

EMPLOYMENT PACKAGE A CRITICAL ANALYSIS OF THE MEASURES PROPOSED AND THEIR IMPLICATIONS ON THE FUTURE STRATEGIES AND ECONOMIC DEVELOPMENTS AT EU LEVEL

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Abstract

On the 18th of April 2012, the European Commission has launched a document named Employment Package meant to deliver solutions for regaining the competitiveness lost on the labor markets at European level. The package contains a series of documents which are setting a new vision on how to regain competitiveness on the labor markets as well as linking the EU 2020 Strategy as well as the desiderate of Internal Market completion with the view to creating a new milestone for future developments at both EU and national level.

The present article is trying to create a first x-ray of Employment Package's content by observing the strong points and the weak ones in relation to the EU2020 Strategy, completion of the Internal Market and placing it into the current political state of play at EU level in its attempt for observing the future economic and social permutations which will incur if the document will be set entirely into practice.

In the view of linking the content of the Employment Package with the main objectives and targets of the EU 2020 Strategy from the perspective of the European Social Market Economy, the article proposes to present a diagnosis of the latter concept. By this measure a new interpretation of the social component of the concept will be presented, so as to mark one of the main assumptions of this article that economic downturns did not occur just due to using wrong economic theories, but more due to a misuse of correct economic models. To this aim, the article will also analyze the implications of multi tier integration as opposed to federalization with respect to the EU architecture.

Furthermore, the Employment Package is going to be analyzed mainly from the perspective of job creation and job destruction effects, induced increase of labor demand on specific sectors, full liberalization of the labor markets and their implications in real terms. The main questions to which the article is trying to answer is whether the detailed and ambitious set of measures that are contained by the Employment Package is actually going to reverberate into practice and to which end the objectives are going to create incentives for sound and self sustainable competitive markets.

The last part of the article is going to sum up the findings on each section and draw the conclusions and build possible scenarios of action with respect to the Employment Package.

Key words: Employment Package, job creation/job destruction, social market economy, labor markets

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1. The content of the Employment Package

The content of the Employment Package is mainly focused on equilibrating the supply and demand of labor, the creation of labor inclusive markets that will be conducive to the completion of the Internal Market by creating inclusive yet flexible labor markets. The desiderate of the Employment Package is to respond to the competitive pressures on the European Markets coupled with the recent losses of competitiveness due to the economic contractions, the rise of emerging economies and a shift towards a new economic order that favors players with a higher degree of adaptability to technological upgrading and a better management of challenges related to: an aging population, demographic restructuring linked to migration effects in the context of a globalized economies and rapid developments of business.

The core principle related to the Employment Package is derived from art 3 of the Treaty which envisages the establishment of full employment and social cohesion. The same principle is pursued also in the EU 2020 Strategy with the view to a better economic performance and social cohesion as well as another milestone towards the completion of the Internal Market. Centralized on the economic reality of the EU, the Employment Package is a bold statement that is touching upon the downturn derived from the mismatch of supply and demand of labor as well as the necessity of liberalizing the labor markets in view of the creation of a genuine European labor market.

The two elements represent an important aspect for the scope of this paper, as they give the direction according to which a new approach is presented when the topic of labor markets is on debate, mainly the need of bridging different policies that are interdependent and they are correlated in producing effects on the future developments on the labor markets at both EU and national level. From this perspective the offer comprised in the Employment Package can be regarded as a holistic approach with respect to revigorating the economic situation in the EU as well as tackling sensitive topics related to future developments of the economic and industrial sectors, the need of reshaping and restructuring the educational systems in order to better respond to the requests of the future jobs and prepare a new generation of better skilled and more flexible workers, easier adaptable to future changes on the labor markets.

The way in which the Package was conceived is based on a general communication which is stating the general principles, goals and proposals for actions to be taken for the implementation of the goals, as well as by accompanying working documents which are providing the details on each of the main points comprised in the general document. The communication from the Commission is entitled “Towards a job-rich recovery” and as title is showing the document is focused on the catching up effects at economic level, bringing together measures that will create the right and sustainable incentives for the creation of more jobs at European Level.

