

## Job protection and growth

Resolution of the Economic and Social Commission  
adopted by the Amsterdam Central Council (11 June 2004)

**1-** The relationship between employment and growth is one of the major concerns in the European Union's current economic situation that, in the aggregate, lacks vigour. Potential growth has become weaker, and job creation is insufficient to bring down unemployment. Many analysts attribute these phenomena, at least partially, to the rigidities of our labour markets.

Certainly, differences in population growth explain part of the gap between the United States and Europe. But this gap is mostly due to the fact that, on average, fewer Europeans are at work than Americans, and that they work fewer hours. Such behavioural differences do not merely reflect individual free choices; they result chiefly from the unintended and perverse effects of labour market regulation in Europe, which discourage work and depress employment rates. But economies where new job creations are no longer able to respond to the constant changes in demand and markets are condemned to stagnate: too much protection of today's jobs often risks preventing the emergence of the jobs of tomorrow.

**2-** Indeed one cannot fail to notice the reluctance of many employers to hire employees when they know that legislation will make it difficult or expensive to dismiss them. The individual security which job protection systems provide to legally employed workers (insiders) is thus likely to be accompanied by a growing black market in labour and by increased long-term unemployment, thus resulting in greater collective insecurity, especially for the more vulnerable categories in the working population such as young people, women, and immigrants (outsiders). Existing economic studies confirm that a high degree of employment protection increases the inequality of employment conditions.

The fact remains nevertheless that public opinion in most European countries considers a minimum degree of protection as being indispensable to ensure both a satisfactory working environment within firms and the social cohesion that enhances competitiveness. The difficulty is thus finding the optimal level of protection that can reconcile security with flexibility. The flexibility which economists (and consumers) want must be compatible with the protection required by workers in order to guarantee their performance while securing that of enterprises.

**3-** This general statement must immediately be qualified by the observation of significant national differences within the European Union. All member states have had to review their employment systems, and to strike a difficult balance between defensive measures concerning hiring and dismissal procedures, and proactive measures such as training and forward manpower management. Several member countries have succeeded, in some cases through reforms already carried out in the 1980s, in improving the operation of their labour markets, to the extent that they now have employment rates and levels of unemployment comparable to those in the US.

Others, however, including several large states whose performance heavily impacts on the European average, are suffering from significant structural unemployment and appear to have settled down in underemployment equilibrium, with a concomitant upward trend in public debt that would be hard to sustain in the long term. The need for

these countries to restore the overall macro-economic equilibriums (employment, public finances) is not in doubt; nor is the fact that to do so the rate of employment of the working-age population must be raised.

Sociological observation also demonstrates that the feeling of job security, which plays an important part in individual choices between consumption and saving, may result more from the momentum of the economy that makes it easy to find another job, like in the US, or from very active labour policies that include individualised monitoring for the unemployed, like in Denmark, than from the existence of a high degree of job protection.

In the light of these observations, the Economic and Social Commission of the European League for Economic Cooperation (ELEC), meeting in Paris on 15 April 2004:

- ◇ **asks** authorities to strive to increase the employment rate in those states or regions where it is too low, inter alia by eliminating the various systems and incentives which encourage premature retirement, by increasing women's participation rate, and by abandoning illusory schemes for the compulsory reduction of working hours without loss of compensation;
- ◇ **urges** them simultaneously to stimulate the creation of accessible jobs by encouraging innovative activities and schemes for funding them, in particular by supporting small and medium-sized enterprises and through an appropriate taxation;
- ◇ **recommends** to national governments that they speedily bring into play the simplification of constraints and rules regarding the creation of new enterprises;
- ◇ **recalls** in this regard the importance of educating young people - including through apprenticeships that are too often neglected by public policies - and of promoting research and the scientific spirit. The objectives are among others to develop in them a taste for entrepreneurship and to create a work force that is multiskilled, more receptive to new technological developments, and more willing to take risks. It is also a matter of achieving better cooperation between national education and business, at the regional level in particular;
- ◇ **stresses** the fact that reforming labour markets and eliminating rigidities in their operation are not necessarily at variance with social justice: they can indeed improve it by lessening the discrimination suffered by outsiders in the labour markets, as compared with insiders;
- ◇ **highlights** the value in implementing such reforms of a cooperative model, closely involving the social partners in an honest search for solutions that are adapted to the particular needs of each country, rather than through confrontation and social conflicts;
- ◇ **notes** that success will crucially depend on strengthening public confidence in the future of employment, whilst specifying the adjustments which have become necessary - not least by exploiting, analysing and distributing the abundant information available on reforms carried out in neighbouring countries on and their results;
- ◇ **suggests** that authorities should strive to make their economic, social and employment strategies more transparent and - following the example of several Member States - to boost the proportion of "active" employment measures (training, retraining etc.) as opposed to merely defensive ones;

- ◇ **recommends** that better use be made of the European dimension to improve the success of these political choices, which the national context often renders difficult, not by imposing a standard model of labour market reform on member states but by submitting them to a more searching surveillance of their attempts to secure full employment;
- ◇ finally, **calls for** the Union to give a new impetus to the Lisbon and Luxembourg processes through a dual approach: by a better ranking of States' commitments according to their relative importance, and by making these issues a matter of public debate rather than confidential intergovernmental discussion.

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