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Recent Trends and Prospects

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Note

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Foreword by the Commissioner

The seventeenth edition of *Employment in Europe* appears at a challenging moment. In the international context of rapid economic growth in much of the developing world and sustained economic growth in the US, the EU seems to be mired in economic difficulties. This is why, at their 2005 Spring summit, Heads of State and Government have put employment and growth as the two main objectives of the renewed Lisbon strategy, in order to raise the living standards and the quality of life of EU citizens. As set out by the new Integrated Guidelines for Growth and Jobs (2005-2008), the Strategy implies raising growth performance of the EU on a sustainable basis and striving for full employment, improved quality and productivity at work, and greater social and territorial cohesion. Indeed, linking economic and social progress is at the heart of the European Social Model.

Creating more and better jobs largely depends on a subtle balance between the macro-economic policy mix, micro-economic reforms and effective employment and social policies. First, an appropriate macro-economic policy framework is important to reassure consumers and entrepreneurs and help maintain or restore high levels of demand. Second, reform of product markets and achieving a fully integrated economic area would bolster economic activity and thus trigger employment creation. Third, effective employment and social policies are crucial elements to attract and retain more people in employment, to improve the adaptability of workers and enterprises in the context of rapid economic change, and to increase investment in human capital through better education and skills. Action is all the more necessary in the EU in the context of current demographic trends, as the working age population will gradually diminish. These issues will feature prominently in the National Reform Programmes which Member States will adopt this autumn.

Against this background, the current report sees encouraging signs of global economic recovery which should spill over and benefit Europe, if Europe actively enacts further reforms and does not simply wait for growth to appear. The benefits from such structural reforms, which have already translated into structural improvements in the past few years, should not be jeopardised by inaction. Five issues developed in detail are politically prominent.

- The findings confirm that macro-economic, micro-economic and employment policies go hand in hand to deliver more and better jobs.
- Overall, positive employment prospects depend on the economic cycle and on improvements in domestic demand, especially in some larger countries in the EU.
- Particular concerns remain regarding the unemployment situation of young people; this is in large part why the European Council recently adopted the Youth Pact.
- In the face of an ageing and declining workforce, Europe still has a large potential labour reserve to draw upon; this should receive urgent priority.
- Attention must be paid to social inclusion and cohesion, preventing exclusion from the labour market and reducing regional disparities in terms of employment, unemployment and earnings, as there are worrying signs that the recent economic slowdown may have affected Europe's record in this regard.

Employment in Europe is an important part of the Commission's analytical work and I sincerely hope that the findings of this year's report will contribute to a better understanding of Europe's main employment challenges and serve the renewed endeavour of the Lisbon Strategy. Growth and jobs are at the core of our citizens' concerns: Europe must succeed.

Vladimir Špidla.



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Executive summary

Continued slow employment response in 2004 to the pick-up in economic activity in Europe

Despite the pick up in economic activity ...

After gathering momentum in the first half of 2004, economic activity in the EU25 decelerated in the second half of the year, reflecting in part the impact of the sharp rise in oil prices and the strength of the euro. Nevertheless, economic growth in the EU averaged 2.4% for the year as a whole (1.1% in 2003), supported by strong world GDP and trade growth.

... employment growth in the EU was again limited in 2004, while the unemployment rate remained unchanged.

Employment growth in the EU was again quite limited at 0.6% in 2004, slightly up on the previous year's level of 0.3%, and has now been low for three years in a row. This compares with employment growth of 1.1% in the US, where growth resumed in 2004 following two years of "jobless recovery". As a result the average employment rate for the EU increased by 0.4 of a percentage point to reach a level of 63.3%, an improvement on the years 2002 and 2003 when total employment rates hardly rose at all. The rise in the total employment rate was again driven by the ongoing increase in the employment rate for women (+0.7 of a percentage point on average in the EU). It also reflects continued strong rises for older people (aged 55-64) for whom the employment rate rose by 0.8 of a percentage point. Unemployment remained unchanged compared to 2003, although the long-term unemployment rate increased slightly to 4.1% (4.0% in 2003).

Recent progress towards the Lisbon and Stockholm objectives has been limited as a result....

The weak labour market performance in Europe over recent years is an important element in explaining the slow progress towards the Lisbon and Stockholm objectives. The overall employment rate remains 7 percentage points below the employment rate target for 2010, while the female and older people's employment rates are around 4 and 9 percentage points below their respective 2010 targets. In 2004, the rates were 63.3%, 55.7%, and 41.0%, respectively. It should be noted that the 2004 female employment rates and in particular the 2004 overall employment rates remain far away from the intermediate employment targets (for 2005). In response to the mixed results achieved so far and the increasing challenge to meet the 2010 objectives the European Council recently agreed to revise the Lisbon Strategy and re-focus its priorities on economic growth and employment. As part of this, a first set of 'Integrated Guidelines' has been adopted by the Council with the main aim to spur growth and job creation.

...although across Member States, overall employment performance in 2004 was generally positive, with negative growth in only a few countries.

Although employment growth has been limited at EU level, it has been positive for the majority of Member States. Only four experienced negative annual growth, most notably the Netherlands where employment contracted by 1.3%. In contrast, seven Member States achieved positive employment growth of over 1%, with particularly strong growth in Cyprus, Greece, Ireland, Luxembourg and Spain. In Germany annual employment growth turned positive in 2004 following negative average growth in the previous two years, possibly already reflecting institutional changes in the context of the Hartz labour market reforms, while the decline in employment experienced in 2002 and 2003 in Poland also showed signs of coming to an end in 2004.

The services sector continues to drive employment expansion,....

Between 2003 and 2004 employment growth in the EU was again driven by the continued expansion of employment in the services sector. Over 2004 growth in this sector remained stable at just above the 1% level, an improvement on the

..... while there are continuing rises in the employment shares of more flexible types of employment

The employment situation for older people keeps on improving in most Member States ...

... but concerns remain for the employment situation of youth.

Positive employment prospects for 2005 and 2006 are dependent on improving growth prospects.

rates of the previous year. In contrast, employment in both the agriculture and industry sectors continued to contract in 2004, although the recent trend suggests the contraction in the industry sector may be coming to an end, at least temporarily.

The share of more flexible types of employment in total employment, such as part-time and fixed-term employment, continues to rise. In contrast, the share of self-employment has remained broadly stable since 2000.

At EU level older people aged 55-64 have seen employment rates rise markedly since 2000, with an overall increase of 4.4 percentage points for this age group, and account for the majority of the increase in total employment between 2000 and 2004. The improvement in the employment rate of older workers since 2000 has been a general feature across almost all Member States, and suggests that policies to improve the participation of older people, and especially reforms of pension systems and early retirement schemes, may be taking effect in the labour market. Nevertheless, despite the recent improvement, efforts need to be stepped up if the 2010 target of an employment rate of 50% for those aged 55-64 is to be reached.

In contrast to the positive developments for older people, the large majority of Member States have experienced deterioration in the labour market situation for the youth population in recent years. At 18.7%, youth unemployment in the EU is still around twice as high as the overall unemployment rate. At EU level, for young people aged 15-24 increases in the employment rate over the late 1990s have been replaced by declines from 2002 onwards, with developments more severe for young men than young women. However, the decline was much more moderate in 2004. This evolution in employment rates reflects the general development in youth activity in Europe, namely a decline in labour market participation which coincides with recent trends for young people to remain longer in education and training. Greater efforts are needed to integrate young people into the labour market and to support them as they pursue "non-linear" careers alternating between employment, study, unemployment and retraining or the updating of skills. It is with this in mind that the European Council recently adopted a European Youth Pact to enable young people to benefit from a set of policies and measures fully integrated in the revised Lisbon Strategy.

The employment prospects for 2005 and 2006 are positive overall, with the employment situation expected to improve in line with the general pick-up in economic activity. However, these positive prospects remain dependent on improving business confidence and on rising economic growth. Further, the expected more positive development in employment does not reduce the need to implement further structural reforms in labour markets.

Taking stock of the European Employment Strategy: the evidence behind improved performances of EU labour markets

Evaluation has been at the core of the EES since 1997.

The European Employment Strategy (EES) was launched in 1997 with a view to making decisive progress in the fight against unemployment within five years. A 'mid-term review' was carried out in 2000 to provide a first assessment of the effectiveness of the new approach. At the end of the first five years, it was decided to launch a full-scale impact evaluation. The results of this impact evaluation

published in 2002 served as a basis for the debate on the future of the EES. As part of the revision of the Lisbon Strategy in 2005, several evaluation activities were carried out at EU level, including an exercise to take stock of the EES, the findings of which are summarised below.

Overall progress is heavily dependent on the economic cycle ...

Economic growth in the EU nearly halved from close to 3% per year in the period 1998-2000 (the value implicitly assumed at the time the Lisbon targets were established) to the average value registered in the period 2001-2004. Given the close relation between economic growth and labour market performance, this slowdown in economic growth had a significant negative impact on employment creation.

... with the weakness of domestic demand in some Member States being a concern.

Although in the EU15 GDP growth was similar during the cyclical downturns of 1992-1994 and 2001-2003, an analysis of individual Member States shows different labour market performance during these periods. Germany, the Netherlands, and Poland, for instance, displayed a weaker labour market performance in the 2001-2003 economic slowdown than during that of 1992-1994, partly because of the weakness or stagnation of domestic demand.

Progress towards full employment was significant in the early years of the Strategy at EU level thanks to structural reforms ...

Structural improvements have occurred since 1997 at the EU level thanks to reforms in a number of areas, such as competition policy and labour markets. These improvements are reflected in a number of features: lower structural rates of unemployment on average, despite the marked deterioration in some new Member States; lower long-term unemployment rates and shorter average spells in unemployment; increased efficiency in matching between the unemployed and unfilled vacancies; a rise in aggregate labour demand; a wage formation process that takes better account of prevailing conditions in the economy and competitiveness constraints, thus raising the employment content of growth; a positive effect of atypical labour contracts, such as part-time and fixed-term employment, although as regards the latter there is some evidence of market segmentation; and an increase in expenditure on labour market policies and on training which are better targeted to the labour market needs with positive results on job creation.

... but problems remain in a number of areas.

Despite structural progress unemployment remains high and problems remain in a number of areas, such as tax wedges on labour costs or the unemployment and low-wage traps. Little progress has been achieved in lowering marginal effective tax rates on low-wages or on facilitating the transition from unemployment or inactivity to employment, especially for low-skilled people.

Progress in terms of quality and productivity at work is mixed.

Moreover, progress in terms of quality and productivity at work is mixed. There has been some progress in rising participation in lifelong learning, while youth education attainment levels continue to rise, despite the emergence of a gender gap favourable to women. Nevertheless, further progress is necessary as regards both the transitions from temporary to permanent jobs and out of low-paid jobs. In addition since the mid 1990s, there has been a relative decline in hourly labour productivity growth in the EU when compared to the US. This relative decline may be partly explained by a higher rate of job creation, involving a high proportion of low-productivity jobs and, especially, a slowdown in total factor productivity growth. The latter has been associated with the following factors: low investment in R&D; the difficulty in the EU of reorienting outlays towards those sectors with high productivity growth prospects; and the difficulty in producing and absorbing new, more knowledge-based technologies. In order to fully benefit from ICTs, EU-based firms, especially in the services sector, have, in partic-

There may have been some progress towards greater social cohesion ...

ular, to be more adaptable to the changing competitive environment by introducing new work practices while investing in ICTs.

