



## Labour Market and Social Policy

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The mega-trends of digitalisation and automation have already changed labour markets and value chains around the world, with their inevitable economic and social consequences. And the pace of change is accelerating; job markets and skills requirements are evolving faster than traditional labour market practices and institutions. But what exactly are these changes, and how will governments, industry leaders, social partners and workers react to them?

The current Commission has initiated substantial research and analysis into the topic, and the next incumbents should decide how to take this research forward. In order to make informed decisions, policymakers should bear in mind a number of issues.

To begin, the jobs of today require constant ‘up-skilling’ to stay abreast of new technologies and business strategies. No longer can one leave education and perform the same job forever. Employers, social partners and governments are engaged in dialogue to find suitable policies to ensure workers retain an up-to-date skillset. A key question remains: who is responsible for funding such initiatives – employers, governments, social partners, or some combination of actors?

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Moreover, the types of jobs now in demand require new skillsets. This is forcing educators to re-evaluate mandatory courses, with an emphasis on developing digital proficiencies at an early age. In fact, CEPS research has found that job ads, even for traditional, lower-skilled professions demand at least basic digital skills (Beblavý et al., 2016).<sup>1</sup> Mastering such skills is thus important regardless of industry, experience or age.

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<sup>1</sup> See “Demand for Digital Skills in the US Labour Market: The IT Skills Pyramid”, <https://www.ceps.eu/node/12055>.

Part of an ongoing series of CEPS publications exploring how the incoming Commission can best approach the multiple challenges facing the EU.

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Despite efforts to improve education and training, many tech firms in Europe still face significant challenges to find enough qualified workers. Filling the demand for skilled labour is likely to remain a key policy challenge for the foreseeable future. Yet failing to do so would mean that Europe will miss out on an excellent opportunity for economic growth and technological innovation.

Furthermore, digitalisation and automation mean that mainstays of the job market are less secure than before. While there is little consensus on the magnitude of these effects, it is clear that labour markets are adjusting and old jobs are disappearing, as new types of jobs emerge. More sophisticated IT systems are allowing more complex processes to be automated. Outsourcing is easier than it has ever been and is even possible for individuals at a micro level. For processes that cannot be automated or outsourced, many firms favour contracting work out rather than hiring new employees. This has resulted in a significant increase in self-employment in many of Europe's largest labour markets, notably Germany.

For these reasons, ongoing efforts at EU level aim to secure minimum labour and social

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protection rights for people in new or atypical forms of work. For instance, last April, the Parliament reached a final agreement on transparent and predictable working conditions regardless of workers' employment status and contract duration. This represents an important step towards workers' protection in the digital economy, which the next Commission could use as a cornerstone to develop its action in this field.

The trade-offs regarding EU action to take up the opportunities of digitalisation in the labour realm are twofold. Significant investments in skills would require allocation of EU funds at the expense of other components of industrial policy. Yet, we still lack a clear understanding of the skills required in the next decades, given the fast pace of technological developments. Moreover, while employment legislation must develop and adapt to labour market changes and ensure that digitalisation fairly delivers benefits to all workers, growing regulation may hamper the development of digitalisation's potential for both economic growth and social innovation.

While these transformations affect the European labour market, the EU faces a profound crisis on several fronts, which has even led it to reconsider its role in promoting EU citizens' social rights and living standards. In this regard, the European Pillar of Social Rights (EPSR) was a flagship initiative of the Juncker Commission to give the EU a stronger social face, intended to balance the Economic and Monetary Union with a social dimension, promoting inclusion and fairness along with economic growth (Lorcher and Schömann, 2016; Muñoz, 2019).

Adopted in November 2017, the EPSR is rather weak in terms of the outcomes generated. The time left until the end of the Juncker Commission mandate was indeed too short to deliver concrete actions in a field where the EU is progressively but still timidly assuming a role that goes beyond its traditional proclamations and values. The Social Fairness Package of March

2018, including a proposal for a European Labour Authority, a Council recommendation on access to social protection for all workers and the self-employed, and a communication on monitoring the implementation of the EPSR, was the first step towards concrete legislative and coordination action after the EPSR proclamation. These proposals are currently under discussion, together with the possibility to establish a European Social Security Number, as was announced as a follow up to the implementation of the EPSR.

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Although the Juncker Commission has concluded its mandate with 24 out of 27 proposals passed in the social field, it was impossible for Parliament to reach an agreement on modernising EU social security legislation. This remains a key open chapter in the handover concerning social priorities for the next Commission and Parliament.

To keep the aims of a ‘social Europe’ on track, the key challenge for the next Commission and Parliament will be to transform the 20 principles of the EPSR into implementable actions. If it fails to do so, this important document will gather dust and not impact EU citizens’ lives.

The first step would be to come up with the solid justification, supported by the empirical evidence wherever possible, of the necessity and opportunity of the EU social dimension, because this is still controversial. Member states are still reluctant to allow the Union to encroach upon this traditionally national competence.

