ways of an agreement between the Government and the Unions and Employers (Ireland, Denmark and Belgium)
- partnership ensured by a tripartite or ad hoc consultation (other countries)

### Three keys questions

❖ Considering that, compared to our 2005 survey, we can see no sign of better involvement of social partners and other stakeholders in the National Reform programme, and that nothing has been done to catch up on the missing NRP consultations, how can we deal with that in future in order to improve the situation at both at national and European level to achieve a real involvement of

social partners instead of a formal as nowadays?

❖ Our survey tends to demonstrate a weak relationship in some EU Member States between NRP and effective national employment policies, between the NRP and the social dialogue at national level. How can we improve this situation? And more specifically, how can we support countries where the mobilisation of social partners is really weak?

❖ The European Commission regularly calls for thorough consultations of social partners in the present reform strategy. For their part, trade unions tend to focus on the lack of leadership of EU Member States for employment policy at the European level. How can we reinforce such leadership in order to articulate national policy and NRP with a real contribution from the social partners?

### Factors explaining a dull general overview

Let's have a look at the Hungarian situation as indicated in the survey "The Reform Programme," which was negotiated at the (National) Economic and Social Committee meeting. Unlike the National Reconciliation Council, this board has only consultation rights, and consists of individuals (the presidents of the Social Partners) instead of Trade Unions or Employer organisations. This division of powers between the two institutions has caused some disturbances in terms of the flow of information, deciding the role and reactions of Trade Unions and in the preparation of the Trade Unions statements".

Many examples of such formal consultations can be provided. More generally, one can argue that in most of the countries, the social partners have not been consulted formally if at all. Unions are often condemned to make oral and written comments on the draft national report within a very small response period. The German situation outlined in one of the case studies is particularly enlightening on the general overview. Thus, in 2005, the DGB rejected this option, while requesting that a sentence be deleted from the introduction stating that the social partners had been given the opportunity to respond.

Only a few countries tend, strictly and systematically, to associate and consult social partners during the process of drawing-up reform plans. But as the case study on Sweden tends to demonstrate, we can find some exceptions to the general rule. Some posi-

<sup>33</sup> As briefly presented by Jacky Morin, head of Social Dialogue unit during the ETUC conference on the European Employment Strategy within the framework of the integrated guidelines for growth and jobs in Brussels, 23 and 24 October 2006



tive experiences do exist and must be highlighted. The participation of trade unions in Sweden is not considered a dilution of the employment guidelines or the role of social partners within the newly reformed integrated GJS, on the contrary. They all agree on the fact that the EES has shored up the role of social partners and their responsibility for collective bargaining to be clearly defined in European texts.

Some factors have to be taken into consideration in order to explain the general perspective: The formal character of the process leads to an exercise of promotion of government policies aimed at maintaining a positive image – clearly a real and critical assessment of the actions conducted has been included in most of NRP...

To exemplify this statement, let's take the Finnish example illustrated by the SACO survey: "The national reform programme was prepared in the ministry of finance, and we did not formally participate in formulating the text. We were informally informed about what was going on. The government organised a seminar which dealt with the reform programme. We were invited along with the other social partners. This was the only formal involvement in the process. The finalised reform programme didn't create any public policy debate here, as Saco expected"

Another example, the German one, is more explicit. Judging from the procedure, the atmosphere and the way in which consultations were handled, in the perception of the DGB, the Ministry of Economic Affairs is treating this report as an onerous obligation, imposed by Brussels, with which they have to comply, and is inviting attendees at the session to view it in the same way, i.e. more as a technical and administrative process for the sake of maintaining a positive national image, which has little or nothing to do with "real policy".

Furthermore, the lack of involvement by the social partners has often been justified by public authorities on the basis of the shortage of time (Germany and Hungary e.g.) As the ongoing schedule remains tight, it is quite impossible for Unions to hold an internal consultation and adopt a high-quality, balanced resolution, especially for organisations with scarce human resources. In the present working context in most of the countries, trade unions lack the resources they need to take part in that process on a full-time basis.

