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**COMMISSION STAFF WORKING DOCUMENT**

**Employment and Social Developments in Europe 2014**

**Executive Summary**

*This fourth edition of the annual Employment and Social Developments in Europe (ESDE) Review presents a detailed analysis of key employment and social issues and concerns for the European Union and its Member States as it pursues its Europe 2020 employment and social goals.*

*The opening section provides an overall review of developments, challenges and responses, followed by thematic chapters on:*

- *The legacy of the recession; resilience and challenges*
- *Investing in human capital and responding to long-term societal challenges*
- *The future of work in Europe; job quality and work organisation for smart, sustainable and inclusive growth*
- *Restoring socio-economic convergence between Member States in the EU and EMU*

***The foundations of sustained growth remain fragile in many Member States...***

The European economy and labour markets are experiencing signs of recovery from the prolonged downturn. However, there is no reason to celebrate prematurely. While economic output and employment have both started to recover in recent quarters, they remain below the pre-crisis levels and the foundations of further growth remain fragile. Moreover, the employment and social impacts of the crisis will take years to redress, even under the most optimistic scenarios. At the same time, some Member States weathered the crisis better than others and experience a stronger recovery, also in terms of employment.

***...with unemployment still high and employment growth concentrated in temporary and part-time jobs***

Unemployment has declined from the crisis peaks, but still remains in double digits in the EU as a whole. Around 9 million more people are out of work compared with 2008, with youth and long-term unemployment being a source of particular concern. Moreover, much of the recent employment growth consists of temporary or part-time, which is suggestive of the uncertainty that prevails on the hiring side.

***The recovery remains short of addressing the social challenges built up since the beginning of the crisis***

Also household incomes have shown some signs of improvement since late 2013, after several years of decline, but this is insufficient to address the social challenges that have exacerbated since the beginning of the crisis. Increased levels of poverty and inequality in the most affected Member States threaten the EU goal of inclusive and sustainable growth.

***Europe 2020 mid-term review and new European Commission***

Against this backdrop, the European Commission launched earlier this year its mid-term review of the Europe 2020 Strategy, in the first phase through a broad public consultation. The results of the review will feed into discussions on the Strategy's future direction by the new Commission appointed in the wake of the June 2014 European Parliament elections. This Review aims to contribute to this process by providing a longer term analysis of employment and social trends and presenting the policy challenges, and possible ways to improve the delivery of the Europe 2020 headline targets.

### ***The crisis had a deep impact on people and societies...***

In many countries long-term unemployment has more than doubled, especially among the young. The review documents the potential ‘scarring’ effects on people facing unemployment early in their careers, while underlining the opportunity that the recession presents to step up investment in developing and maintaining skills in order to contribute to a more solid and socially sustainable future growth.

Unlike in past recessions, activity rates have continued to increase, with the rise in the participation of women and older workers, partly due to the fact that supportive policy measures were maintained. At the same time, the crisis has increased financial distress and debt levels among households, exacerbated poverty and social exclusion, weakened social ties and led many families and individuals to rely on informal support. The deterioration of the social situation for a prolonged period of time had a negative impact on the public belief and trust in the ability of governments and institutions to address such problems.

### ***...while cross country differences in their resilience to the economic shock can be explained by several factors***

Looking back to the experience of the crisis, different Member States showed different levels of resilience to the economic shock of the recession, which can be linked to both their initial institutional and policy setting, and the policies implemented during the recession years. Here the review finds, inter alia, that the transmission of economic shocks to employment and income was smaller in countries in which there were more open and also less segmented labour markets; more efficient social protection systems, a greater availability and use of short-time working arrangements; a stronger investment in lifelong learning and activation; as well as unemployment and other social benefits that were widely available, linked to activation, and responsive to the economic cycle, in other words policy and institutional setups focused on providing stronger employment security over working life, rather than in a single job.

The review also finds that a number of Member States are progressively moving towards a social investment model that helps people achieve their full potential throughout their lifetime and supports wider labour market participation. It likewise notes that the effectiveness of automatic financial stabilisers depends on their ability to provide sustained support even in a case of a prolonged labour demand weakness, while not creating work disincentives in times of growth. Moreover, the structure of financing arrangements influences the sustainability of social expenditure in that a shift from financing from social security contributions toward financing through general taxation may lead to a more inclusive system, provided the benefit systems are appropriately adjusted.

### ***Structural trends underline the need for investment in human capital to support productivity***

The combination effects of an ageing and declining population in the Union as against demographic growth in much of the rest of the world, and increasing global production, trade and competition, highlights the need to recognise investment in human capital as the main approach needed in order to support productivity gains and ensure that future growth is both job-rich and inclusive. Here the review underlines the fact that effective human capital investment requires not only the forming of the right skills through education and training, but also the creation of policy and institutional frameworks that help individuals to maintain, upgrade and use their skills throughout their working lives.