In addition, to move from declaration to delivery, it is necessary to undertake a careful assessment of the instruments that the EU could put in place to pursue the EPSR principles. While EU legislation<sup>2</sup> already promotes some of these, further EU funds and budget allocation could be the key to creating the conditions for these principles to translate into practice. For principles that are already assigned EU co-funding to complement member state policy, however, further EU coordination by means of hard and soft EU law could serve to strengthen and harmonise the implementation of such principles at national level. Fine-tuning the EU instruments to implement the EPSR, and their optimal combinations, is an important challenge, which requires significant ad hoc research, continuous feedback mechanisms from civil society and social partners, and a constructive political debate. Yet, it remains the key to successful implementation, avoiding disappointment and a waste of resources.

However, part of the challenge of implementing the EPSR and building common EU ground for social policy relies on overcoming heterogeneity between the member states in this field. A key strategic decision could be to determine whether the way forward is to aim for harmonisation (or at least continuous upward convergence) or rather to acknowledge and preserve this heterogeneity and put in place concrete actions to limit negative phenomena such as social dumping and so-called benefit tourism that discredit the Social Europe project.

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<sup>2</sup> An overall picture of the EU legislation to promote social rights is reported in the EC Staff Working Document on The EU social acquis, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52016SC0050&from=EN>.

Finally, the challenge is about taking into consideration the ongoing changes in the labour market while putting in place implementation measures to ensure that these measures are well designed for any eventuality. Promoting a horizontal approach to social protection and addressing people's social rights before, during and after working life, the EPSR seems consistent with the changing nature of work and, specifically, with the need to ensure social protection in self-employment and non-standard forms of employment, which are growing apace in the European labour force. Yet this makes its implementation even more ambitious and would require a profound change in national social protection systems that may encounter additional obstacles.

Ratcheting up EU action in the field of social rights from principles to delivery, including strengthening the coordination of national legislations, would inevitably result in trade-offs. These include limiting, to some extent, member states' sovereignty in subjects such as education, employment and social protection, which are strategically important in defining the social contract at national level. On the other hand, defining the most adequate instruments and their financial capacity to deliver on an ambitious social agenda would require the alignment of budget allocations towards social priorities, at the expense of others that have historically been at the core of the EU's funding system. This suggests a key upcoming discussion for the new multiannual financial framework and its revised structure.

In pursuing empowerment, fairness and social inclusion, the EPSR pays specific attention to gender equality and equal opportunities, which, in spite of considerable action undertaken at EU level, still seem to require extra efforts to achieve an equal European society for men and women.

Indeed, in recent decades, the EU has already put in place several instruments to promote gender equality<sup>3</sup> and has constantly monitored the gender issue in the labour market (European Union, 2015). However, considering the still-high gender pay and employment gaps in all EU member states (European Union, 2018), it is clear that such efforts have not delivered satisfactory results.

To trigger deeper change in the labour market and in society at large, growing attention has been paid to moving beyond equal treatment and non-discrimination and towards promoting inclusion and diversity. This requires understanding and accepting differences, as well as adjusting to different needs and attitudes at work, to support and facilitate women's employment.

The next EC and EP will need to incorporate this new concept in their labour and gender policies to strengthen and boost its actions in this field. This will require transversal and coordinated efforts that go beyond purely labour market interventions and will involve every aspect of society if they are to address embedded social norms and rules. Policies in this direction require

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<sup>3</sup>See for example the Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32006L0054&from=EN>.

a long timeframe to assess impacts, which make them hard to plan carefully, evaluate and thus defend. Yet such actions are needed to eradicate the roots of gender inequality that are ultimately behind sexual harassment and violence in European society.

## European Unemployment Insurance

While Europe is slowly recovering from one of its most severe crises, there have been widespread calls for reform. These calls have focused on the Economic and Monetary Union (EMU), whose fundamental weaknesses were exposed in the global financial crisis of 2008 and subsequent eurozone crisis. With the inception of the EMU, countries lost control over their monetary policy, which is now managed centrally. National fiscal policy has remained in place and has widely been believed to gain in importance as a mechanism to prevent economic shocks and mitigate their impact on employment and incomes. Yet during the crisis, this combination of monetary and fiscal policy fell short. Other instruments, including labour mobility or wage flexibility, were not so powerful either. Market failures, current account imbalances and spillover effects raise additional concerns.

While there is broad expert agreement that the EU (or at least the eurozone) would benefit from a macroeconomic stabilisation function and the Five Presidents' Report gave this argument political support, there has been no decisive action by the Juncker Commission on either the European Unemployment Benefit System (EUBS) or any other form of stabilisation instrument. The new Commission should move this issue forward and either take action or put it to rest.

In the report by Beblavý and Lenaerts (2017), the authors concluded that a EUBS would complement rather than substitute the other instruments and market mechanisms. A EUBS could be designed in many ways to achieve specific policy objectives. A fundamental distinction is that between the equivalent and genuine EUBS variants. Both the genuine and equivalent EUBS variants have their merits, and the choice of one of them would be based on political grounds.

A genuine EUBS pays out benefits directly to any eligible unemployed individual, collects contributions from employers and employees (who contribute an equal share) and functions continuously. These variants would Europeanise the existing national schemes and thus require considerable harmonisation among them. Harmonisation and minimum standards would be essential for the stabilisation capacity of the EUBS and would help to mitigate moral hazard.