Some signs of improvement towards greater social cohesion have been registered. In particular, labour market gaps related to gender and age have been somewhat reduced. Moreover, moving from unemployment into employment lowers considerably the likelihood of being exposed to the risk of poverty. Employment is a key factor for social inclusion, not only because it raises income but also because it can promote social inclusion per se and personal advancement in a professional career.

... but the recent economic slowdown can negatively impact on social cohesion.

For instance, there is the risk that the 2001-2003 economic slowdown, accompanied by rising unemployment and fewer job opportunities, has put more people at risk of poverty and social exclusion and worsened the position of those who are already affected. The challenge is even greater in many of the new Member States, where economic restructuring requires appropriate social policies to limit the number of people at risk of poverty.

Earnings inequalities in the EU labour market: between efficiency and equity

The level and dynamics of earnings matter for productivity, the quality of jobs and social cohesion.

The distribution and growth of earnings are at the heart of concerns about efficiency and equity. Finding the right balance between these two objectives is central to societal/political choices, particularly as regards solving the possible dilemma between social cohesion and growth objectives. Many economic factors can influence this potential dilemma. As an example, the distribution of earnings reflects individual characteristics of workers (e.g. skills, gender, age), firms' specificities (e.g. size, activity), and institutional features (e.g. bargaining schemes, type of contract).

Overall there is no sign of increasing earnings inequality in Europe.

Overall there is no sign of an increase in earnings inequality in Europe since the 1970s. Yet there are marked country differences. Some countries such as the UK, Poland and Denmark have shown increasing earnings inequalities in the nineties, while others such as France and Sweden, display the opposite trend. Moreover there is no clear-cut relationship between the level and dynamics of earnings inequalities on the one hand and labour market and economic performance on the other hand. Nevertheless, the Scandinavian countries, which have the lowest degree of earnings inequality, are at the same time countries with good economic and labour market performance.

Earnings disparities are wide both within Member States and across regions.

Earnings disparities in old Member States are between two to four times larger than in new Member States. In 2002 these earnings disparities were also substantial within Member States, in particular in Estonia, Latvia, Lithuania, Poland and Slovenia. Regions driven by innovation and rich infrastructure connected to networks feature wider earnings disparities (e.g. Ile de France, North-Western Italy) than rural and traditional industrial areas. It also appears that certain specific groups are subject to higher degrees of earnings inequality than others, such as women (in Germany for instance), but also young men and women aged 20 to 29 across the EU.

Some services pay more than industries.

Across the EU, some services pay more than industry, yet industrial hourly wages are still comparatively high in Denmark, Germany, and the UK and rela-

tively low in Latvia and Lithuania. Among services, high-skilled activities, especially financial intermediation, pay much more than low-skilled activities (such as working in the hotels and restaurants sector). Within services and industry, the premium can vary widely: it is positive for financial intermediation and mining and quarrying whilst it is negative for hotels and restaurants and construction, for example.

Firm characteristics have a substantial impact on earnings.

Company size has a positive impact on individual earnings and notably company-specific reward schemes, such as bonuses, amount to on average 8.4% of annual earnings in the EU. Firms that introduce new methods of work organisation leading to more flexible practices tend to have a higher dispersion of salaries than others, because new work practices favour high-skilled and adaptable workers compared to low-skilled workers. Moreover, technical change and human capital are complementary. The more firms are involved in R&D activity, the more they need highly skilled and educated workers, and the more wage inequality may be exacerbated.

Individual characteristics such as skills and occupation are a major determinant of earnings...

Being a high-skilled worker brings a high earnings premium (i.e. returns to education are unambiguously positive), as well as working in top high-skilled occupations, pointing at the importance of human capital for employment and career prospects. Seniority, being a non-manual worker, and working in industrial sectors also leads to higher rewards in the case of men.

... but gender also remains a major factor.

Controlling for other characteristics (among which occupations play an important part in the persistent gender gap), gender accounts on average for a gap of slightly over 17% in earnings between male and female employees in the private sector.

Institutions affect unequally the distribution of earnings in most countries.

Workers having fixed-term or part-time contracts as well as apprentices earn less on average. The rate of coverage of collective bargaining and the existence of extension laws seems to reduce earnings dispersion and in general, labour market institutions have a dampening effect on earnings inequality, which points to a deliberate social choice of Europeans for more equality.

Tapping Europe's potential - Inactive people: permanently out of the labour force or potential labour supply?

The EU as a whole underutilises its labour force potential, and inactivity remains high in most Member States.

In 2004 the economically inactive population of working age (15-64) in the EU25, i.e. those that are neither working nor actively seeking and immediately available for work, amounted to some 92 million people, corresponding to an average inactivity rate of over 30%. The rate of inactivity varied quite markedly across Member States, ranging from a low of 19.9% in Denmark to a high of 39.5% in Hungary and 41.7% in Malta.

Inactivity is higher among women, the young, older workers and the low-skilled ...

In the EU, inactivity is around 16 percentage points lower for men than for women. The inactive population aged 15-64 is distributed evenly with one third in each of the three main age segments - youth, prime-age and older people, despite the fact that the prime age group is the largest one. Inactivity rates are over 47% for the low-skilled against just over 13% for the high-skilled.

... but while the incidence of inactivity is higher among the low-

Just over 50% of the inactive population in the EU is low-skilled, and this percentage is as low as 33% in Luxembourg and the UK. If inactivity is to be

skilled, they often constitute less than 50% of the inactive population.

reduced substantially, it is also important to consider the problems of all skill groups including the higher skill groups: not only is it necessary to have an adequate level of skills per se, but it is equally important that these skills correspond to the changing requirements of the labour market.

The reasons why these people are inactive should be taken into account.

The main reason for inactivity is participation in education and training, corresponding to around a third of the inactive population, but once we exclude the younger age group (15-24), this percentage drops dramatically to 4.7%. The fact that over 85% of the young are inactive because of education or training means that for the majority of them inactivity is not necessarily a concern for the policy maker. The second most important reason for inactivity is retirement, at around 20% of the inactive population, while family or personal responsibilities comes third at approximately 16%. Finally, illness or disability accounts for around 13% of the inactive population while a further 4.5% are not looking for work because they believe that there is none available. However, there are important differences by age and gender, between countries and over time: in particular, in the past ten years, the proportion of women that are inactive because of personal or family responsibilities has decreased by almost 13 percentage points. This may be due to better public care facilities, higher income so that more people can afford private care facilities, more extensive parental leave, lower fertility rate or changes in social or cultural norms.

There has generally been a gradual long-term decline in the inactivity rates since the mid-1980s, especially for certain groups ...

The decline in the inactive population in the EU over recent years has been driven by two main trends; the entry into the labour market of increasing numbers of women aged over 25 and the entry or staying longer of older people (aged 55-64) of both sexes. In contrast, men of prime working age have shown signs of a limited withdrawal from the labour market, while youth of both sexes have seen a more significant change with inactivity rates rising by around 1.5 percentage points in the period 2000 to 2004.

... which is accompanied at any point in time by relatively large flows into and out of inactivity.

Between 2003 and 2004 around 9.5% of the inactive population moved into employment, while a further 4% entered the labour force as unemployed. At the same time, 3% of the employed and almost 22% of the unemployed withdrew from the labour force. In the present circumstances, the main reason why the unemployed leave the labour market is because they stop searching for a job since they believe there is none available (5.6% become discouraged against 3.1% who leave the labour market because of illness or disability and 1% who retire). Therefore withdrawal of unemployed people from the labour market in the short-term is not primarily linked to institutional factors, such as the design of the benefit system or early retirement schemes, but to the functioning of the labour market, either because of imperfect information or lack of demand.

Being inactive is a broad and partly misleading concept.

Between "unemployment" – whereby someone without a job has been actively looking for work in the four weeks prior to the survey and is willing and available to work in the following two weeks – and "inactivity", whereby the individual is out of the labour force, lies a "grey" area, which is also classified as "inactivity", with varying degrees of labour market attachment. As an example, in 2004 more than 8% of the inactive population in the EU was registered at a Public Employment Office (PEO) and 14% of the inactive population (23% for those aged 25-54) were willing to work. Furthermore, around 37% of the inactive population receives some education and training, although this percentage declines with age, while the proportion of those attending training not leading to a formal qualification increases with age.

The heterogeneity of the inactive population is a major challenge for policy-making.

Several categories of the inactive have tendencies to work that equal those of the unemployed. Potential labour supply extends far beyond the unemployed, as traditionally defined, and it is also constituted by a sizeable part of the inactive population. Effective targeting is crucial in order to support their labour market participation: demographic characteristics, reasons of inactivity, work experience, skill levels and individual preferences for work are all key aspects that should be taken into account. This calls for a personalised approach and support.

Policies aimed at activating inactive people should take into account for how long they have been out of the labour force ...

Over 40% of the inactive population of working age (15-64 year old) have never been in employment. A further 23% has been without a job for the previous 8 years and only around 15% of the inactive population were without a job for less than 2 years.

...and should also take into account demand-side problems.

Reducing inactivity does not mean dealing with supply-side constraints only, such as high reservation wages, low skills or disadvantageous individual characteristics. Inactivity tends to be strongly correlated with unemployment and an effective response to the need for mobilising the workforce more than is currently the case should therefore be characterised by a comprehensive set of policies that combines Active Labour Market Policies (ALMPs) with other measures aimed at supporting job creation and opportunities.

Conclusions: putting growth and jobs at the core of the renewed Lisbon Strategy

The EU and its Member States must step up their efforts to create more and better jobs

Despite evidence of progress over the years, the EU still has a large gap to bridge to reach full employment, improve quality and productivity at work and strengthen social and territorial cohesion. The re-launch of the Lisbon Strategy in 2005 is meant to strengthen momentum of action at national and EU level, by putting a greater focus on growth and jobs, and setting three priorities of action for employment policies: attracting and retaining more people in employment, improving the adaptability of workers and enterprises and investing more in human capital.

... by linking employment-friendly macro-economic management and the pursuit of structural reforms.

The findings of this year's Employment in Europe confirm that macro-economic, micro-economic and employment policies go hand-in-hand for delivering more and better jobs. A growth- and employment-friendly macro-economic environment, as sought for in the framework of the Integrated Guidelines, is crucial for Europe to grow and deliver employment and greater social cohesion, as well as to initiate and sustain structural reforms. At the same time, Europe should not just wait for growth to appear; structural reforms played an important role in the past and further reforms are needed in order to raise Europe's economic and employment potential. Synergies between employment policies and reforms in the service, product and capital markets should be fully exploited.

The experience of European Employment Strategy will serve the renewed Lisbon Agenda.

The European Employment Strategy, backed up by the European Social Fund, is a central pillar of the revised Lisbon Agenda in order to strengthen employment performances and improve policy-making and delivery, including through better governance and mutual learning. While stressing the prime responsibility of Member States in economic and employment policies, the Council has adopted a first set of integrated guidelines with the main aim to spur growth and job creation. Based on the National Reform Programmes established by the Member States in Autumn 2005 and the Community Lisbon programme, the Commission will present its first Annual Progress Report in January 2006.

Panorama of the European labour markets

1. Introduction

This chapter provides a detailed overview of recent developments in the European labour market and compares them with developments for certain other economic partners, in particular the US and Japan. The chapter begins with a review of recent labour market performance, examining the current labour market situation and trends in the recently enlarged EU in a global perspective, and reports on the short-term prospects for the EU labour market in the coming years. It then focuses in more detail on the latest developments in activity, employment and unemployment rates across the individual Member States. This is followed by an overview of recent employment trends according to type of employment, an examination of self-employment in Europe in 2004, and an update on recent labour market developments for the older and younger elements of the working age population. Further issues reviewed include recent sectoral employment trends, as well as a brief overview of the latest labour market trends in the remaining Acceding and Candidate Countries for EU membership. The findings reported in this chapter are based on data available up to mid-June 2005¹, while many of the tables and charts include data for the EU-15 aggregate to provide a longer-term historical perspective.