Some fundamental questions from social partners underscore the real utility of the exercise. The employers, tend to consider the matter somehow or

other as a simple exercise in exchanging best practices. However, it is difficult to transfer practices between Member States, because the institutions differ greatly. The key point for trade unions in the Lisbon strategy is unquestionably not only to change the process, but also, first and foremost, to build a real capacity for acting on the content of the strategy. As already stated in other chapters of this report, it remains very unclear what role would need to be taken on, within the context of a multi-level strategy, by the country's trade unions if they are to 1) help to render genuinely effective the demand raised by ETUC for a revision of the macroeconomic guidelines and 2) strengthen their own position within the domestic struggle concerning an appropriate employment policy.

The current exercise of tripartite consultation and the social bipartite negotiations is not sufficiently pegged to the Lisbon Strategy. Nevertheless, as the case of Germany and the Hartz laws tends to demonstrate, the debate on employment policy and more generally on labour policy is closely linked at least in reference to the European employment strategy. But generally speaking we must note that this connection is not obvious to the social partners.

In the case of new Member States, one can argue that the lack or at least the weakness of the industrial relations system allowing a multi level social dialogue is a key factor that explains the weak participation and involvement of social partners in the employment strategy at national level.

#### What can we learn from a national perspective?

Firstly, along with Sweden, Denmark can be cited as a "model pupil" for the implementation of the Lisbon Strategy. Denmark's trade union input was made early in the process of drawing up reform plans. A series of workshops and seminars was held in Denmark and resulted in a Non Paper, which was delivered to the Wim Kok Working Group. Ahead of the Danish reports on the new integrated guidelines for employment a tripartite statement from the Danish Council for Employment was attached as an appendix to the Danish report. Seminars on the new reporting procedures were held with the participation of the Commission. In addition representatives from employers and trade unions had been taking part in the meetings with the Commission. On completion, the Danish report was presented to the advisory committee for the Lisbon Process, the advisory body under the Ministry for Foreign Affairs with the participation of the employers and trade unions. In this forum it was possible to suggest minor changes, but the committee did not approve the report immediately.

As already mentioned, the three Swedish confederations are regrouped, together with the employers associations, on the Lisbon platform several times a year to monitor the European process closely and agree on their common text.

The situation in Estonia appears to be more uneven. The Estonian Employees Unions Confederation (TALO) has taken part in the process of preparing the programme, including in working groups, sessions etc. The document drafts were available beforehand, enabling the adoption of positions and amendment proposals. Yet this is a context more of formal consultations than real participation.

In Germany, the consultations on the Implementation and Progress Report in summer 2006 took place under time pressure once again. In July, a forthcoming consultation session was announced, and convened on August 9, 2006. Just one week beforehand, the 91 page draft of the report, marked "Confidential", was issued to the organisations invited to attend. None of these organisations could possibly envisage being able to draft a well-founded written response within a week. Each of the organisations had the opportunity to make a ten-minute oral statement. There has as yet been no public contestation of this process such as could possibly reach the EU authorities in Brussels. Whether the DGB took any position on this issues at the time that the progress report was submitted to the German Bundestag cannot be ascertained from the media; they did not, in any case, succeed in bringing the issue of the consultation procedure and/or its substance for scrutiny by public opinion.

The situation of the social partners in the Czech Republic is rather negative. According to the Union survey, representatives of the social partners were not invited to take part in any preparatory works. This material was administrated only through the regular consultation procedure as a part of legislation process, but it never became a subject of serious consultation at the policy-making level, which would imply participation by the CMKOS. This problem should have been discussed at the regular session of the tripartite Council of Economic and Social Agreement in September 2005, but was not, because of low representation from the government. Another reason why the plan was not discussed, is that such a discussion seemed pointless since text had already been already approved and sent to Brussels by the government prior to this session. The position of the CMKOS on the submitted material was pretty critical. "The main problem we are trying to overcome is that

after the texts are adopted at European level they are administrated through different ministries often without proper coordination. The same can be seen during their elaboration towards approval at European level. This causes problems for the involvement of the social partners".