The first important step in this article is to bring a correct analysis of the title itself, as it is the main provider of information related to the mainstream of the Employment Package. Without repeating endlessly what the current literature has been saying, the EU must first recognize the fact that the repercussions of economical contractions with severe reverberations in the developments of business sectors as well as impacting the level of performance and competitiveness at a global scale must be addressed. The main goal at European level is to focus on the creation of economic convergence, a goal which has been pursued for more than a decade but unfortunately has not been yet achieved. The hit of the crisis of 2008 took different shapes across the economies of the Member States and this feature is attributed on the one hand to the import of risks from one country to another, as a contamination effect, but on the other hand the magnitude of this effect was also due to the economic discrepancies that deepened with time among the economies of the EU.

These elements do not bring novelty, but the fact that the focus of the communication is based first on the idea of economic recovery and secondly on the recovery done by increasing the number of jobs with determining the clear steps needed for converging macroeconomic, educational and labor policies together, does bring a novelty in terms of structure of EU strategies.

The Employment Package is a document that comes in the support of the core objectives of the EU 2020 Strategy and complements through a better convergence of policies the aims contained by “Digital Agenda for Europe”, “Innovation Union”, “Youth on the Move”, “Resource Efficient Europe”, “Industrial Policy for the Globalisation Era” and “European Platform against Poverty and Exclusion”. The initiatives mentioned are of crucial importance to the relaunch of the EU economies, as they are interlinked and they influence each others’ outcomes. The document is identifying the niches of each initiative started at EU level and brings them together in the attempt to create a synergy that will mainly support job creation.

Although the subject of labor markets is of national competence, the document sets the general stream which if taken will convey a convergence at legislative level between Member States and will also prove a real European approach, the approach of “speaking with one voice” with respect to strategic economic development of the EU as an Internal Market.

The objectives of sustainable growth and support of the SMEs are pursued in the Employment Package by creating a correct allocation of human resources which will improve the productivity of the economic activities, of the sectors and businesses and that properly respond to the needs of the markets.² In support of the link with the other initiatives existing at European level, the document is also

² “Towards a job-rich recovery”, Communication of the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 18.04.2012, COM (2012) 173 final, www.ec.europa.eu

proposing measures to ameliorate the labor market conditions by improving the situation for the low skilled workers, females, fight youth unemployment and better integrate the workers from minority backgrounds.³ These elements point out towards the integration of vulnerable groups on the labor market. Addressing the issue of labor markets efficiency through a better integration of vulnerable groups, represents a try to maximize the target of the EU 2020 Strategy of 75% employment, as well as the desiderate of art 3 of the Treaty stating full employment. In the same time the current diagnosis of the labor force in some of the Member States, mainly the new Member States but also some from the southern dimension, points out towards the need for creating the right policies in order for the working force to be increased. The level of skills in the EU is still not at the desired level, and we are combating with a strong demographic effect of an aging society, that creates the demand for more human capital but as well for a longer active period of the working force.

The document states few measures⁴ that relate to the demand of labor in support of the desired job creation:

1. targeting hiring subsidies to new hiring,
2. reduce tax wedge on labor in a budgetary neutral way
3. promoting and supporting self-employment, the social enterprise and business
4. transform informal or undeclared work into regular employment
5. boost “take home” pay
6. modernize wage-setting systems to align wages with productivity developments and foster job creation

These measures are representing the general setting for both governments and private employers in order to create a better environment for job creation, by using fiscal incentives that will lead to incentives for more hiring and also governments that need to approve the hiring subsidies in order to support the employers and above all, especially the SMEs and the microfinance units to hire and even create some jobs that otherwise will be more difficult to be created.

On the same token, the proposal for tax wedge reduction is also proposed as a measure targeting the more vulnerable groups, especially the lower skilled workers. The cut in taxes is foreseen as a measure oriented towards the lower wage jobs by reducing the employers' social security contributions and that in the long run is foreseen to enhance labor demand. The Commission is also emphasizing the drawback of an incorrect design of reduced social security contributions which will lead to deadweight costs.