2. Recent labour market performance

2.1. EU labour market performance in 2004 in a global perspective

After gathering momentum in the first half of 2004, economic activity in the EU decelerated in the second half of the year, reflecting in part the impact of the sharp rise in oil prices and the strength of the euro. Nevertheless, economic growth in the EU averaged 2.4% for the year as a whole supported by strong global growth and trade, an improvement on the previous year's rate of just 1.1% (Table 1).

World GDP growth reached a level of 5% in 2004, the fastest pace since the 1970s, with particularly strong growth in certain emerging economies such as China (9.5%), India (6.7%) and Brazil (5.2%). In the US, economic activity remained strong, with GDP growth of 4.4%, up from 3.1% in the previous year, although the high current account deficit and general government deficit cast doubt over the sustainability of this rate of economic expansion. In Japan the economy experienced a recession in the second and third quarters of 2004, but strong first quarter performance and a rebound in the last quarter meant that annual growth reached 2.7% for the year as a whole, up from 1.4% the year before.

Table 1 – International comparison of key indicators (2004)

	EU-25	EU-15	US	JP
Population (millions)	457	383	293	128
GDP (in 1 000 million PPS, current prices)	10 213	9 316	10 164	3 210
GDP Growth, at constant prices (annual % change)	2.4	2.3	4.4	2.7
Employment Rate (as % of working age population)	63.3	64.7	71.2	68.7
Employment Growth (annual % change)	0.6	0.7	1.1	0.2
Unemployment Rate (as % of civilian labour force)	9.0	8.1	5.5	4.8

Source: GDP and employment growth from Commission's Spring 2005 Economic Forecasts and QLFD, Eurostat. GDP in PPS from AMECO database, Commission Services. Employment rate from QLFD, Eurostat and OECD data for US and Japan. Unemployment rate from the harmonised unemployment series, Eurostat. Population from demographic statistics, Eurostat.

Note: Employment rates for the EU and Japan refer to persons aged 15-64; US employment rate refers to persons aged 16 to 64.

¹ The figures in this chapter are based on the data available up to mid-June 2005 and generally include data for the years up until 2004. Where "LFS" is mentioned as the data source this refers to the spring results from the Labour Force Survey unless otherwise stated. Where "QLFD" is mentioned, this should be understood to mean either annual averages from national accounts or annual averages of quarterly data from the Labour Force Survey, depending on the specific variable in question. Due to the transition to a quarterly survey, data for missing quarters for the LFS are estimated by Eurostat until 2003. For further details on the data and the sources used, see the statistical annexes.

In 2004, employment in the EU continued to respond slowly to the economic upturn that followed the slowdown from mid-2000 to mid-2003. Employment growth was once again quite limited at 0.6%, although slightly up from the previous year's level of 0.3%, and has now been low (around the 0.5% mark or below) for three years in a row (Chart 1). As a result the employment rate in the EU edged up to 63.3% in 2004 (Chart 2), while unemployment, at 9.0%, remained unchanged compared to 2003.

In the US employment growth resumed in 2004, following two years of "jobless recovery", and averaged 1.1% after zero growth in 2003. It nevertheless remains well below the normal increase associated with the third year of an economic recovery and considerably down on the levels observed in the late 1990s and 2000. The unemployment rate fell to 5.5%, down from 6.0% in 2003. Meanwhile, in Japan employment growth also resumed but at a much more moderate pace, climbing to 0.2% in 2004 following a contraction of 0.3% in 2003. Nevertheless, this was the first time since 1997 that Japan has reported positive employment growth. Reflecting this positive development, the employment rate rose to 68.7%, while unemployment dropped from 5.3% to 4.8%.

2.2. General labour market developments in the EU over recent years

2.2.1. Employment growth across Member States

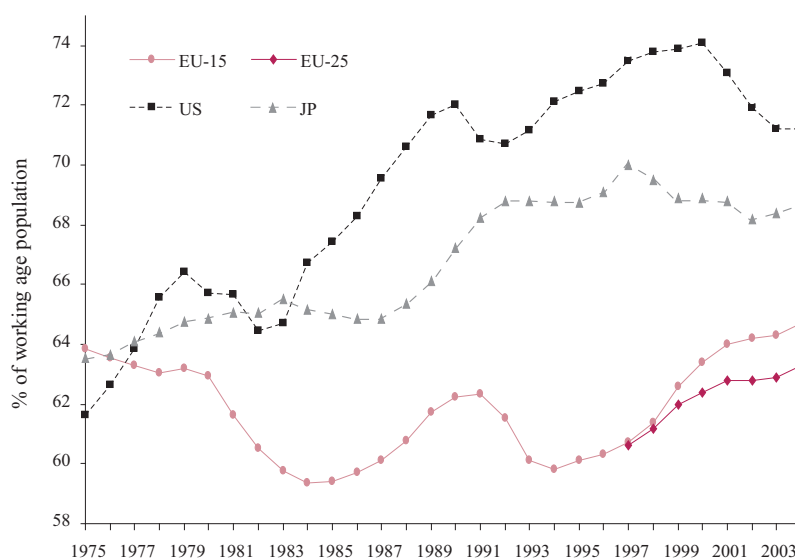
While employment growth for the EU as a whole was again rather limited in 2004, as employment continued to respond slowly to the economic upturn, underlying this overall trend quite broad variations can be observed between individual Member States (Table 2).

Chart 1 – Employment growth rates in the EU, US and Japan, 1997-2004



Source: EU data from QLFD, Eurostat; US and Japan data from AMECO database, Commission Services.

Chart 2 – Employment rates in the EU, US and Japan, 1975-2004



Source: DG EMPL calculation based on long-term trends in employment and population, Commission Services.

Table 2 – Annual change in employment growth, by quarter, from 2001 to 2004

	2001Q1	2001Q2	2001Q3	2001Q4	2002Q1	2002Q2	2002Q3	2002Q4	2003Q1	2003Q2	2003Q3	2003Q4	2004Q1	2004Q2	2004Q3	2004Q4
BE	1.9	1.8	1.5	0.7	0.1	0.0	-0.5	-0.7	-0.2	0.0	0.1	0.3	0.5	0.5	0.7	0.9
CZ	0.3	0.1	-0.4	-0.3	-0.1	0.8	1.2	1.1	2.2	2.0	1.4	1.5	-0.2	-0.4	0.4	0.1
DK	-0.9	0.7	0.7	0.6	0.8	-0.8	-0.5	-0.9	-1.0	-1.0	-1.0	-0.7	-0.7	0.4	0.6	0.0
DE	1.0	0.6	0.2	-0.1	-0.1	-0.4	-0.7	-1.1	-1.3	-1.2	-0.8	-0.5	0.0	0.4	0.5	0.6
EE	-0.5	0.9	0.7	2.3	1.8	1.0	1.2	1.0	0.2	1.2	2.0	2.4	2.3	0.5	-1.8	-1.0
EL	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
ES	3.8	3.2	3.0	3.0	2.5	2.7	2.3	2.0	2.3	2.4	2.6	2.6	2.5	2.4	2.6	2.8
FR	2.3	1.9	1.5	1.2	1.0	0.8	0.6	0.5	0.2	0.0	-0.2	-0.3	-0.2	-0.1	0.0	0.1
IE	3.5	3.0	2.9	2.7	2.5	2.0	1.2	1.4	1.7	1.6	1.9	2.7	2.7	2.7	3.3	3.9
IT	2.7	2.0	1.6	1.5	2.2	2.0	1.6	1.4	1.3	1.4	1.1	0.9	1.1	1.0	0.7	0.7
CY	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
LV	2.1	2.2	2.4	1.9	0.6	1.2	4.5	2.7	1.5	1.5	0.5	0.5	0.9	1.8	0.3	1.5
LT	-5.5	-5.3	-4.1	-1.3	-10.2	-6.6	-5.5	-7.5	2.4	4.4	0.8	2.0	1.6	-2.4	-0.2	1.0
LU	6.2	5.7	5.6	4.8	4.4	3.2	2.5	2.1	1.4	1.7	1.7	2.1	2.1	2.7	2.7	2.7
HU	1.4	0.6	0.2	-1.1	-0.5	0.2	-0.1	0.6	0.5	1.4	1.6	1.6	0.7	-0.9	-1.2	-1.2
MT	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
NL	2.5	2.2	2.0	1.7	0.8	0.5	0.2	0.2	0.2	-0.2	-0.5	-0.9	-1.3	-1.4	-1.3	-1.1
AT	0.7	0.6	0.8	0.2	0.2	-0.2	0.0	-0.5	-0.1	0.2	0.2	0.0	0.9	0.8	0.9	1.1
PL	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
PT	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:	:
SI	0.9	0.6	0.2	-0.1	-0.2	-0.4	-0.4	-0.3	-0.2	-0.1	-0.3	-0.4	-0.4	-0.2	0.3	0.6
SK	1.6	2.0	0.7	-1.7	-1.1	-0.6	-0.1	-0.3	2.0	1.7	1.5	1.9	-0.4	-1.0	-0.2	0.3
FI	1.9	1.4	0.9	1.8	1.2	0.8	0.9	0.8	0.5	0.3	-0.1	-0.7	-0.8	-0.6	0.7	1.2
SE	3.0	1.7	2.0	0.9	0.4	0.3	0.1	-0.1	-0.3	0.1	-0.2	-0.5	-0.7	-0.8	-0.2	-0.3
UK	1.0	0.9	0.6	0.9	0.6	0.8	0.7	1.0	1.1	1.0	1.1	0.6	1.2	0.7	0.7	1.0
EU-25	1.7	1.4	1.1	0.9	0.7	0.5	0.3	0.2	0.2	0.3	0.3	0.3	0.5	0.5	0.6	0.7

Source: Eurostat, national accounts, quarterly results.

Note: No quarterly employment growth data from national accounts for CY, EL, MT, PL and PT. Break in time series for LT 2002Q1.

In the largest Member State, Germany, the long run of negative employment growth which began in the last quarter of 2001 finally came to an end in the first quarter of 2004, following which growth picked up over the course of the year to reach around 0.6% in the last

quarter (Chart 3). Among the other large Member States, employment growth in Italy and the UK remained positive over 2004 at around the 1% level while in Spain growth was especially strong, remaining around 2.5% in all four quarters. By contrast,

employment growth in France was more or less at a standstill during 2004, turning from marginally negative in the first half of the year to just positive in the second half.

Among the remaining Member States, the employment situation in Sweden and the Netherlands deteriorated compared to the previous year, with negative growth in every quarter, especially in the Netherlands where employment contraction remained above 1% for all quarters. The situation also deteriorated in Estonia and Hungary where employment growth turned negative over the course of the year. By contrast, employment growth strengthened in Austria, Belgium, Ireland and Luxembourg, with growth in the last two especially strong and showing signs of picking up. Similarly, the situation improved in the Czech Republic, Denmark, Finland and Slovenia where growth turned positive over the course of 2004 signalling an end to periods of employment contraction.

In line with these developments, employment growth for the year as a whole was positive for the majority of Member States (Chart 4). Only four (Hungary, the Netherlands, Slovakia

Chart 3 – Employment growth in the larger Member States, 2001-2004



Source: Eurostat, national accounts, quarterly results.