Let's get to the Hungarian situation. As regards the social partners themselves, the usual way is to discuss the implementation in the working teams and groups of the national tripartite body while efforts are exerted towards prior, at least partial, bipartite consultations. The government will work out the second Europe Plan that defines the guidelines for Hungary's development within the European Union for the period 2007 to 2013. The preparation of this programme did not involve any real consultation of the Hungarian social partners. It was finalised close to Lake Balaton by the main political leaders cut off from the world before, being communicated to the social partners, who were expected to respond within a very short period (48 hours).

Returning to the Swedish case, the trade union confederations have welcomed the Lisbon Strategy right from the start. They claim that it has enabled them to gain information as well as a deeper knowledge of government policies. They also value the fact that it has helped establish formal recognition for the social dialogue in European texts as well as at national level. The trust given to social partners enables them to be highly proactive. This is the case in the examples mentioned above where each trade union confederation has created, in agreement with the employers' association, their own industrial insurance scheme. This measure, aimed at helping redundant workers to find work before they are even out of work, is a highly positive example of early intervention. Although these insurance schemes do not provide large amounts of money, they do help to inform workers about training, and do provide a certain degree of job coaching. This is a unique example in the European Union. Swedish trade unions tend to be highly proactive in developing, together with all social partners, training and lifelong learning measures.

Generally speaking, as an important path for the future, the Lisbon Strategy process should be generally more visible, discussed and reflected in society. It is definitively a question of legitimacy before public opinion. But this must not be restricted to a political marketing operation. In the case of Germany, a constructive dialogue with the trade unions is called for: "For this, however, it is not enough merely to involve the trade unions in an implementation report; instead they need to be

involved beforehand in defining the objectives and designing concrete policies”.

To conclude on the process and the assessment of the participation of the social partners, measures should evidently be taken to ensure that the social partners’ common text hammered out during the process of drawing-up reform plans, should not be disregarded if one of the partners refuses to go along. As mentioned above this was the case in Sweden when the common text was not appended to the NRP, because the private employers’ association refused to sign the common text. Measures should therefore be taken in the GJS guidelines to mention that the common text should be appended, even though one partner might not have agreed with it. This situation might indeed stimulate all partners to agree and work together. The work of the working partners should not be discarded.

### Prospects

One of the most promising prospects is one that can shed more light on the decentralised actions under the Lisbon Strategy, which seems to be overly centralised. There is clearly a need to strengthen the role of the social partners at regional and local level. This avenue worth exploring had already been proposed by the European Federation of Public Services Unions (EPSU) and the Council of European Municipalities and Regions’ Employers Platform (CEMR-EP) in a joint statement dating back to 19 May 2004. The statement calls for better coordination between local, regional and national levels as well as closer links between employment, structural funds, cohesion, and social inclusion policies. Such links are important in order to tackle and reduce disparities between regions (as well as between countries) and to support EU integration.

Clearly, there is also a need to (re)inforce the flow of information between the European level and other levels, and especially the involvement of the social partners. Actually, the overview coming from the national members need to be more systematic and complete. To raise awareness on this issue by more involvement of the social partners is a very important way of improving the participation and empowering the social partners.

Moreover, as already mentioned in the previous report, we still have to notice the loose connection between the issues broached by the Bipartite Social Dialogue and the Lisbon Strategy, with the exception, perhaps, of Life Long Learning.

Finally, it should be reiterated that participation also means responsibility for implementation at national and regional level.