Proposing a full sustainment for self employed, for the social enterprises and the business start-ups is also targeted to respond to challenges related to job creation as the three concepts can induce job creation if proper legislation is in place that can assure an appropriate economic environment where these activities can be

³ Idem, page 3, point 1 “Support Job Creation”

⁴ Idem, chapter 1.1, “Step up job creation across the economy by encouraging labor demand”

developed. In the same time, it can lead to a decrease of budgetary burden with respect to the social component of a national budget, as the unemployment rate will decrease, the contributions to the national budget will increase, and it can be also linked with the desiderate of bringing undeclared work from grey zones of the economy to declared work. The Commission is also emphasizing the need for convergent policies to be designed as support for the above mentioned objectives. One of the most important aspects is the financing opportunities that need to be tailor made for the beneficiaries of such activities. In the same time the eligibility criteria need to include the unemployed workers which can prove the level of skills and experience, the young workers that come with new knowledge and skills, as well as the women. By setting the right criteria in place, the above mentioned categories can even step out from becoming vulnerable groups, or at least the dimension of the vulnerable workers will decrease. In view of achieving this desiderate, a good connection must be established between the financial providers, the employment services as well as other public or private institutions that are consider stakeholders.

The measure proposed for the "take home" pay is also directed at low wage earners in order to gradually reduce poverty and encourage individuals to enter or return to the labor market. On the demand of labor side it is conceived that such a measure will create more jobs as long as there are no wage pressures and if low-wage traps can be eliminated.

The last measure proposed is related to reforming the wage system where there is a need to insure that the wage is designed in relation with productivity development and they are a reflection of sustained aggregate demand and of enterprises' productivity rates and local markets productivity rates.

As can be easily seen the measures stated up to this point represent a convergent approach for boosting up the productivity of labor markets through recommendations for national governments to draw policies that are mainly targeted towards what the Commission considers vulnerable groups. In line with the concepts presented above, one conclusion is that the Commission puts emphasis on reducing the effects of nonparticipation to the labor market of vulnerable groups as a key component in the decrease of competitiveness of European labor markets.

In order to link the measures proposed for enhancing labor demand, the Commission has elaborated a roadmap of sectors that are regarded as being the sectors with the most rapid development in the future as well as becoming the resources for job creation.

In this respect the Commission has listed three main areas of interest. The first are for future job growth is foreseen in the green economy with a perspective of 5 mill jobs created until 2020⁵. The area of green jobs is in total sync with one of the main targets of the EU 2020 Strategy which is still requesting reaching the level of low carbon economy as an objective of attaining a higher level of competitiveness. In order of obtaining a smooth transition from the current business architecture within

⁵ "Exploiting the employment potential of green growth", Commission Staff working document, SWD (2012) 92 final, page 8

the economies of the EU, the Commission mentions the need for adapting the skills of the current labor force to future developments. The areas of jobs in the green economy is presented by the Commission as being not only the renewable or energy efficiency sectors, the expansion comprises the building industry that is also seen to shift towards new technologies related to the renewable sector, the car industries that is seen to shift towards the hybrid manufacturing that will replace the production of the traditional cars, as well as carbon capture and storage. The figures given in the document amount to 3 million jobs to be created by 2020 in the renewable energy, however it does not give estimates for the other derived sectors mentioned above in terms of job creation. The requirements for the 3 million jobs that will potentially be created are also clearly marked. The emphasis is put on the benefit for the high-skilled workers that will be the first ones that can address to the job requirements. The medium skilled workers that could be attracted by the search of a job in this sector are considered to be secondary beneficiaries and bind to a constant requalification for maintaining their skills up to date. The low skilled workers are the third beneficiary of those jobs as they are considered to be the ones suited for the new building renovation sectors where there can be suitable for occupying vacancies. However, even in the last mentioned sector, the accent is put on highly skilled workers predominantly with secondary and tertiary education degrees mainly architects, engineers, designers, auditors, etc.

The second area that mentioned by the European Commission is the area of white jobs mainly the health sector. With a severe demographic problem in the EU and an increasing aging population the demand of labor in the health sector is regarded as expanding. The figures for 2010 show that 9.9% of the total EU employment was taken just by the workers in the health sector. The projections for 2060 are that the population aged over 65 years will increase to 151.5 mill and the ones around 80 years old will touch the level of almost 62 mill. At the same time there is a concern raised regarding child care and the reconciliation of career life with family life that can also be an option in addressing the demographic challenge in Europe.