Equivalent EUBS variants function very differently: all financial transfers would occur between the supranational fund and the member states (which would only receive a pay-out when the EUBS is triggered). The equivalent EUBS would thus 'reinsure' the existing national unemployment benefit schemes (NUBS). Equivalent EUBS could leave a lot of flexibility to member states, but crucially this would depend on how far conditions are imposed on governments' scope to spend the funds received from the supranational fund and whether there are minimum standards for the NUBS.

A EUBS could contribute to macroeconomic stabilisation and efforts to address unemployment, encourage labour mobility, stimulate upward convergence and support the further development of a ‘Social Europe’ along several dimensions. In general, the stabilisation impact

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of EUBS is found to be fairly limited due to the small scale of the scheme (which would typically be less than 1% of EU GDP) (Beblavý and Lenaerts, 2017). Equivalent EUBS variants generally perform better in stabilisation terms than genuine EUBS variants. This finding can be explained by the focus of the equivalent EUBS on the crisis years, while a genuine EUBS would operate continuously.

Therefore, the key trade-off for a EUBS is not between overall anti-cyclical impact and interference in member state sovereignty on social policy. A well-designed equivalent scheme can be effective and create minimal interference. The trade-off is rather with visibility; where the genuine EUBS provides visible Europeanisation of unemployment insurance for individuals, it also requires a much higher level of intervention in national systems.

### Labour mobility and migration

The last decade saw a doubling of intra-EU labour mobility. The free movement of persons is one of the key pillars of the Union, but growing mobility also brings challenges – e.g. attempts by some member states to limit social benefits to foreign workers; and also potential solutions – namely a successful proposal by the Commission to establish European Labour Authority. In June 2019, the regulation to establish ELA was formally adopted, establishing the Authority with a seat in Bratislava, an annual budget of approximately 50 million EUR, and planned rollout in October 2019.

The European Labour Authority is an ambitious idea with fundamental objectives such as the facilitation of information access for individuals and employers, supporting cooperation

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between member states in the enforcement of cross-border Union law, and mediating solutions in cases of cross-border disputes. As the European Labour Authority is not yet fully operational, it will be during the mandate of the next Commission that the organisation takes full shape. It is thus important to maintain momentum if the new organisation is

to meet its expectations in the coming years.

ELA now has its formal mandate, so we can see how potential trade-offs were resolved in its establishment. Principally, the Authority was established with a mandate to collect and exchange information as well as to coordinate member state responses. In other words, it has a much weaker mandate than, for example, the EBA and EMA.

As regards the migration of third country nationals, most of the debate in Europe revolves around refugees and the disagreements about burden-sharing across member states. The experience of a rescue boat (Aquarius) carrying more than 600 refugees denied entry by Italy

and Malta again showed the diverse attitudes of current governments towards third country nationals, even when they migrate for humanitarian reasons. Therefore, it is very important that migration and asylum policies are agreed at the European level, where each member state takes its fair share of the burden.<sup>4</sup>

While arrivals of asylum-seekers have decreased compared to the peak of 2015, the challenges of successful integration of refugees into the labour markets and social life of host countries are ever present. Migrant women especially lag behind in participating in the labour market and social life in general. Language barriers persist despite efforts to counter them. To this end, targeting integration at the local level (e.g. at the city or municipality) could be a way forward. Moreover, despite the varying reasons for migration (family, economic or study), the foreign-born populations in Europe also face integration challenges as differing experiences of employment (e.g. in terms of wages and employment rates) compared to native-born workers persist, albeit to differing degrees across member states. All in all, migration issues pose a trade-off to member states (at least to some): on the one hand, failing integration risks putting pressure on member states and drives extreme political discourse. On the other hand, an ageing workforce and growing skills shortages in various sectors imply that Europe will need a further injection of migrants in the future for the smooth functioning of its labour markets and sustainability of its social security systems, if other factors, such as sharp increases in female labour force participation do not materialise (Lutz et al., 2019). While migration issues remain national competence, the future Commission could facilitate the exchange of best practices and provide evidence-based recommendations to member states.

Whatever the outcome of Brexit, the status of EU citizens working in the UK and of UK citizens working in the European Union will be an economically important and politically sensitive issue for years to come. A number of EU governments have unilaterally declared that UK citizens currently residing in their countries have nothing to fear, but how future migration flows between the UK and the European Union countries will be organised remains an open question. In principle, this is not an issue for the Union, but rather for national governments. However, the future Commission should at least consider coordinating an exchange of information and the policy response of national governments.

### Key priorities for the next Commission

- Agree on the need, instruments and method to implement a European Pillar of Social Rights and a Social Fairness Package.
- Advance the debate on European Unemployment Benefit System (or any other form of stabilisation instrument) and take action.
- Ensure the European Labour Authority becomes established as a relevant actor.

<sup>4</sup> See Carrera, S. (2019), *An Appraisal of the European Commission of Crisis*, CEPS paperback: (<https://www.ceps.eu/ceps-publications/appraisal-european-commission-crisis/>), Brussels.

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