### 5.3. Final remarks

To sum up, then, it is not possible to classify as even close to satisfactory either the value/standing accorded to employment within the Integrated Reform Plan Process or the interplay between the national and European levels. Contrary to the hopes and expectations bound up with the Integrated Guidelines, it is only in the rarest of cases that the intention has actually been realised of ensuring that employment policy be treated as an element of political discourse and practice equal in dignity with the micro- and macroeconomic approaches. To many of those who expressed their views in the framework of the present study, employment strategy appears - now more than ever - to be the “poor relation” of macroeconomics and above all of the so-called “structural reforms”. Clearly, the implementation of the mid-term review of the Lisbon Strategy has done no good to the Lisbon Process’s reputation among the trade unions; we see an increase in disappointment, distancing and disillusionment. Regional strategic approaches play at present as good as no role at all in the interplay of European and national policy, although regionalisation will surely also have great significance in future in connection with structural and social-fund support. Regarding the strategic capacities of trade unions, the results emerging from the first study have largely been confirmed: on the side of the trade unions. We can barely see even the beginnings of a sustained and proven *multi-level policy*, that is, a *strategically directed interaction* between the national (and regional) and European levels of action, in which contradictions are taken up and employment policy themes are made, in a publicly transparent manner, *points of political contention and contestation*. Without this will and ability to render the employment policy-related elements of the reform plans a *publicly debated issue on the national level* there will be no European progress made in the development of the employment aspect of the European Social Model. Thus, the stronger trade union federations in particular have the opportunity to make *contested issues* of these employment policy topics. *Moreover*, they need to do this with the intention of showing solidarity, because, in doing so, they are strengthening the dynamic of European development and creating greater spaces of operation for those unions which are struggling for influence in their own countries. The Integrated Reform Plan

Process can only work to the general advantage if the trade unions drive it to the limits of its potential from the point of view of employment – both quantitatively and qualitatively. And this can only succeed if the unions formulate, at national level, an independent strategy of original employment policy and coordinate their intervention across Europe. To this extent, the European coordination of employment policy and the Reform Plan Process are just “two sides of the same coin” and need to be linked to one another much more strongly than in the past.

From this general perspective on the situation of the EES, we may conclude that, even if the new reform of the EES that integrates guidelines and other measures, has meant a conceptual progress, simplified the process and coincided with enhanced economic activity, it has not had a sufficient impact such as to break down the barriers and obstacles standing in the way of the Lisbon objectives.

It becomes therefore important to specify where the problems lie. First, we must take account of the fact that the EES is part of a European construction process that, in the Amsterdam Treaty, reached one of its most important milestones, even if it is at an impasse today. The establishment of European governance, entailing a distribution of competencies between the European level and the Member States, is far from having reached an optimal functioning order. The open coordination method on the themes for which the Member States are responsible, but for which coordination at European level is also required to achieve efficacious results, calls for a great deal of additional learning on all sides, as well as for the constant correction of unintentional errors. Employment, as a variable derived from economic activity where numerous factors interact, and one that calls for the intervention of a large number of institutional and particular actors, public and private, constitutes one of the most complex problems that the European Union has to face. The involvement of European citizens and the achievement of the major objectives of the Union depend on it to a large measure. A centralised monetary union and decentralised competencies, devolved on the Member States, for economic and social decisions, require more, better, and more efficacious decision-making instruments, as well as a better coordination.

The example of employment can be used to help the discussion. Objectives full of good intentions, albeit subject to a high degree of consensus, that end up reducing the impact, as well as implementing and monitoring instruments entailing difficul-

ties to correct the divergences produced, obtain few results, which in turn does little for the confidence and involvement of public opinion – a key element for supporting the entire mechanism.

The basic attitudes needed to overcome the current obstacles include going to the root of the problems, being open to reforms and innovation, improving the learning processes and correcting errors, i.e. being more committed to the results.

Furthermore, the integration of the guidelines has had a positive effect in helping make the contractions between the different approaches more visible, and encouraged the discussion on the economic policy to be followed and on the coherence between the different macroeconomic, microeconomic and employment dimensions. The discussion is therefore centred on the economic policy to be followed, and especially, on the most appropriate macroeconomic policy to day. This discussion should be conducted in greater depth and be accepted as being inherent to the European complexity. Nevertheless, the rigidity of the dominant positions on the macroeconomic approaches based on the control of monetary variables and inflation seems out of place if the results do not corroborate the value of this approach, while academic and scientific voices of authority are calling for greater flexibility to introduce such elements as would fuel demand. The European balances moreover require greater re-equilibrium on this point, i.e. the social variable (employment) would have to be introduced in the conditions to be considered in making economic and political decisions at the highest level.