The third area is the area of ICT. The growth of an annual 3% in the number of professionals in the ICT sector is setting the signal that the competitiveness of the European economies is completely dependant on the upgrading of the European workers in order to best perform in the future competitive requirements. From this point of view the European Commission has identified the main features that the economies will need to consider as priorities. First aspect is related to a low choice of young people towards studying and choosing an ICT career at EU level. Another aspect is related to the high costs regarding the reorientation of mid-career jobseekers towards the ICT sector. Mainly this measure is considered to be targeting the professionals educated in complementary areas that already hold the basic knowledge but lack the formal education in the ICT field. The last main priority is the prevision according to which the changes in the composition of business as

explained also within the presentation of the former two main areas of potential job creation will be conducive to the re-alliteration of the workers, present and future, into the ICT skills. The rise for labor demand in the ICT sector is also regarded as a safeguarding clause against increased unemployment rates. The link between the alliteration of workers into ICT sectors with a decrease in the negative aspects of employment trends is seen from the perspective of the convergence of specific skills and knowledge for different sectors with the ICT ones. From this point of view, the lack of ICT knowledge and skills will be a precondition for medium-skilled workers to become harder to employ, as a consequence, the ICT skills and knowledge are not considered to remain in the category of high skills, but to become a basic skill in order for an individual to become employable. The document is giving more information through the accompanying documents that will all be referenced in the bibliography for the readers that wish to consult the details of the above mentioned facts. In the same time the document is targeting and offering policy recommendations that will support the Commission's view comprised in the main document "towards a job-rich recovery". However for the scope of this paper, the main aspects that are scrutinized are related to the three areas for job creation with respect to following economic development within the EU, to the main starting point for drafting this document which is the obtainment of more flexible and inclusive labor markets as well as with respect to one of the core values of the EU which is the social market economy.

2. Social market economy – between origins and current understanding

The emergence of the concept dates back to Germany after the Second World War. The territories of post War Germany war under reconstruction but also under the influence of different economic schools of thought. One main starting point for this debate was the creation of a common position for the Bizone, the territory managed by both the USA and UK in terms of economy, supply, post, finance and transports.⁶ The problem of finding a common economic approach did pose a burden as on the one hand the pro centralization Labor view given by the UK was quite in a clash with the American view on a more decentralized administration aiming at the dismissal of German commercial cartel concentrations. When a compromise view was created there are two important steps which were created: 1. a law regarding the monetary reform, with a main focus on the Deutsche Mark as the only currency. The monetary reform started in 1948 was aiming at reaching a sustainable economic environment for the devastated country, reducing the inflation rate and the resolution of the public debt obtained by the Nazi regime. Additionally to this law a second law was passed with respect to the liberalization of prices through means of production. The second law aimed at an irreversible process

⁶ Sylvain Broyer, "The Social Market Economy – Birth of an Economic Style", Social Science Research Center Berlin, August 1996

towards a market economy as being a means to support the monetary reform. The concept of social market economy was first formulated in 1947 by Alfred Müller-Armack. Based on a translation from German, the definition of the concept is: “refers to an economic and political order, which is designed on the basis of the rules of market economy, that is however enriched with institutionalized assured social complements limiting the negative consequences of a free market economy with legislative instruments aiming to fight economic concentration and misuses of power.”⁷ The view is conceived into the historical analysis of economics as the Ordoliberalism, and is based on the views related to the industrialization development of Germany. The Ordoliberalism can be regarded as a counter position to the decedents of total liberalization, as it was understood by the exponent thinkers and conceivers of the school as a socio-economic order that can enjoy the benefits of the free markets should not become also the limitation of the economic developments. The economic behavior of markets with respect to the formulation and shaping of different forms of markets can become the limitation for enjoying the benefits of liberalization, under the Ordoliberalism view. With other words, the liberalization of the economy can enhance productivity, competitiveness as long as the governance is guarding over the forms of behavior of both markets and economic agents, in such a way that will enhance fair competition and counteract the formation of industrial monopolies or cartels. Without getting too much into the historical details related to the school of thought of this German Neoliberalism, one can easily conclude that the core principles of the concept were related to establishing fair rules of competition where agents and markets can produce and purchase goods and services with the view to enhancing a stable economy. However, one question remains pending. Which is and where is the social component in this description? Or better formulated what does the social component comprises?