Chart 4 – Employment growth for EU Member States, 2004



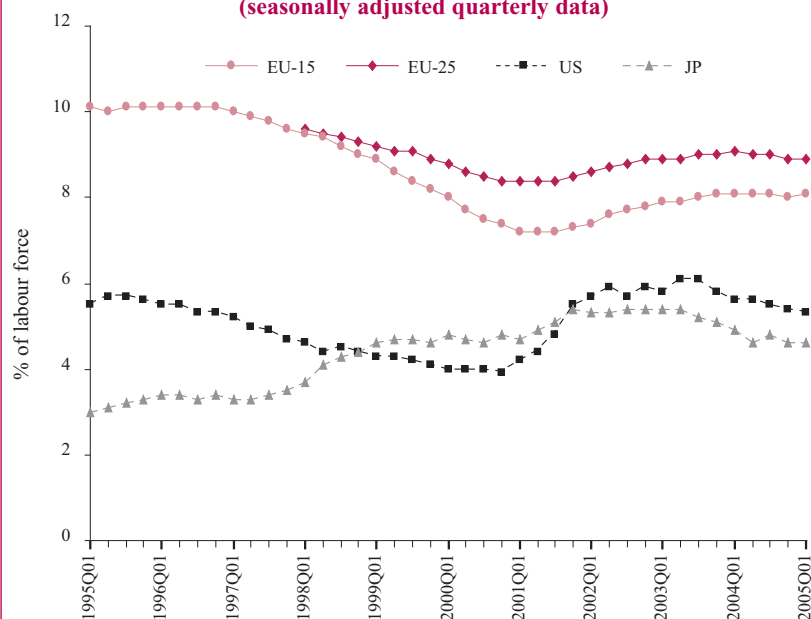
Source: Eurostat, QLFD.

and Sweden) recorded negative annual growth, most notably the Netherlands where employment contracted by 1.3%. By contrast, seven Member States achieved positive employment growth of over 1%, with particularly strong

growth in Cyprus (1.9%), Greece (3.1%), Ireland (3.2%), Luxembourg (2.6%) and Spain (2.6%). In Germany annual employment growth turned positive in 2004 following negative average growth in the previous two years, possi-

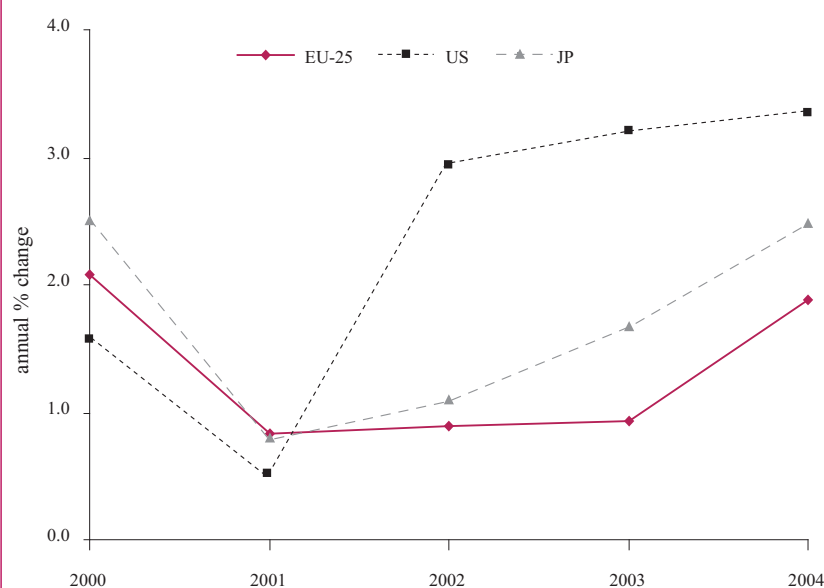
bly already reflecting institutional changes in the context of the Hartz labour market reforms, while the decline in employment experienced in Poland in 2002 and 2003 also showed signs of coming to an end in 2004.

Chart 5 – Trends in unemployment rates in the EU, US and Japan since 1995 (seasonally adjusted quarterly data)



Source: Eurostat, harmonised series on unemployment.

Chart 6 – Growth in productivity per person employed, 2000-2004



Source: Commission Services.

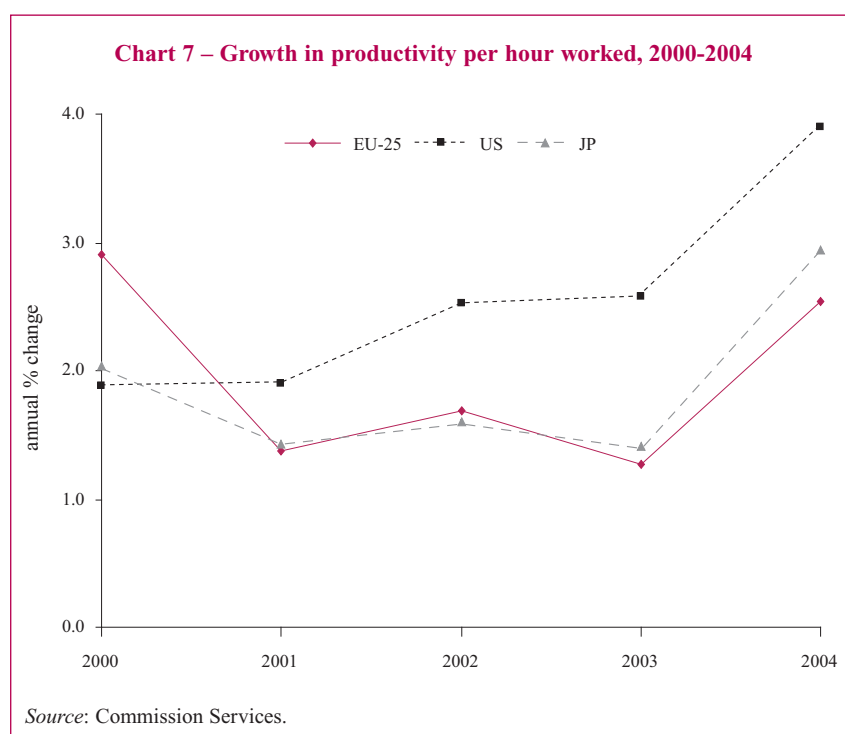
2.2.2. Overall trends in unemployment

At around 9.0% the (seasonally adjusted) overall unemployment rate for the EU-25 remained essentially unchanged over the course of 2004 before showing signs of a moderate decline over the last quarter and into 2005 (Chart 5). At this level it is still only some 0.6 percentage points higher than the minimum of 8.4% achieved in the first half of 2001. In the last quarter of 2004 (seasonally adjusted) unemployment rates ranged from as low as 4.4% in Ireland and Luxembourg to as high as 18.4% in Poland.

In the US, the unemployment rate continued to fall gradually over the course of 2004, having peaked at 6.1% in the second quarter of 2003. By the first quarter of 2005, it had fallen to 5.3%. Nevertheless, it still remained at the sort of level last experienced in the US in the mid-1990s, and some 1.4 percentage points above the minimum of 3.9% attained in the fourth quarter of 2000. Unemployment rates also declined in Japan over 2004 to reach 4.6% by the first quarter of 2005, down from the peak of 5.4% in early 2003. In line with these developments, the gap between the EU-25 unemployment rate and those of the US and Japan widened over 2004, and by the first quarter of 2005 had risen to 3.6 and 4.3 percentage points respectively.

2.2.3. Developments in productivity growth

Average labour productivity growth (in terms of GDP per person employed) for the EU stood at 1.9% in 2004, a marked improvement on the preceding three years when average annual growth was below 1% (Chart 6). However, this compares unfavourably with produc-



tivity growth rates of 3.3% for the US and 2.5% for Japan in 2004. Furthermore, growth rates for Japan and especially the US have been above those for the EU since 2002, with the US sustaining rates of 3% and higher over this period.

Considering productivity in terms of GDP per hour worked, the disparity between productivity growth in the EU and in the US and Japan has generally been more moderate (Chart 7), with EU growth at 2.5% in 2004 and having been around the 1.5% mark since 2001. On this basis productivity improvements in the EU have been very similar to those in Japan since 2001, though the gap with respect to the US has nevertheless been growing.

Within the EU, big differences in productivity growth persist between individual Member States, with continuing strong growth in the new Member States from central and eastern Europe, while growth in most large Member States remained relatively

weak in 2004, especially in Germany, Italy and Spain (Table 3). Nevertheless, compared to 2003 developments in productivity growth were more positive as rates picked up in almost all Member States in 2004.

2.3. Short-term prospects for the EU labour market

According to the European Commission's 2005 Spring Economic Forecasts, the recovery in the EU economy is expected to continue over 2005-2006, despite the unexpected deceleration experienced in the second half of 2004. Due to the oil price hike and strong euro, GDP growth in the enlarged EU is expected to decline to 2.0% in 2005, before rising again to 2.3% in 2006 as growth regains momentum. However, recent survey indicators have been sending out mixed signals about the prospects for the strength and sustainability of the recovery. In particular, the surge in oil

prices seems to have dented business confidence and the balance of risks has tilted towards the downside. Furthermore, world GDP growth, estimated to have peaked at around 5% in 2004 (the fastest rate of growth since the 1970s), is set to ease off to around 4% in both 2005 and 2006. Nevertheless, although moderating, the momentum of global economic growth remains strong and trade is still growing vigorously, while there are also signs that domestic demand is recovering in some Member States.

During 2004 the main driver of economic growth in the EU shifted from external trade in the first half of the year to domestic demand in the second half. However, private consumption remained relatively flat throughout the year, although the pace of investment expenditure is expected to pick up and be accompanied by a more gradual increase in private consumption.

The restrained response of the EU labour market to the slowdown of 2001-2003 (as reported on in detail in *Employment in Europe 2003* and 2004) has been followed by a slow response by employment to the upturn. Employment growth has now been low for three years and has not picked up markedly since the start of the economic upturn in mid-2003. However, as the effects of the protracted economic slowdown wear off, the performance of the labour market, supported by wage moderation, is expected to respond positively to the general pick-up in economic activity. Employment growth in the EU is forecast to increase to 0.7% in 2005 and 0.8% in 2006, while the unemployment rate is expected to remain stable at around 9.0% in 2005 before edging downwards to 8.7% in 2006.

