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## **Polish Lisbon Strategy Forum**

**“Poland and Europe in the Face of the Future Challenges“  
Forum “Entrepreneurship and Employment”**

26 May 2004, Royal Castle, Warsaw

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### **Ways and Means to Achieve the Lisbon Employment Objectives**

After four years, and finally after the ceremony and speeches of this morning, we are all familiar with the complicated formula set at Lisbon in 2000: *“Europe shall become by 2010 the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.”*

However, the European Union is currently at risk of failing in this ambitious goal. Unless the Member States – including the 10 new Member States – step up their efforts, it is increasingly unlikely that the employment objectives will be attainable. Overall, Europe has a gap of more than 5 percentage points to reach the employment objective of 70 per cent set for 2010. In Poland, this gap is with 18.5 percentage points even more dramatic. But it is also the quality of jobs that is insufficient. Europe is losing ground compared to the US, with productivity growth per employee and economic growth being barely half of the US over the last 5 years.

The gap to bridge is most pronounced related to the goal of raising the employment rate of the population aged 55 to 64 to a level of 50 per cent.

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Overall, in Europe this gap is about 10, in Poland about 24 percentage points.

With respect to women, Europe might reach on the average the quantitative goal of 60 per cent employment rate by 2010. Many countries however – including old Member States – are still far away from this goal, and Poland would have to bridge about 14 percentage points. Moreover, the quality of jobs for women, both in terms of wages and career prospects, is still far from equal to men.

The other and even sadder side of this coin is high unemployment, especially long-term unemployment. Overall, 3 per cent of the active labour force in Europe is more than one year unemployed; in Poland it is almost 11 per cent. In other words: Over one of ten people wanting a job is out of work for more than a year. But long-term unemployment is not only concentrated in the new Member states. East Germany, for instance, faces almost the same level as Poland with respect to both, the overall and long-term unemployment rate.

In responding to these problems, Europe should not lose sight of the wider, longer-term challenges it is facing. Globalisation and economic integration are increasingly affecting the way Europeans live and work. The rapid ageing of the population is calling into question Europe's ability to achieve higher employment and productivity rates. We should realise, however, that ageing is not a problem of the future. It is already happening. Action to raise employment and productivity levels is needed now. A much more rapid response to change, and intelligent management of change is needed.

This was the reason why the Heads of State and Government last year set up the European Employment Taskforce chaired by the former Dutch Prime Minister Wim Kok. The task was to review Europe's employment performance and to identify practical reform measures for Member States. After 8 months of deliberations, the report was published in November 2003.<sup>2</sup>

The Taskforce considered the enlargement by ten new Member States not as an additional problem but as an important asset for Europe's stability and growth. It recommended therefore to involving the New Member States in the Lisbon Strategy from the beginning of their formal membership. Although the employment objectives are even more challenging to them, the Taskforce treated the New Member States on equal footing to the 15 Old Member States. The report, therefore, includes country specific recommendations for both old and new Member states.

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<sup>2</sup> See Wim Kok et al. (2004). Jobs, Jobs, Jobs. Creating More Employment in Europe, Report of the Employment Task Force Chaired by Wim Kok, Luxembourg: Office for Official Publications of the European Communities. [www.europa.eu.int/comm/employment\\_social/employment\\_strategy/task\\_en.htm](http://www.europa.eu.int/comm/employment_social/employment_strategy/task_en.htm).

To boost employment and productivity, the Employment Taskforce recommended four key strategies:

- First, increasing adaptability of workers and enterprises
- Second, attracting more people to the labour market
- Third, investing more and more effectively in human capital, and
- Fourth, ensuring effective implementation of reforms through better governance

In elaborating these strategies, the Taskforce tried to strike a balance between the need for reform and the need to ensure social justice and fair opportunities for all. Very often these objectives are not contradictory, but mutually supportive. Our aim was to design a reform path that fully takes into account the social values and traditions we, as Europeans, share.

For this afternoon discussion, I will concentrate on the two first strategies since they reflect the priorities set in this Forum – namely to discuss ways and means to foster entrepreneurship and employment.

## **Adaptability**

How can Europe create more businesses and more jobs? In order to reach this goal the Taskforce recommended improving, first of all, adaptability. Improved adaptability is required from all stakeholders: Governments, social partners, enterprises and individual workers. This includes measures such as:

- Reducing administrative and regulatory obstacles to the setting up and management of businesses
- Providing better access to finance
- Offering advisory support to business start-ups
- Reducing the non-wage labour costs, thereby focusing on low wage earners
- Increasing levels of investment in R&D – public, but also private, for instance through improved property rights and a favourable tax environment
- Promoting and disseminating innovation by encouraging networks and partnerships at regional and sectoral level

Overall, Europe must make better use of the potential of the European Single Market by applying common standards and by co-ordinating research efforts. The Taskforce draws attention to the experience of Sweden, Finland

and Denmark, which stand out as best performers in terms of R&D and innovation. These countries and other good performers exhibit the following good practices:

- First, a high level of R&D investment; the average in the EU is 1.9% against 2.6% of the GDP in the US; the Lisbon Strategy aims at reaching a level of 3%. Most new Member States, including Poland, invest below 1%.
- Second, a well-developed financial market with easy access to risk capital especially for small and medium sized enterprises.
- Third, a quick diffusion of innovation especially through the use of Information and Communication Technologies at all levels of education and throughout the population.
- Fourth, the existence of industrial clusters in regions characterised by high productivity and specialisation in complementary phases of production, founded on the presence of sub-contractors, component suppliers and fierce competition among them.
- Fifth, on the existence of an entrepreneurial culture, promoted for instance through “*virtual enterprises*” as business models and learning tools for students; in Austria, for instance, 1.000 of such virtual firms exist providing a transparent view of internal business processes, external business relationships and other business practices, and they are a compulsory part of the curriculum in all Austrian schools and academies of business, and are recommended for business training in all schools.

With respect to labour markets, Member States are called on to re-assess employment contracts, carefully balancing flexibility and security. Today, flexibility is no longer just an employer’s interest. It also serves the interest of workers, helping them to combine work with care and education and allowing them to lead their preferred lifestyles. On the other hand, security does not just mean employment protection, but encompasses the capacity to remain and progress in work. Member States are called on to review the level of flexibility provided in standard contracts as well as the role of other forms of contracts, with a view to providing more options to employers and workers depending on their need.

They are also advised to examine the degree of security in non-standard contracts. This would help to prevent the emergence of a two-tier labour market where “insiders” benefit from high levels of employment protection, while an increasing number of “outsiders” are recruited under alternative forms of contracts with lower protection. The Taskforce draws particular attention to the examples of Denmark and The Netherlands. They represent two approaches to balancing flexibility with security that have proven their value in practice.

- The Danish approach provides parties with a maximum of freedom to shape their employment relationships in combination with good access to unemployment benefits and extensive measures supporting employability. Strong emphasis on activation and re-integration on the labour market is also essential in the Danish model.
- The Dutch approach relies on the availability of different contractual forms in the employment relationship, while also providing security for flexible jobs and for active measures for the unemployed. Equal treatment of workers on different types of contract is an important aspect of the Dutch model, especially access to training, entitlement to work-related insurance schemes and the transferability of these rights from one job to the other.

In addition to this, the Taskforce advocates that the Member States work towards the removal of obstacles to temporary work agencies. Such intermediary agencies can provide multiple job services to firms by offering flexible job opportunities for workers at high employment standards at the same time. Furthermore, governments and social partners must allow for, and promote, modern and more flexible work organisation. Removing obstacles to part-time work is also a necessary condition in many countries to raising labour market participation and employment. Governments and social partners are also advised to examine the extent to which social protection systems facilitate transitions between different statuses throughout the life-course – such as work, training, career breaks or self-employment.

## **Labour Supply**

Let me come to the second priority of this afternoon discussion: How can the employment intensity of economic growth be improved? The Taskforce recommended in this respect to increase first of all labour supply. In the light of a declining workforce, nobody can be missed. Men and women who lose their job should remain closely attached to the labour market and increase their employability.

This challenge makes an efficient active labour market policy all the more necessary. Evaluation studies hinting on the low effectiveness of many current programmes in the old Member States should not discourage us. All effort is needed in strengthening the efficiency of active and activating labour market policy. People affected by structural change must be assisted in maintaining their capacity to earn a decent income on the labour market. And as far as the extension of the European Common Market causes the speeding up structural change, it is only fair and just that the European Social Fund helps people to accept and adjust to these changes.

However, Member States must seek to make sure themselves that work pays for everyone, especially for the low-paid. Unemployment, inactivity, and poverty traps must be ended. The Taskforce found that the unemployment and inactivity trap is also relevant for the new Member States, including Poland. Reducing the tax wedge, especially for low-wage earners, is one way to reduce these traps. Entitlements of future benefits based on wage related contributions is another effective incentive for people to take up jobs and to increase labour supply.

Another way to end the unemployment or inactivity trap is to offer in-work benefits carefully targeted to specific groups with low productivity. Helping these people taking up low paid jobs with tax credits, however, makes in many cases only sense when the low paid jobs are combined with training opportunities. Otherwise, low productivity people remain caught in the poverty trap.

A further meaningful target group for in work-benefits are people in times when their income capacity is limited due to family obligation such as lone parents.

The Taskforce referred in its report to the following good practices:

- The Working Family Tax Credit in the UK
- The Employment Tax Credit in the Netherlands
- The Back to Work scheme in Ireland, and
- The French In-Work-Benefit scheme (“mécanisme d’intéressement”)

You will find more information on these and other good practices in the Taskforce’s report.