There are three currents of thinking with respect to the social component of the concept. One was the libertarian Hayek which considered that no form of social aspect could go hand in hand with the development and establishment of a market economy.⁸ This rather radical view had its origin in the belief of a complete incompatibility between market systems and social measures. A second opinion was formulated by Alfred Müller-Armack that saw the social component as a responsibility of the state with respect to general goods and mainly for the reconstruction of the society as accessible to all participants to the socio-economic and political life. What Müller also consider to be a social component of the concept, was the implication in the future stabilization of the economy through the exploration of industries that needed the support of the state as well as financial involvement into innovation. In order to see the economy developing in a sustainable manner the state under Müller’s view, was also the one that should mitigate the relations between employers and employees in such a way that in time

⁷ Idem

⁸ F.A. Hayek, “What is social? What does it mean?” 1957, University of Chicago Press

social differences between classes to be decreased. A third view, was based on the idea that with a strong economic development and a sustainable allocation of resources the social differences will disappear with time. The widening of capital ownership through fair competitive rules will dismantle social opposition within the classes. The social policies were regarded with high interest however they were not supposed to become an impediment for the development and functioning of market mechanisms.

As it can be easily seen from this short explanation of historical references, the differences in opinion regarding the social component of the concept can highlight an interesting aspect. Although the current acceptance of social policies related to the Social Market Economy within the EU are driven clearly towards income redistribution mechanisms, employee rights and representations, subsidies, etc, under the Ordoliberalism the social component can be regarded more as a desiderate to be achieved once the real benefits of a fair market economy are being registered. The differences in the level of the social classes were clearly thought to disappear as a natural effect of a higher income distribution among the population. With a productive and fair competitive economy the access to products and services could have been widen across the population, would have conduced to a higher income, and hence to less social inequalities. And that was the acceptance of the social component.

Coming back to present history, where are we? The EU has as main economic orientation the social market economy. Throughout the elaboration of all strategies after Lisbon and mainly inside the EU 2020 Strategy the attainment of a smart, sustainable and inclusive growth needs to be maintained under the social market economy. The key debate related to this article remains on how the social market economy concept is understood. The linkage of growth policies with direct social policies aimed at decreasing the disparities among Member States and not only among regions as it was previously targeted can be considered to be at least problematic. The deepening of the economic crises which pushed the eurozone into a clear depression cannot be addressed with this view on the understanding of the social market economy. Moreover, I would like to underline again the definition that was given to the social market economy at the moment of its founding was related more on market mechanisms with fair competition which is correctly applied were going to lead towards rewarding social policies which were going to annihilate the social discrepancies and implement what the Ordoliberalism was referring to as social justice. Unfortunately the strong hit of economic contraction has shown an evident truth that growth policies cannot go hand in hand with social expenditures. The reason why I use the word unfortunately is because it made the public debate for economic orientation with respect to the drafting of European Strategies, more and more restricted. Social market economy can be a very solid basis for economic development of the European Union at a steady pace if there were few conditions met simultaneously. The EU 2020 strategy aiming at a 75% employability rate and a thorough economic growth is a strong political impetuous however, one needs to

consider these facts with a pinch of salt. The main issue that the EU is facing right now regarding the lack of projecting the desired targets into reality is embodied in the lack of concrete legislation which will transform targets and political wishes into mandatory legislative measures.

The current document discussed is in one of these examples, as it declares from the beginning that the content is related to projections and providing recommendations for the support of a job rich recovery at EU level. The same document acknowledges in a way also one of its limitations, which again is directly linked to the applicability of the measures described within its content, as the problematic of “labour market dynamics will need to be granted mainly at national level.”⁹ Having brought to the discussion the diluted potential for this document with respect to its implementation, I will get back to the problem of the political acceptance of the concept of social market economy in current times. The question still remains what do the political powers who are the main drafters of these strategies understand and assume when they refer to the social market economy?

The social market economy as it is perceived today is still an undefined concept. Whereas during Germany’s reconstruction post WWII, the concept was generating policies, with clear effects into reality, the unclear definition of this terminology is now-a-days translated into a desiderate of a market economy with social policies aimed at reducing disparities at social and economic level among regions and member states. To my view, the definition cannot be attacked per se, however it is totally insufficient. The points of discussion related to what is compatible with growth policies in terms of social policies, still remain unanswered. Moreover, the strong recession in the Euro zone is also strengthening the need for a clarification of terms. The simple and unsophisticated questions of what do we want and what can we afford remain at the core. Needless to point out that by answering these questions, a concrete strategy can be drafted and supporting legislation can also be formulated. The public opinion, from scholars, think tanks, civil society and other stakeholders have repeatedly formulated possible answers to the questions. However, the freeze in decisional mechanism remains a clear problem which needs further deeper consideration as it bears a cost for the economic development of the EU as an economic entity but also for the economies of the Member States. However, the lack of political response towards finding the appropriate legislation in order to become mandatory for the Member States with respect to supporting the political acknowledgements under the form of strategies or communications is of crucial interest for the thematic addressed by this article. The divergent understanding of how to obtain a social market economy is actually a drawback in creating sound measures for future developments of the labor markets in the context of an economic recovery.