Third, the relation between the European and the national level has scarcely been adjusted. The critical view of the Joint Report on the progress made, and the far more severe statements on the Commission’s websites as to the way that the process has been conducted, show very clearly the discontent felt at European level. The Commission has no instruments other than constantly insisting on the need to be more daring with the depth of the reforms, with more transversal structures and coordination in the policies and programmes, initiate a better dialogue with the social partners and involve society as a whole to a greater extent. The results are uneven. Can the Commission go further, given the current state of commitment by the Member States? The Commission would in fact put the problems more clearly to the Member States, and the latter would have to display greater consistency in their commitments. More effective verification and control mechanism would perhaps have to be pro-

posed openly, so as to strengthen the open coordination method.

Fourth, all the guidelines form a global package aimed at giving concrete form to a strategy for achieving the objectives. To define them, serious doses of consensus and balance by and between the different parties were needed. The trade unions found them insufficient, at times not very concrete and lacking more engaged positions with the most vulnerable groups on the labour market. They undertook, nonetheless, to support them.<sup>34</sup> However, we note a varied interpretation in their national implementation, one often contradictory with the balances obtained at European level. In concrete terms, the global conception has not been adhered to, and only the approaches best suited to the governmental positions of the moment are chosen. The EES loses a great deal of its efficacy when transposed at national level.

The clearest example is the interpretation of a balance struck between security and flexibility in the reforms of the labour market; most countries interpret it as a need for greater flexibility without any compensating security, which is nonetheless necessary if the European social model is to continue to play its role in diffusing social tensions. There are few examples of flexi-security at this time, and this undoubtedly constitutes one of the reasons for the malaise among European workers noted in the report; whence the gradual loss of confidence in the balance between the benefits and the efforts that the population is called upon to make in order to overcome the difficulties of adapting the European economies to the stakes of globalisation.

The highly varied situations and problems of employment in the different Member States complicate the implementation of unified general approaches even more. The view that the differences between countries are fundamentally due to the different pace of the same socio-economic pattern evidently does not correspond to the needs and problems of each country. Ways to diversify strategies must therefore be sought, to bring them more in line with the priorities of each country, and combine them with firmer commitments to make progress towards the shared, large-scale objectives.

It seems necessary, therefore, to strengthen the global conception of the EES and its approaches

and to call for a consequent implementation of all its precepts, so as to maintain the desired benefits of its application, even if ways to diversify its formulation have to be defined in order to do so.

Fifth, it seems contradictory to cite the importance of the social dialogue as a key instrument for viability of the strategy in the conception of the EES, and this is undoubtedly one of the most critical aspects of its development. The implementation of the strategy, at both the European and the national level, has been structured in a governmental process, far from the highly vaunted involvement in the social dialogue processes. At European level, the processes for the participation of the social partners in the EES have been limited to formal channels, which have proved ineffective in achieving any real involvement. And this situation deteriorates even further at the national level. With due respect to the governmental initiative and responsibility in the entire process, as public policies that fall under the purview of the national executives have to be defined and implemented, rare indeed are the countries where the EES or the respective NRPs have been introduced in the social dialogue channels designed as mechanisms to raise joint awareness on all sides and to involve the main economic and social actors and society as a whole.

In certain cases, there are organisational problems with the process owing to the little time available and the numerous procedures, although in most cases, they have to do with a problem of conceiving the role of the social partners in the process and in the evaluation of their contributions.

Employment has undeniably been one of the priority topics of the action by institutions and the social partners in recent years, at European level and in most countries; the problem in fact is bringing all this activity in line with the operating mechanisms of the EES; and on this point, the governments and social partners share the responsibility. Nevertheless, how can we call for greater involvement when the degree of participation offered to them is limited, formal and often virtually nonexistent?

In a word, the problems are visible at different levels and on numerous aspects. They therefore require concurrently, both a global consideration of all such aspects, and a particular one, on the details thereof, in order to attain a greater efficacy and stronger impact on the results of one of the

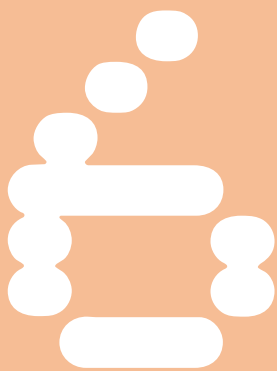
<sup>34</sup> Cf. “Move Social Europe Up a Gear!” Resolution adopted by the ETUC Executive Committee in their meeting held in Brussels on 14-15 March 2006.

decisions with the greatest potential for the consolidation of the European social model, one that has massed the most adherents for tackling the stakes at hand: the Lisbon objectives.