Table 3 – Annual productivity growth 2000-2004

Growth in GDP per person employed						Growth in GDP per hour worked				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
BE	1.9	-0.7	1.2	1.2	2.1	3.4	-2.3	1.3	1.5	3.3
CZ	4.6	2.2	0.0	3.9	4.6	4.4	7.0	1.5	5.5	5.6
DK	2.5	1.0	0.9	1.6	2.4	4.3	-0.7	3.1	0.7	2.1
DE	1.1	0.4	0.7	0.9	1.2	2.2	1.3	1.4	0.7	1.9
EE	11.0	5.6	5.6	4.3	6.0	9.5	4.6	6.7	4.8	5.1
EL	4.2	4.6	3.7	3.2	1.0	5.7	4.6	2.9	2.7	3.2
ES	0.7	0.3	0.9	0.7	0.6	-0.7	-0.7	0.7	0.6	1.0
FR	1.0	0.2	0.2	0.4	2.8	4.1	1.9	3.3	0.7	4.2
IE	5.0	2.9	4.3	1.6	2.4	5.0	3.6	5.0	5.3	3.9
IT	1.3	0.1	-0.9	-0.2	0.4	1.5	0.6	-0.8	-0.2	0.8
CY	2.6	2.0	0.9	0.9	2.2	2.9	3.2	1.6	2.9	3.3
LV	10.1	5.7	4.8	5.6	7.5	10.2	7.1	5.4	7.7	8.4
LT	8.3	10.0	2.7	7.2	7.0	8.4	12.3	3.4	8.6	7.5
LU	3.2	-3.9	-0.5	1.1	1.7	2.3	-2.9	0.2	1.4	2.2
HU	3.9	2.6	3.5	2.2	4.4	4.5	5.7	2.3	1.8	4.7
MT	4.0	-3.7	2.9	-1.1	0.1	4.1	-2.4	3.5	0.8	1.7
NL	1.6	0.1	0.7	0.1	3.0	0.4	-0.3	1.6	-1.7	2.9
AT	2.0	0.3	1.1	0.7	1.0	2.2	-0.5	3.5	1.2	1.7
PL	5.6	3.3	4.5	5.1	5.3	5.8	3.7	4.6	5.2	5.3
PT	1.6	0.0	0.0	-0.7	0.9	3.9	0.1	0.2	0.9	1.4
SI	0.7	2.2	3.7	2.8	4.5	0.8	3.6	4.4	4.9	5.3
SK	3.9	3.2	5.2	2.6	5.9	3.9	2.3	7.3	12.2	8.0
FI	2.8	-0.4	1.3	2.4	3.5	4.3	0.6	2.4	3.5	4.3
SE	1.9	-0.8	1.8	1.6	4.0	3.5	0.5	3.3	2.8	4.9
UK	2.7	1.5	1.0	1.3	2.1	3.2	1.1	1.6	2.3	3.0
EU-25	2.1	0.8	0.9	0.9	1.9	2.9	1.4	1.7	1.3	2.5
EU-15	1.6	0.5	0.6	0.7	1.6	2.4	0.8	1.4	0.9	2.3
US	1.6	0.5	3.0	3.2	3.3	1.9	1.9	2.5	2.6	3.9
JP	2.5	0.8	1.1	1.7	2.5	2.0	1.4	1.6	1.4	2.9

Source: Commission Services.

Labour productivity growth in the EU (in terms of real GDP per occupied person) is expected to be limited to 1.3% in 2005, down from the growth rate in 2004, but to pick up again to 1.5% in 2006. Growth in productivity is expected to be particularly low in Germany in 2005 (0.1%), partly reflecting the impact of the “mini-jobs” development in that country, while much stronger productivity growth is expected in many of the new Member States.

3. Labour market situation in 2004 in the enlarged EU

3.1. Unemployment

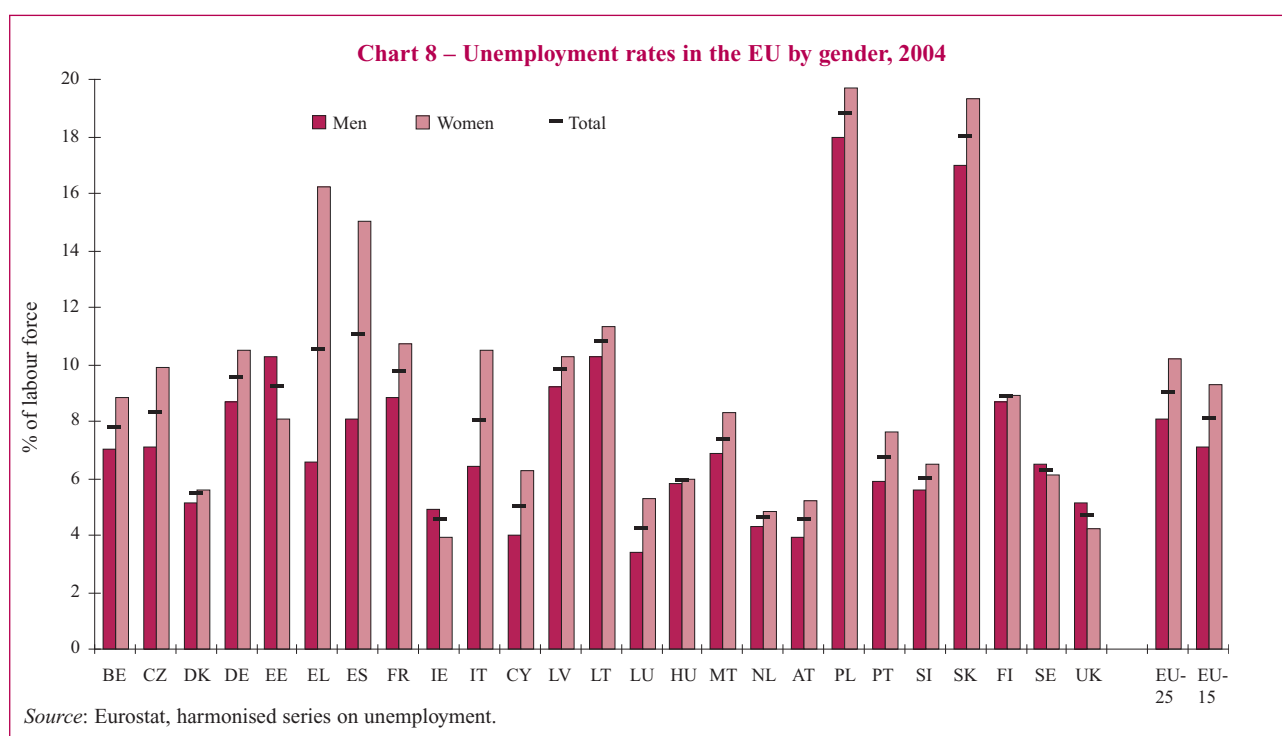
At 9.0% the overall unemployment rate for the EU-25 remained unchanged in 2004 compared to the previous year,

but is now some 4 percentage points higher than the rates in the US and Japan. At the level of the individual Member States, compared to 2003 rates rose in around half but fell in the others. The largest rises occurred in Greece, the Netherlands and Sweden, with increases in excess of 0.7 percentage points. By contrast, rates fell substantially in Estonia and Lithuania, by around 1 and 2 percentage points respectively. Among the large Member States, in Germany rates rose by 0.5 percentage points while in Italy, Poland and Spain there were falls of the same order.

Although unemployment rates have declined in Poland in recent years they remain comparatively high, at 18.8% in 2004. Similarly the rate in Slovakia, at 18.0%, was double the EU average. Among the other Member States unemployment rates in 2004 were above 10% in Greece, Lithuania and Spain, while among the large Member

States rates were above the EU average in France and Germany. This compares with annual rates of as low as 4 to 5% in Austria, Cyprus, Ireland, Luxembourg, the Netherlands and the UK (Chart 8).

Within the EU, the disparity in the average unemployment rate between the genders, at 2.1 percentage points in 2004, was more or less unchanged from 2003 (when it was 2.2 percentage points), with women continuing to be more susceptible to unemployment than men. The actual unemployment rates in 2004 were 8.1% for men and 10.2% for women, essentially unchanged from 2003 except for a very marginal rise for men. Unemployment rates are higher for women than for men in practically all Member States, the only exceptions in 2004 being Estonia, Ireland, Sweden and the UK. The largest disparities between unemployment rates for men and women remain in Greece and



Spain, where the differences are around 10 and 7 percentage points respectively, and with the disparity in Greece widening compared to 2003.

At 18.7% the youth unemployment rate (amongst people aged between 15 and 24) in the EU remained more or less unchanged compared to 2003 and is still around twice as high as the overall unemployment rate (Chart 9). In 2004 the rate was over 20% in the Czech Republic, Estonia, Greece, France, Italy, Spain and Finland, and remained especially high in Slovakia and Poland at around 32% and 40% respectively. By contrast, rates were as low as around 8% in Denmark, Ireland and the Netherlands. In terms of changes in the youth unemployment rate between 2003 and 2004, rates rose strongly (by between 2 and 3 percentage points) in the Czech Republic and Sweden, but fell by similar margins in Estonia and Malta, and even more markedly in Lithuania. Among the large Member States, the most

marked changes were for Poland, where the youth unemployment rate fell by almost 2 percentage points, and France, where it climbed by close to 1 percentage point.

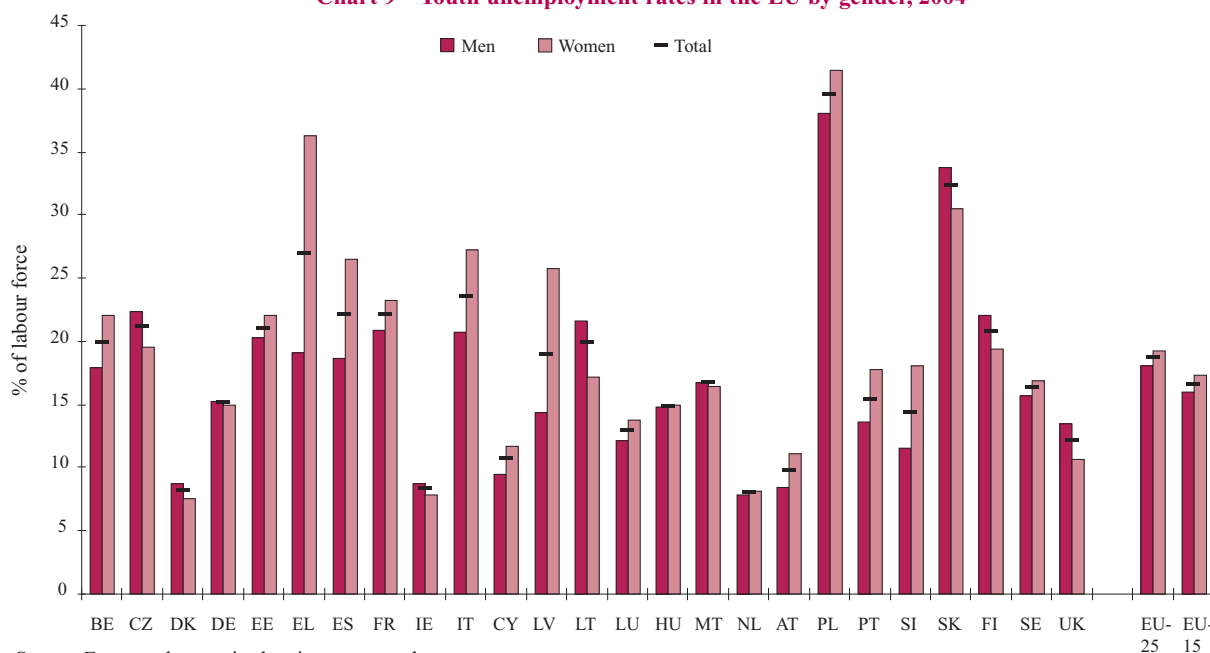
Long-term unemployment (i.e. unemployment for a duration of 12 months or more) affected some 4.1% of the EU labour force in 2004, marginally up from the previous year. This was a continuation of the pattern observed in the previous two years, with long-term unemployment on a gradually increasing trend since the low of 3.8% in 2001, following the strong falls in the late 1990s. Most Member States recorded either only marginal increases or no change in long-term unemployment rates in 2004, although the rise was more substantial in the Czech Republic, Germany and the Netherlands, at around 0.5 percentage points, and in Portugal, where there was a rise of close to 1 percentage point. Some Member States bucked this trend, most notably Lithuania, Poland and

Spain, where rates fell by around 0.5 percentage points, and in particular Italy where the rate fell by close to 1 percentage point.