⁹ “Towards a job-rich recovery”, Communication of the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, 18.04.2012, COM (2012) 173 final, www.ec.europa.eu

3. Assessing the measures defined in the Employment Package and their impact upon labor markets

The document as previously shown, is concentrating on the desiderate of job creation as a tool for obtaining the targets of the EU 2020 Strategy as well as creating the basis for a sustainable economic recovery and growth at the EU level. As it was presented in the first part of the article, the Commission identified certain area of potential growth especially for job creation effect. The main argument present in the Commission Communication is that the area of green jobs is expected to have a higher growth albeit the sectors which are composing it to generate more jobs, hence the detection of job creation effect.

However, without denying the necessity to the low-carbon economy, I need to refer to few points.

The first one is the convergence point between job creation effects and job destruction. There are several studies which are inclined to use the Phillips curve for detecting the evolution of unemployment with respect to job availabilities, yet in this particular case I will use the Beveridge curve. Based on the theory according to which the intersection between the supply and demand of labor can be influenced also by the creation and destruction of jobs. There are several shocks that can be registered on the labor markets. One type of shock is related in the change in job composition on a labor market which will be translated into reality by a shift in different directions of the curves for job creation and job destruction. The changes that appear in the reallocation of resources in the economy are producing this type of shift of the two curves. In other words, if the intensity of resource reallocation will grow towards a sector, that particular sector will grow in size which will be conducive to a higher labor demand. The model based on the Beveridge curve has been perfected by Olivier Blanchard in the end of the '80s. The model based on the Beveridge curve starts from few assumptions: in an economy at any time there can be a shift in the profitability of jobs, accordingly, some jobs will become more profitable than others. The labor force which is hired in the jobs that become unprofitable will become redundant and they will be in search of new jobs. In order to assess if the vacancies on a sector can appropriately filled by the current job seekers, an aggregate function is used to observe the match between the unemployed and requirements of the vacant jobs. Filling the vacancies by available working force is done over time, hence, the filling cannot be done automatically, as the new jobs are requiring new sets of skills which the job seekers need to acquire. The same model states the productive jobs can become unproductive and vice versa¹⁰. The function used in this model shows that job creation and job destruction effects can actually coexist. The reason for the two effects to coexist can also be attributed to the role of remuneration of work.

¹⁰ "The Beveridge Curve", Olivier J. Blanchard, Peter Diamond, *Brooking Papers on Economic Activity*, 1: 1989

However, Blanchard agrees to the fact that the model shows that unemployment rates are not directly linked to the job creation effect. In other words the unemployment rate can decrease faster or slower than the rate of job creation. Another theory that I want to bring to the attention with respect to the analysis of the content of Employment Package is the Cobweb model¹¹ designed by Freeman. The theory that Freeman presents in his model is that the decision of individuals to convey their search towards a certain type of jobs based on the projection of a job creation effect, mainly through the attractiveness of remuneration appeared as a consequence of the development of that sector. The assumptions that are formulating the starting point of this model are of high interest for the present assessment. The first assumption is that in order to cover the vacancies for new jobs the work force needs time in order to obtain the necessary skills. The second assumption is that individuals tend to take the decision related to their future studies based on the announcement of availabilities of jobs at a certain point in time.

Coming back to the Employment Package I would like to take into discussion the announcement of job availabilities in the green economy. Based on the Commission view, the job creation effect will become pregnant in the mentioned areas comprised by the green economy. Consequently, there is going to be a job destruction effect, as more and more industries will reshape their activities in such a way that they will respond to the requirements of the low carbon economy desiderates.