Active labour market policy, which means assisting effective job search, facilitating access to advice, training and work for the unemployed and inactive people, is also of crucial importance for maintaining and increasing labour supply. This holds especially true for disadvantaged young people, who face a high risk of unemployment, for instance (but of course not only) here in Poland. The Taskforce underlined emphatically the Lisbon employment strategy of providing access to active measures for young people at an early stage, at the latest after six months of unemployment. Denmark is the country that followed most consequently this rule, reducing thereby substantially youth unemployment during the last ten years.

The Taskforce also stressed the need for efficient public or private employment services to implement effectively such active labour market policy measures. In this respect, the recommendation of establishing new public employment services, with sufficient resources in terms of funding, staff numbers, training and equipment, was especially addressed to Poland.

Specific action is also needed to remove the many obstacles that still hinder the participation of women. This calls for the removal of tax disincentives,

especially household related tax systems instead of individual taxation. Gender pay gaps have also to be addressed, and part-time work (both for men and women) should be encouraged. With respect to part-time work, the new Member States are still far away from the average level of the European Union.

Most important for increasing the labour supply of women is the provision of good quality childcare and eldercare. These services have to be affordable and widely accessible in terms of geographical coverage and opening hours. The Taskforce therefore emphasised the Lisbon target to providing childcare facilities for 90 per cent of children between three years old and the mandatory school age, and at least 33 per cent for children less than three years of age by 2010.

Basically, there are two possible models of implementing this targets: The Nordic model of publicly provided or at least publicly financed childcare services, or the US model of high wage differentials that allow to offer and to buy cheap care services. It is open for each Member State to follow one of these models or to combine both.

Finally, to ensure that people remain in work longer, it is vital that Member States engage in building comprehensive active ageing strategies. The labour market situation for workers aged 50 and over is a major cause for concern, all the more so in the light of demographic ageing. Urgent action is needed not only to ensure that a higher share of those currently aged 55-64 stay in work, but also to keep a much larger share of those currently in their 40s and 50s in employment. In the long run, any age limit to gainful work should be removed, and it should be left to the discretion of people when they withdraw from labour market participation.

Building active ageing strategies requires a radical policy and culture shift, away from early retirement. The Taskforce recommended three key lines for action:

- First, providing the right legal and financial incentives for workers to work longer and for employers to hire and keep older workers
- Second, increasing participation in training for all ages, especially for the low-skilled and for older workers
- Third, improving working conditions and quality in work.

This implies, in particular, discouraging early retirement: working after the age of 60 should become the norm. In this respect, the Taskforce draws attention to the experience of Sweden, which has achieved the highest employment rate of older workers, and of Finland, where employment trends of older workers have been the most favourable since 1995. Sweden is the only country that succeeded to engage elderly people in life-long-learning at the same high level as young and medium aged people. It has recently also abolished any incentive for early retirement through two measures: First, it

introduced progressive pension entitlements when retiring later than the earliest possibility to retire, and second through making pension entitlement depending on the average income over the whole life-course instead on the best 15 years of wage income.

## **Good Governance**

Let me conclude by drawing your attention to the urgent need of improving governance and implementation of the Lisbon employment strategy. First, Member States should reaffirm their commitment to the employment objectives they have set together at the European level. They should define clear national policies and targets, and these objectives should be backed by appropriate public funds and effective implementation. The National Action Plans for Employment, called for under the EU Treaty, are an effective tool to bring together the different elements in the programming of reforms. They need to have political legitimacy. The approach of several Member States of involving their national parliaments, and consulting social partners and civil society, should become the norm.

Second, to succeed with the Lisbon strategy it is essential that governments build up reform partnerships, mobilise the support and participation of the various stakeholders, and secure public conviction in the need for reforms. Governments should make clear to the general public why reform is necessary, why it is in the interest and advantage of all, and why abstaining from reform is no option at all.

Third, the role of the European Union is to support Member States' efforts to achieve the necessary reforms. Transferring responsibilities from national or the regional governments to Brussels, however, should and cannot be the answer. The Taskforce recommends strongly to following the Open Method of Coordination by setting joint objectives, exchanging best practices, comparing achievements of Member States and by confronting Member States when they under-perform.

The Taskforce report shows that there is a wealth of good practice available in Europe. However, exchanging good practice is only useful if Member States are willing to learn lessons from experiences made by others. Taking over good ideas from abroad is not a sign of weakness but of strength. Sometimes, Member States prefer not to address each other about shortcomings, hoping that they will not be addressed either. The Taskforce was of the strong opinion that we should try to get away from this culture of non-intervention. Instead of stressing the differences between our countries, Governments should see successful policies abroad as an urgent invitation to test and adjust them in their own context. In that case, the EU budget could and should be more closely linked to the implementation of the Lisbon

employment strategy thereby supporting individual Member States to bring about the necessary reforms.