Within the EU the long-term unemployment rate remains highest in Poland and Slovakia, where around 10% and 12% respectively of the labour force, or almost three times the EU average, are affected (Chart 10). It also remains relatively high in Germany, Greece and Lithuania, all with rates around 5% or just over. For the majority of Member States, long-term unemployment rates are higher for women than for men, the EU averages being 4.7% and 3.6% respectively. The largest gender differences are found in Greece, Italy and Spain, with Greece displaying a disparity of just over 6 percentage points and the other two around 3 percentage points each.

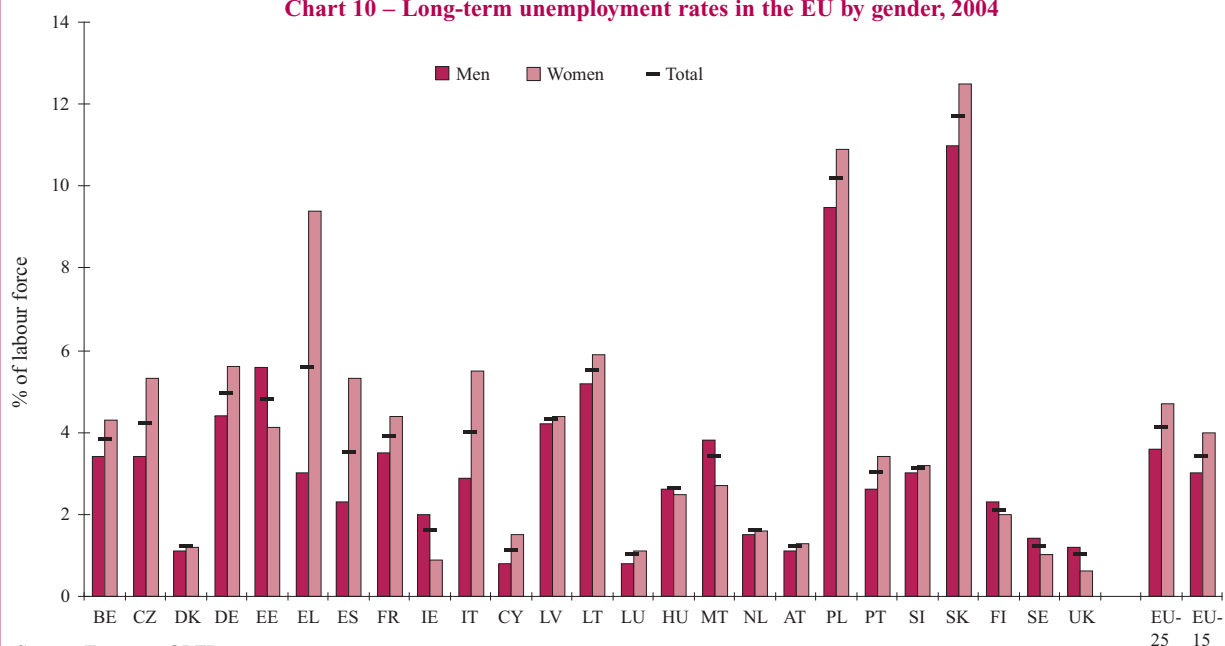
Looking at longer-term developments, just under half the Member States have seen little change in their long-term unemployment rates since 2000

Chart 9 – Youth unemployment rates in the EU by gender, 2004



Source: Eurostat, harmonised series on unemployment.

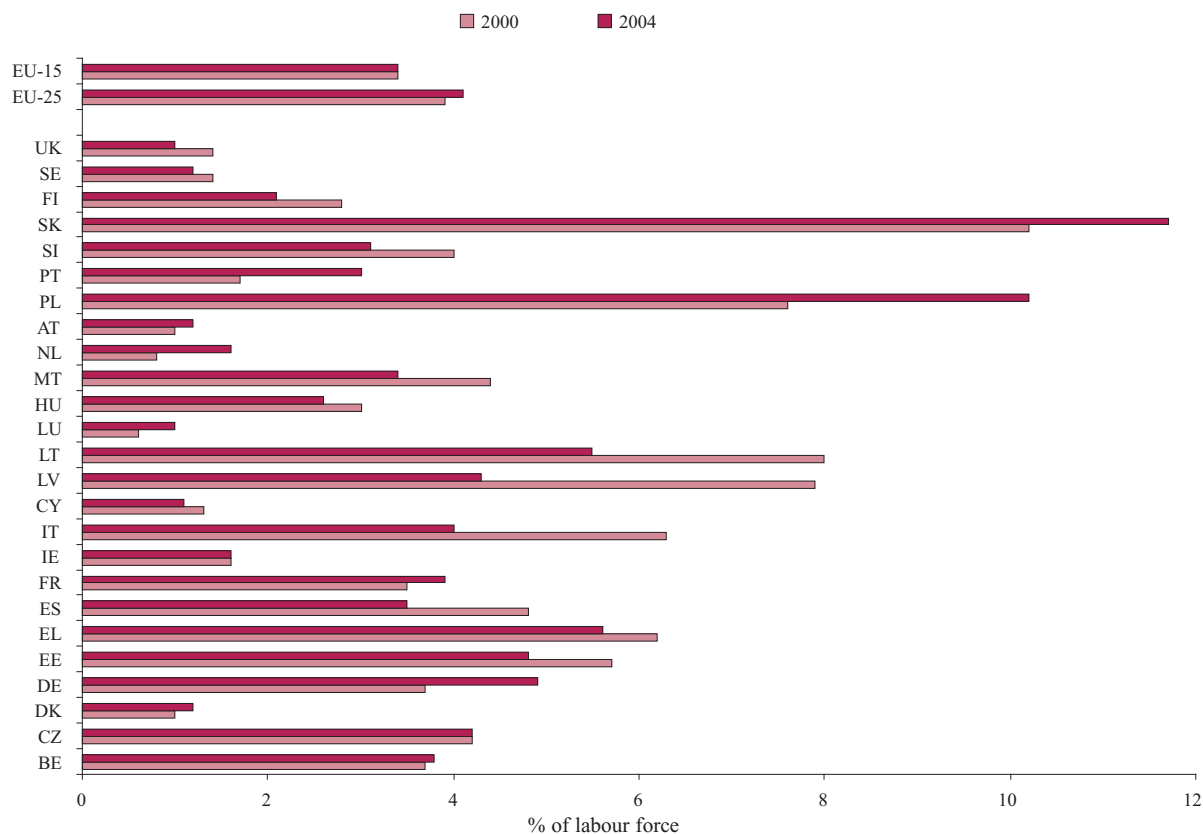
Chart 10 – Long-term unemployment rates in the EU by gender, 2004



Source: Eurostat, QLFD.

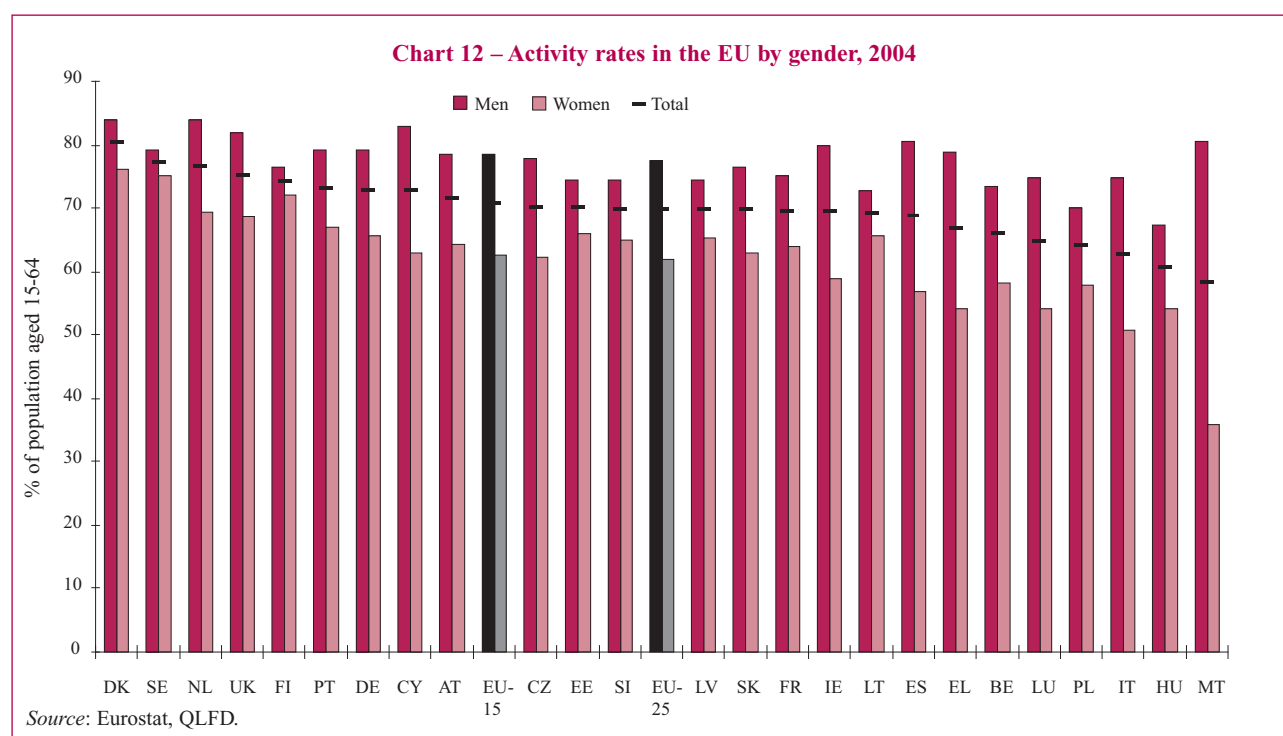
Note: Data for CY refer to 2003; 2004 data for DE provisional (based on spring LFS results).

Chart 11 – Change in long-term unemployment rates between 2000 and 2004



Source: Eurostat, QLFD.

Note: Data for CY refer to 2000 and 2003; 2004 data for DE provisional (based on spring LFS results).



(Chart 11). In particular, in several Member States (Austria, Denmark, Ireland, Cyprus, Luxembourg, Sweden and the UK) rates have stabilised at around the 1% level in recent years. In others rates have declined substantially from relatively high levels in 2000, most noticeably in Estonia, Latvia, Lithuania, Italy and Spain. However, developments in several other Member States have been less positive, in particular in Poland, where the long-term unemployment rate has risen by close to 3 percentage points compared to 2000.

3.2. Activity rates

The overall activity (or participation) rate (i.e. the labour force (both employed and unemployed) aged 15 to 64 as a share of the total population of the same age group) for the EU continued to rise in 2004, increasing by 0.4 percentage points on the previous year to 69.7%. Within the enlarged

EU, the activity rates for the individual Member States ranged from a low of just over 58% in Malta, with Hungary, Italy, Luxembourg and Poland also substantially (5 percentage points or more) below the EU average, to a high, in Denmark, of just over 80%, although the Netherlands, Sweden and the UK also had rates in excess of 75% (Chart 12). Compared to 2003, the strongest increases in activity rates occurred in Belgium, Greece, Italy and Spain, all with rises of 1 percentage point or just over, and Slovenia, where rates rose by almost 3 percentage points. Activity rates declined noticeably (in excess of 0.5 percentage points) only in Austria and Lithuania.

At EU level, the difference between the activity rates for men (77.5%) and women (62.0%) stood at 15.5 percentage points in 2004, noticeably down on the previous year's level of 16.3 percentage points. This reflects an underlying increase in female participation between 2003 and 2004 of 0.8

percentage points compared to a marginal increase of only 0.1 percentage points for men. It also reflects the general trend over recent years in which male activity rates have remained more or less static around 77.5% while those for women have continued to increase, rising by around 4 percentage points since 1997 and driving the overall rise in activity rates over the period (Chart 13). The Member States that have seen the most substantial rises in female participation since 1997 (an increase of more than 7 percentage points) are Greece, Ireland, Italy, Luxembourg, the Netherlands and Spain (Chart 14). Despite these developments, the gender gaps in activity rates remain substantial in most of these Member States. In particular, Greece, Ireland, Italy, Luxembourg and Spain, as well as Cyprus, all have disparities between the activity rates for men and women of 20 to 25 percentage points, while in Malta the gap remains as high as 44 percentage points.