At this point I already depict few problems. The adjustment period of the business environment to the low carbon economy entails new investments that the companies need to bring forward provided that those investments will be conducive to the maintenance of a competitive level at national, regional, European and even world level, if we are also envisaging into this discussion big companies. In the view of future investments few aspects are also needed to consideration: first, is there a real demand for the end products that will derive from the adjustment of the respective business? Can the demand be already quantified in order to provide a real assessment for the investment level needed? Another aspect is that the EU is still lagging behind other countries with respect to the R&D spending, or the transition to the new economy, low carbon, with green jobs implies that a higher shift in the spending level of R&D and also professional reconversion are required. The main issue related to this aspect is if there are necessary financial resources to support these measures and also finance a deficit of labor until the working force is available and fully functional on the new professional requirements. From this perspective, the Freeman model of Cobweb represents a correct image of one potential disruption that can appear related to the announcements regarding higher employment rates in the green jobs area. By submitting the idea that the job growth will be substantial in an economic area which is not yet extremely well defined could lead to an inflation of

¹¹ “A Cobweb Model for the Supply and Starting Salaries of New Engineers”, Richard B. Freeman, *Industrial and Labour Relations Review*, January 1976

available working force and also can drive to individuals that will pursue academic or educational programs placing their expectations on the announced developments of the related sectors.

The chain of effects can go even further. The requirements related to the necessary skills that the workers need to have in order to occupy these jobs are also unknown at this point in time. Consequently, too many unknown variables cannot be of efficient in the development of clear measures that need to be taken at the level of investments, convergent measures for educational reforms and business environment changes.

Another aspect is the measures that are proposed in order to have incentives for hiring with respect to the job creation effect. One of the measures that the Commission is seeing as a potential tool for job creation is the implementation of hiring subsidies. In terms of maintaining a unity of the content of the Employment Package as a pack of measures to sustain economic growth and labor market reform towards flexibility and competitiveness the reasoning behind proposing hiring subsidies cannot be denied. However, there is one aspect that has to be discussed. The set of measures proposed by the Employment Package is build on a medium to long time frame, and in this context, can the hiring subsidies be regarded as a necessary and efficient tool? Hiring subsidies cannot be granted for ever as they are measures that can start up boosting the development of certain industries by creating incentives for employers to hire, as the cost of labor will be lowered and the investment level will be decreased. In the same time these subsidies do become appealing to the employees as they can see a higher demand of the goods and services provided by the emerging sectors. Yet, the previous aspects mentioned with respect to the formation of expectations of the current and future labor force due to the foreseen developments of the green sectors du have a long term perspective of impact. In this case the problematic of a correct impact assessment of effects registered on medium to long term still remain questionable. Further more, the hiring subsidies cannot be regarded completely independent from the business developments. In other words, the subsidies can be a strong impetuous for job creation effect, but not sufficient. A government can provide hiring subsidies yet, if a company does not have a high demand for its finite products or services, there isn't a clear need for upgrading the number of the workers. On the same token, a business cycle remains dependant on the time frame needed for evolution, which definitely implies that demand for hiring grows exponentially with the business' development and growth in market shares. Here, the conflict of economic rationale becomes clearer. Whereas the hiring subsidies are regarded as an immediate tool that can bring more added value on a short to medium term, they cannot be used as the labor force is still not defined and needs time for formation, which entails that these subsidies can create an impact on a medium to long term. Can governments support these ideas, with the current recession and budgetary constraints? I would say no.

Another issue that is arising from the same range of topics is whether the job destruction effect will be a natural phenomenon, based on the loss of competitiveness albeit, demand for the goods produced, or as the model developed by Blanchard suggest, some sectors will become unprofitable as a shift to the new views depicted in the latest strategies. The business environment is very dynamic and as long as certain directions will be given for new areas of economic development, the companies will try to adapt as quickly as possible and to penetrate as fast as possible the new markets. In this respect, the governments will find themselves in front of a new budgetary dilemma. They will need to finance the buffer time of transition. Financing this buffer time will translate into costs of unemployment, costs of professional reconversion, and also diminished budgets if some companies will fail in their attempts of reorganization and penetration of the new markets. Having in mind the current economic situation of the Euro zone and the perspective for growth of each member state I take the view that these costs will represent extreme burdens.

Furthermore, the reduction of labor costs is not sufficient to obtain competitive labor markets. The reduction of labor costs can be regarded as useful as long as there are no discrepancies among competitors with respect to the utilization of all the other production factors. In this sense, the labor cost can become the competitive advantage. However, as long as there are no clear views on the new skill set these job require, one cannot evaluate if labor costs can impact decisively the competitiveness of the end product.