It is high time to get to the root of the problems and take decisions on these priorities: stability or productivity. Defending the two cannot be done by sacrificing one or the other, as happens at present. The European strategy cannot continue to evade the question of wondering what to do with low-pro-

ductivity jobs, and it must also solve the contradiction of short-term sacrifices in order to obtain long-term benefits. After nine years, the results of the EES should be visible already. Efforts to secure growth and productivity are insufficient, as are the instruments and procedures of the EES, to have any significant repercussions. It seems necessary to strengthen and restore balance to the strategy; the processes can be more important, provided that we move closer to, rather than farther away from, the objectives set.

1. INTRODUCTION
2. EMPLOYMENT TRENDS 2005-2006
3. YEAR 2005 OF THE EES
4. CASE STUDIES AND DISCUSSIONS
5. CONCLUSIONS
6. PROPOSALS ◀



## PROPOSALS

The foregoing conclusions point to certain proposals to be developed for the years to come, as these years will prove decisively for strengthening the credibility of the EES, and for offering European workers expectations for the future. A better employment growth rate would be an excellent opportunity to mark out the benefits sought in Lisbon. The world's most competitive economy, based on the knowledge society, must be able to offer its population more and better quality jobs as the way to prosperity, entailing greater involvement to reach that goal.

We consequently propose three lines of approach for the years to come:

❖ 1. Bolster and re-balance the EES. With 2008 as the key date, redefine the EES and draw up the new NRP, we propose to:

- defend a solid alternative with greater flexibility in the European macroeconomic policy;
- support and demand greater leadership from the Commission in implementing the EES;
- incorporate the different situations and priorities of the Member States in the redefinition of approaches, together with a greater commitment to the process and the results, while maintaining an overall view of all the approaches;
- propose setting up a high-level working group in 2007 to prepare for the 2008 review, with the presence of the social partners.

To make progress in this direction, we propose that the trade unions:

- organise a declaration by top-level experts who are in favour of another approach towards macroeconomic policies. The top European research institutes that subscribe to these proposals would be involved.
- create a mixed working group, composed of experts and trade unionists, which would draw up concrete proposals to be submitted to the Commission and the Council so that they can be included in the Joint Report for 2006-07, and in order to support the working group in revising the EES in 2008, through concrete proposals.

❖ 2. Firmer commitments and better verification instruments. To this end, we propose that:

- there be a renewed commitment, on the part of the Member States, in 2008 to reach the objectives of the EES, to apply the guidelines overall and to acquire more efficient verification and control instruments.
- the governments and social partners, with the participation of the national parliaments, share the responsibility for the renewal of the NRP.

- the social partners and a committee of independent high-level experts are called in to evaluate the progress made and the results obtained by the NRPs.

To this end, we suggest that the trade union side should:

- draw up a white paper of good practices of policies for employment, from the trade union point of view.

❖ 3. Greater trade union involvement. A greater participation by the social partners requires bolstering the capacity of trade unions to make proposals and take action on the employment front. It is therefore proposed to:

- create a support team for the trade union confederations of countries with a lesser capacity to intervene in the employment issue;
- coordinate a campaign on employment, pursued at national and European level, that would propose concrete reforms in each Member State;
- get ETUC to conduct monitoring closer to the development of employment in each country, by providing more active support to national trade union activities, so as to evaluate their success and to support their claims;
- situate national trade union activities more visibly in the EES, by encouraging a global positioning of trade unions in each country round employment, based on the integrated guidelines of the EES.



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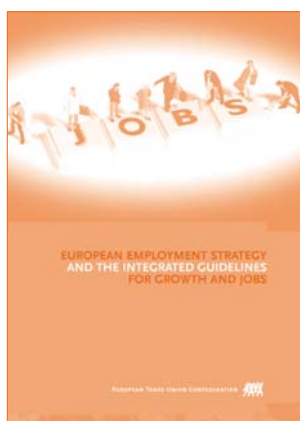
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