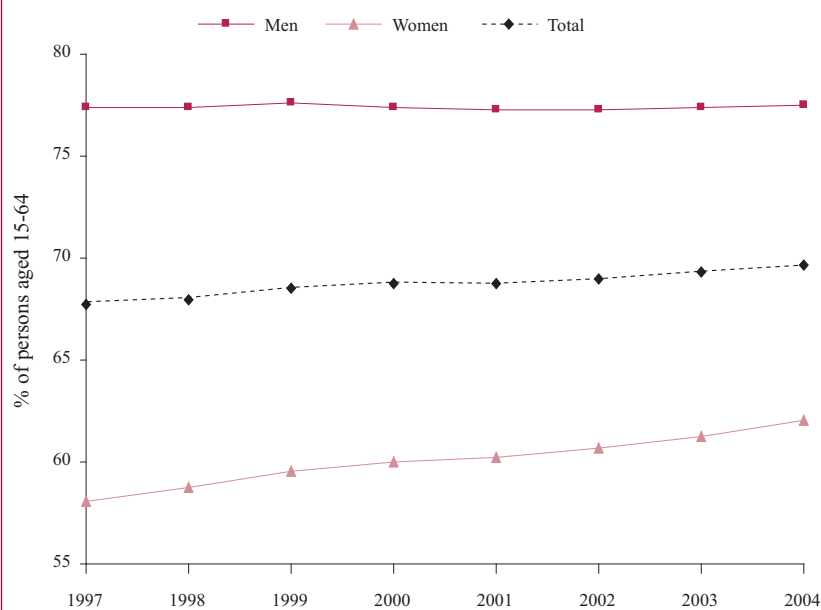
The overall fall in the disparity between male and female participation rates in 2004 at EU level was reflected across the majority of Member States, except, most notably, Cyprus and Malta where the gap

widened by around 1 percentage point compared to 2003. By contrast, in eight Member States the gap closed by around 1 percentage point, and in Italy by just over 2 percentage points. The strongest increases in female par-

ticipation between 2003 and 2004 occurred in Greece, Italy and Spain, with rises of around 2 percentage points, and in Slovenia with 3 percentage points. By contrast female participation declined by around 1 percentage point each in Lithuania and Malta. However, while female activity rates rose in the majority of Member States, developments in male participation rates were again rather more mixed, with around half the Member States experiencing falls, most notably in Austria, Estonia, Lithuania and Luxembourg.

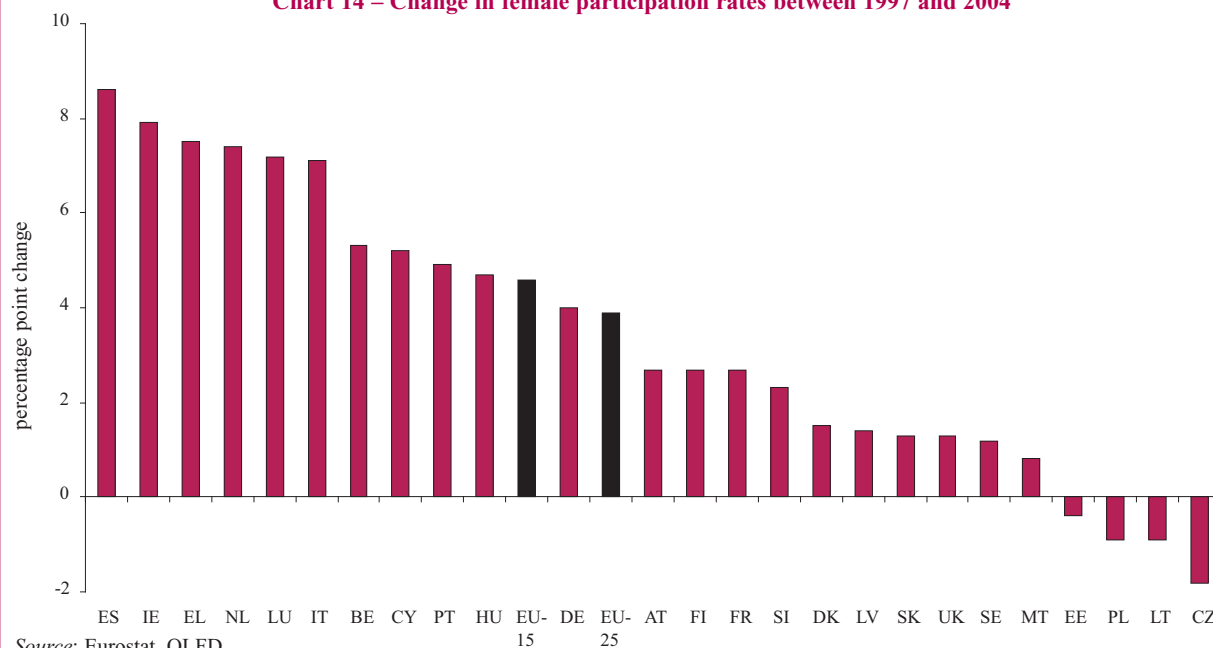
Reflecting the comparatively high proportion of young people (those aged 15 to 24) in full-time education, the average EU activity rate for that age group, at just over 45%, is substantially lower than the overall activity rate, although the disparities between male and female participation rates (6.9 percentage points) are narrower for this group. After the increases of the late 1990s, and in contrast to the general continuing increase in overall activity

Chart 13 – Trends in EU activity rates by gender, 1997-2004



Source: Eurostat, QLFD.

Chart 14 – Change in female participation rates between 1997 and 2004



Source: Eurostat, QLFD.

Note: Data for CZ, EE, LV, LT and SK refer to 1998-2004, and for CY and MT to 2000-2004.

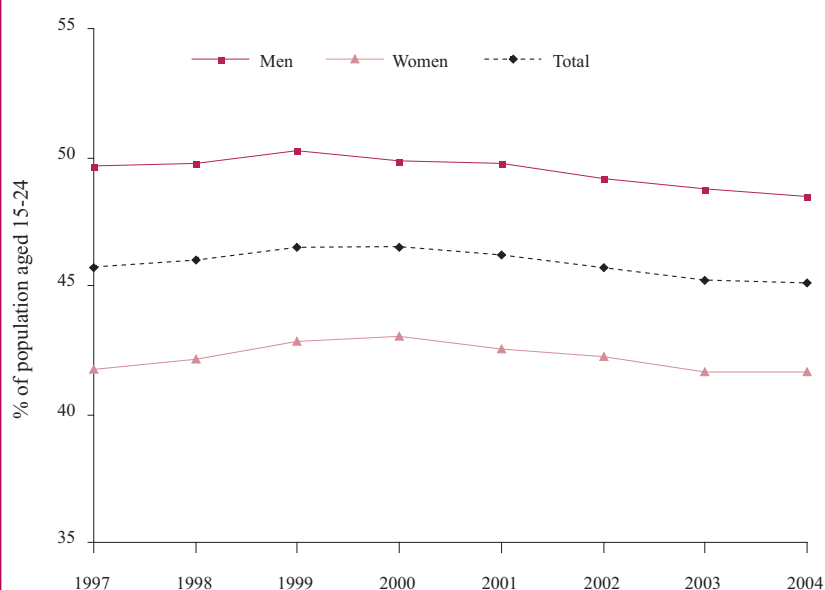
rates, the average youth activity rate has been falling over recent years (since 2000). This trend continued between 2003 and 2004 as the rate declined further to 45.1%, although the decline was marginal and much lower than in 2002 and 2003 (Chart 15). The decline in youth activity since 2000 has been observed across the majority of Member States, with only six (Austria, Belgium, Cyprus, France, Slovenia and Spain) seeing rates rise or remaining stable (Chart 16). In the Czech Republic, Hungary and Lithuania the decline in youth participation over this timeframe has been particularly strong, with the activity rate falling by the order of 10 percentage points in these countries.

Youth participation rates vary quite widely between Member States, from a low of just over 26% in Luxembourg and Lithuania to as high as around 72% in the Netherlands (Chart 17). For almost all Member States, the activity rates for youth are well below the average activity rates

for the working age population as a whole, the only exceptions being Malta and the Netherlands. For Belgium, Cyprus, the Czech Republic, Estonia, France, Hungary, Latvia, Lithuania, Luxembourg, Slovakia

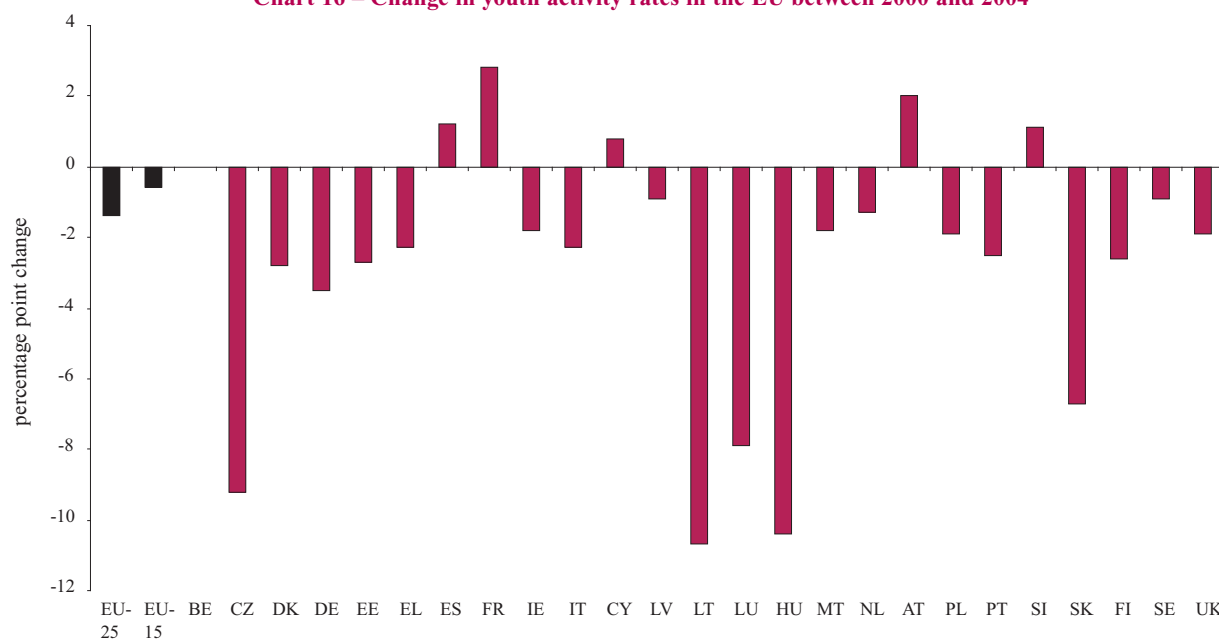
and Sweden, the gaps between the activity rates for youth and those for the working age population as a whole are all 30 percentage points or more.

Chart 15 – Trends in EU youth activity rates by gender, 1997-2004



Source: Eurostat, QLFD.