### ***Policy support to formation, maintenance and use of human capital...***

Among the key elements of a supportive policy and institutional mix for the formation of human capital are accessible, affordable and quality early childhood care and education, which can help reducing the generation-to-generation transmission of poverty and persistence of social inequalities, and support female participation in the labour market. At the same time there is a need to reduce early school leaving, which contributes to breaking the cycle of deprivation that leads to social exclusion, and ensure that higher education and vocational education and training systems respond to future needs of the labour markets.

In terms of maintaining and developing human capital throughout working lives, the review demonstrates the importance of stronger investment in skills of all workers and avoiding skills depreciation. It highlights the complementary roles of public and private sector organisations in the provision of life-long learning. At the same time, appropriate policies are needed in order to prevent human capital investments being wasted through labour market inactivity, weak labour market attachment, skills mismatch, or the underutilisation of the employment potential of all.

***...is instrumental for strengthening competitiveness and sustaining EU social welfare model***

Integrated policy approaches reflecting all these aspects are instrumental for strengthening EU competitiveness and for sustaining its social welfare model. Social protection systems should represent an investment in human capital by effectively activating and enabling those who can participate in the labour market, protecting those (temporarily) excluded from the labour markets and/or unable to participate in it, and preparing individuals for potential risks in their lifecycles, in particular for children and the elderly. Well-functioning welfare systems and well-designed social investments are instrumental in supporting Europe's main source of international competitive advantage in the form of its highly skilled and productive human capital.

***Increasing supply of skilled human capital needs to be matched by supply of quality jobs***

An increase in the supply of skilled human capital needs to be matched by an increase in the supply of quality jobs in order to yield a more productive workforce. Here the Review takes a closer look at future EU labour market challenges and opportunities in terms of job quality and work organisation, and notes large differences between Member States, and across population groups. It discusses a range of workplace issues such as transition rates from temporary jobs to more permanent employment; access to training; work-life and gender balance; work intensity; and levels of autonomy at work.

***Structural changes generate opportunities for creating of high quality jobs***

In terms of these workplace issues, the crisis period has seen deterioration in a number of Member States with, notably, a decrease in participation in life-long learning in around a third of Member States. On the other hand, ongoing structural changes linked to technological advance and innovation, globalisation, demographic change and the greening of the economy, should offer opportunities for the creation of high quality jobs and shifts in work organisation that are supportive of productivity growth.

Equally, however, the same structural changes may also contribute to skills obsolescence or jobs and wage polarisation, calling for broader and more pro-active policy responses that can mitigate the risks associated to these changes. These include, for instance, support for participation in life-long training, improved job-search assistance and job profiling, and the promotion of social dialogue linked to work organisation innovations that are conducive to supporting the development of the knowledge-based economy.

***Restoring socio-economic convergence is another important goal facing the EU***

Another important task facing the EU following the crisis years concerns the ways in which it can promote and support the return to an upward socio-economic convergence of its Member States. This particularly concerns Southern and peripheral EU 15 Member States, since most of the post-2004 Member States managed to continue to converge even during the crisis.

The factors behind the divergence included, not only the sheer size of the economic shock, but also the underlying structural imbalances in the affected countries in the period before the crisis (notably weak productivity growth, lack of human capital investment, divergent unit labour cost growth, banking sector weaknesses and property bubbles). In this respect the Review contributes to the ongoing debate on the most appropriate forms of reforms given the aims of restoring convergence, deepening the economic and monetary union, and strengthening its social dimension.

Adverse socio-economic outcomes such as labour market polarisation and poverty or ‘scarring’ effects intensify the depth and persistence of any economic downturn if adjustments are left solely to market forces. Here national level reforms to improve the viability of social protection systems in the case of temporary shocks can significantly contribute to the stabilisation of aggregate demand, long-term employment and productivity growth, thereby strengthening convergence and mitigating hysteresis effects.

National level actions can be supported, at the EU level, by measures facilitating mobility, promoting investment in human capital, notably through the European Social Fund (ESF), and by the use of appropriate benchmarks.

### *A wealth of lessons for the future*

This year's Review provides an overview of key employment and social developments and policy responses that can be drawn upon by the new European Commission in its deliberations on the future orientations of the Europe 2020 strategy.

The Review recognises that the legacy of the prolonged crisis is continuing to seriously affect the lives of many of the EU's citizens, and that it has also compounded many of the structural challenges already facing the Union. However, the evidence presented in the Review also shows how structural reforms combining employment and social policies can promote social fairness, enable countries to address both their social concerns and their competitiveness challenges with reasonable success, even in the most difficult of circumstances, where there is a commitment to do so.