4. Conclusions

The discussion carried in this article is meant to set the premises for a better understanding regarding the strategies built at EU level and their implication in practice. It is clearly understood that the analysis can go even deeper into detail, however, the purpose of this article was to set a first discussion regarding the latest developments regarding the future of the labor markets within the EU.

At this point a number of conclusions can be drawn, which can become the starting point for a future discussion with respect to observing the evolution of labor markets in EU and if the document proposed by the Commission produced an impact, an improvement of the development of the economy.

The article had taken into discussion the impact of such documents regarding the current institutional framework, the current treaty, the growing disparities among the Member States' economies, the agreed definition for "social market economy", as well as the implication of the content of the Employment Package on medium and long term.

The first conclusion that can be drawn represents the limitation of this document as it comes as a mere recommendation towards the Member States, trying to create a corridor of discussion among them in order to set the basis for common

reforms in fields of labor, education, environment strategies, etc. Although it represents a bold initiative, as we can see for the first time a document that is touching upon different policies, laying out the links between convergent reforms that can create a solution to a shrinking economy, it is dissolute by several factors. First, the current version of Treaty is still empowering Member States to take decisions with respect to labor markets. Passing recommendations through position documents can be done through the Open Method of Coordination, a setting that is welcoming dialog but not enforcing regulations. As such, the space of maneuver for the national governments is very large and postponement of reaction becomes inevitable. Moreover, this method has already been long debated as being too lax in order to enhance efficiency in decision making among governments and the Lisbon agenda can be held as an example in this way. The document is also unveiling another weakness, since it was released there has not been a proposal for a legislative act forwarded to the European Parliament, which poses a question mark for the future action that is envisaged through this document. At the same time, the measures for finance are mentioned in the main document, proposing different funds to be used in order to support the measures announced, yet the latest negotiations with respect to the European Budget proved that an agreement related to the reallocation of funds towards policies is still up for discussion. Further more, the European Parliament has voted recently for the suspension of the Social European Fund, until a clear agreement for the overall budget will be attained. The fact that there are projects which were approved by the troika and put on hold as the lack of funds is becoming a more pressing reality in an economy that is contracting, converges to the idea that in order to shift the allocation of resources to complete new areas will be a long process of negotiations and the outcome of it is more than difficult to foresee.

Another problem related to this document is the fact that is still regarding the EU as a convergent entity. The reality shows the contrary, due to the economic crisis and the differences in economic development prior to the crises, the economic divergences among Member States outgrew the convergent effect that has been awaited as a consequence of the convergent policies and strategies based on inducing economic growth and enhancing social policies simultaneously. Consequently, we are facing an economic space within the EU that has different problems, different growth rates, different potential for growth and different productive sectors. It is of undeniable reason that the transition to a low carbon economy represents a priority, yet the Member States do not hold the same leverage and do not form a convergent economic block that can afford investments into the green economy with the hope that they will win their place at the world competitive scale. The less productive Member States are dependant on the traditional sectors of industry and in that particular case, the transition will be slower. Setting such high economic goals, represent a good political impetuous for contracting the effects of a social crisis, for a braking of the euro, and an even higher economic draw back of the EU, yet economically they are not sustainable. Further more, due to the existence of the

economic discrepancies among Member States, the overestimation of the job creation effects discussed in the second part of the article, will have even greater consequence in the migration phenomena, as workers will be attracted by the promise of more jobs and prosperous business developments. In this respect, the short term effect will hamper the national equilibrium on supply and demand of labor even greater as traditional sectors that can remain profitable for the national growth will be left with more job vacancies that will create a wage pressure for the employers who will be in a constant search for labor. The mechanism needs to be considered thoroughly, as the level of national productivity of those sectors might not hold to the wage pressures, and then automatically these sectors will disappear, leaving more pressure on the governments in their attempt to restart the economy by investing in the new industries. This whole argumentation boils down to a very tricky concept: wants vs. needs. Does the current EU with contracting economies need such investments and such a sudden change, or does it just want it?

The content of the Employment Package does set some bold measures yet, under the current economic scenario that the EU is facing it does not stand as a pack of measures for so many different problems.

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