Chart 16 – Change in youth activity rates in the EU between 2000 and 2004



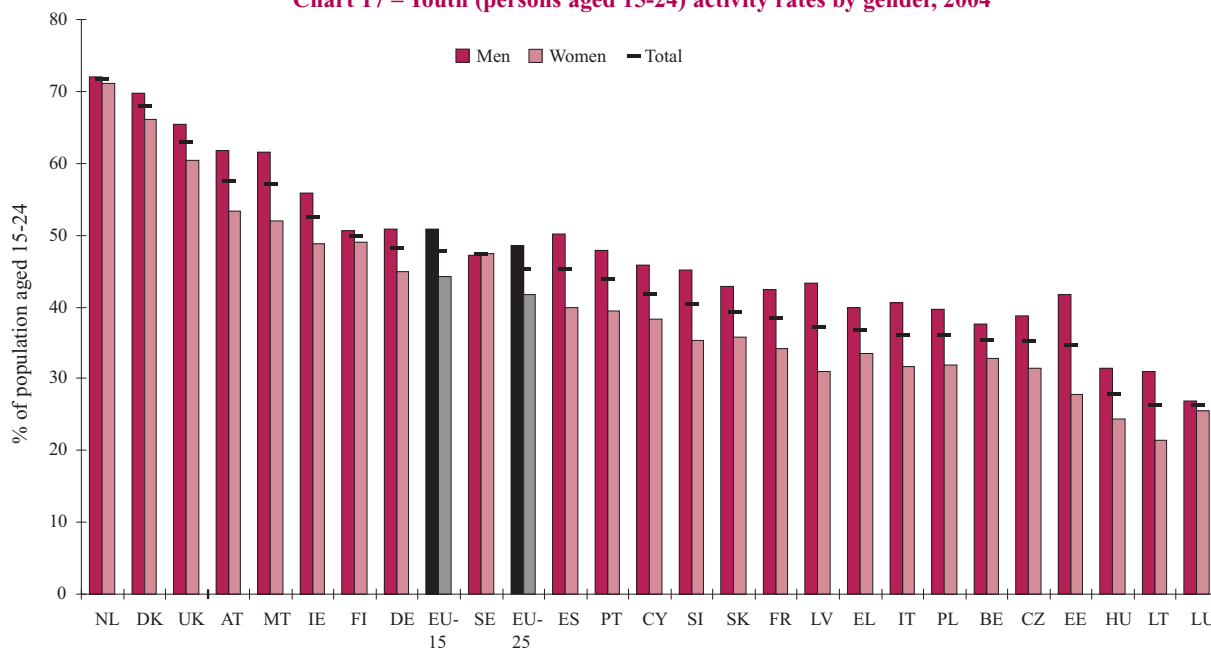
Source: Eurostat, QLFD.

In 2004, the activity rate for older people (aged 55 to 64) averaged 43.9% for the EU as a whole, up 0.8 percentage points on the previous year and suggesting a slight slowdown compared to the rapid rise in participation of older

people observed in 2002 and 2003. Unlike 2003, in 2004 several Member States (Austria, Estonia, Greece, Malta, Poland and Portugal) actually recorded falls in older people's activity rates compared to the previous year,

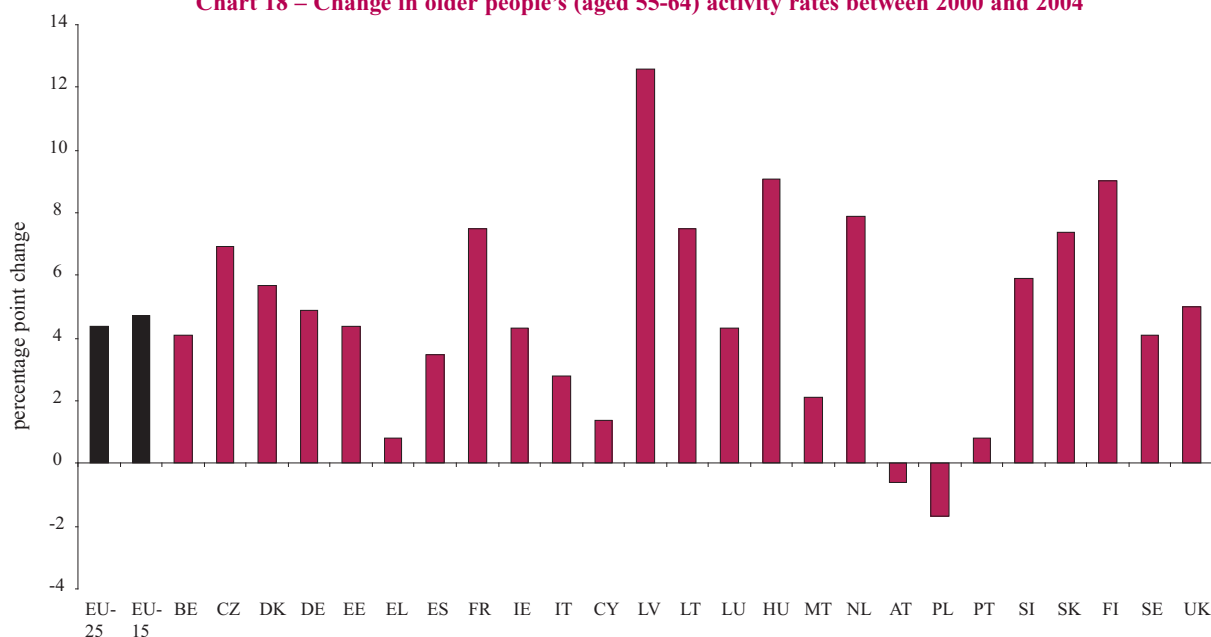
although rates continued to increase for most Member States and particularly strongly in Belgium, Germany, Hungary, Latvia, Lithuania, Slovenia and Slovakia.

Chart 17 – Youth (persons aged 15-24) activity rates by gender, 2004



Source: Eurostat, QLFD.

Chart 18 – Change in older people's (aged 55-64) activity rates between 2000 and 2004



Source: Eurostat, QLFD.

As in the case of youth, activity rates for older people are much lower than those for the working age population as a whole, but in contrast to youth they are generally on the rise. Since 2000, all Member States except Austria and Poland have reported increases in labour force participation by older people, most notably Finland, France, Hungary, Lithuania, the Netherlands and Slovakia, all with increases in activity rates for older people in excess of 7 percentage points, and especially Latvia with a rise of almost 13 percentage points (Chart 18).

Despite the recent broad increases in participation by older people in most Member States, activity rates for the 55-64 age group continue to vary markedly across countries. In 2004 activity rates for this age group were below one third in Austria, Belgium, Hungary, Italy, Luxembourg, Malta, Poland, Slovenia and Slovakia, but over 60% in Denmark and in excess of 70% in Sweden (Chart 19). Of the 25 Member States, only 10 have activity rates for older people above 50%.

In all Member States the activity rates for older women are below those for older men, averaging 34% for women compared to 55% for men at EU level. The activity rates for older women are generally low – in eleven Member States, for example, they are below 30% – and are below 15% in Malta and Slovakia. The low participation rate for older women results in large gender disparities in participation rates for older people, averaging 21 percentage points for the EU as a whole but climbing to over 30 percentage points in Greece, Ireland, Slovakia and Spain and more than 40 percentage points in Cyprus and Malta. Only in Finland and Sweden are the activity rates for older men and women close, with gender gaps of around 1 and 6 percentage points respectively, while Estonia and France are the only other Member States with gaps below 10 percentage points (though in France the activity rates for older men and women are both comparatively low to begin with).

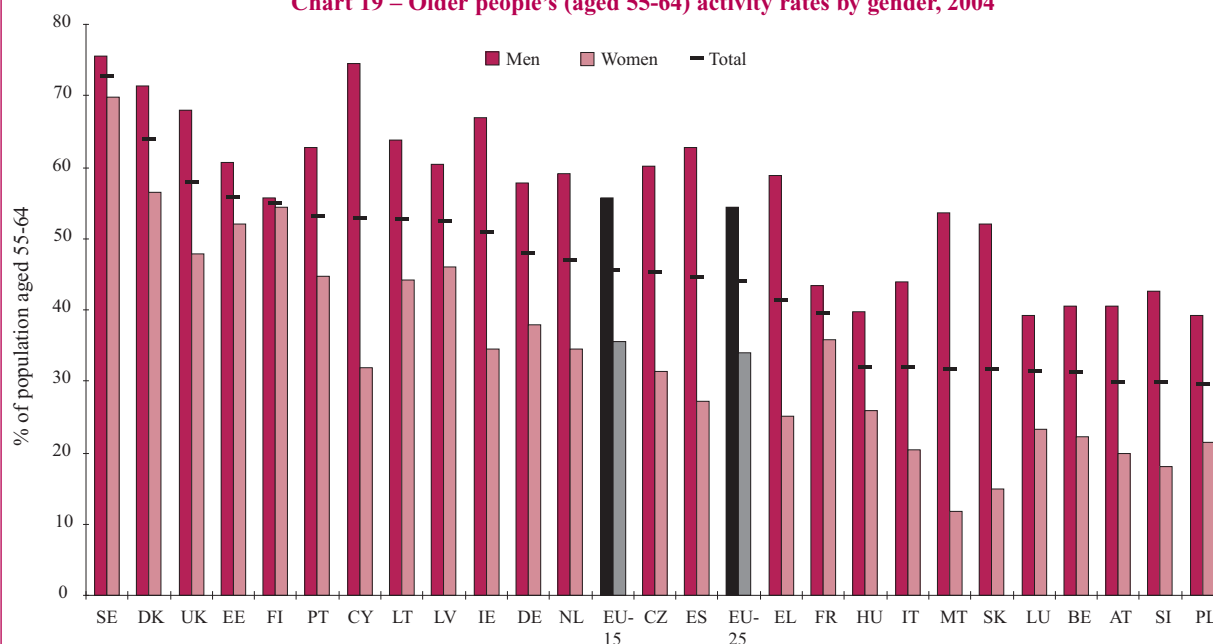
Chapter 5 of this report provides a more detailed assessment of the struc-

ture and trends in the levels of participation in the labour force. It takes a detailed look at the situation and developments concerning the “inactive” population in Europe and provides an analysis of the size and structure of that population, including a detailed analysis of the current situation and trends.

3.3. Employment rates and the Lisbon and Stockholm targets

Between 2003 and 2004, the average employment rate for the EU (defined as the share of employed persons aged 15 to 64 in the total population of the same age group) rose by 0.4 of a percentage point to 63.3%. Although lower than the annual increases observed over the late 1990s, it is similar to the increase in 2000 and 2001, and a clear improvement on 2002 and 2003 when employment rates hardly rose at all. The rise in the overall rate was again driven by the continued increase in the employment rate for women, which rose 0.7 per-

Chart 19 – Older people's (aged 55-64) activity rates by gender, 2004



Source: Eurostat, QLFD.

centage points on average to 55.7%, while the rate for men remained more or less static at 70.9%. For older people (aged 55 to 64) the employment rate rose by 0.8 of a percentage point to 41.0%. While still a significant increase, this was lower than in the previous two years, when rates for older people rose by 1.2 (2002) and 1.5 (2003) percentage points, and could indicate a slowdown in the rapid rise in employment for older people experienced since 2000.

3.3.1. Employment rate developments at Member State level in 2004

In 2004, employment rates within the enlarged EU ranged from as low as around 52% in Poland to close to 76% in Denmark (Chart 20). Despite the overall improvement in the employment rate at EU level, it declined, compared to 2003, in several Member States, most notably in Austria, the Czech Republic, Luxembourg, the Netherlands, Slovakia and Sweden.

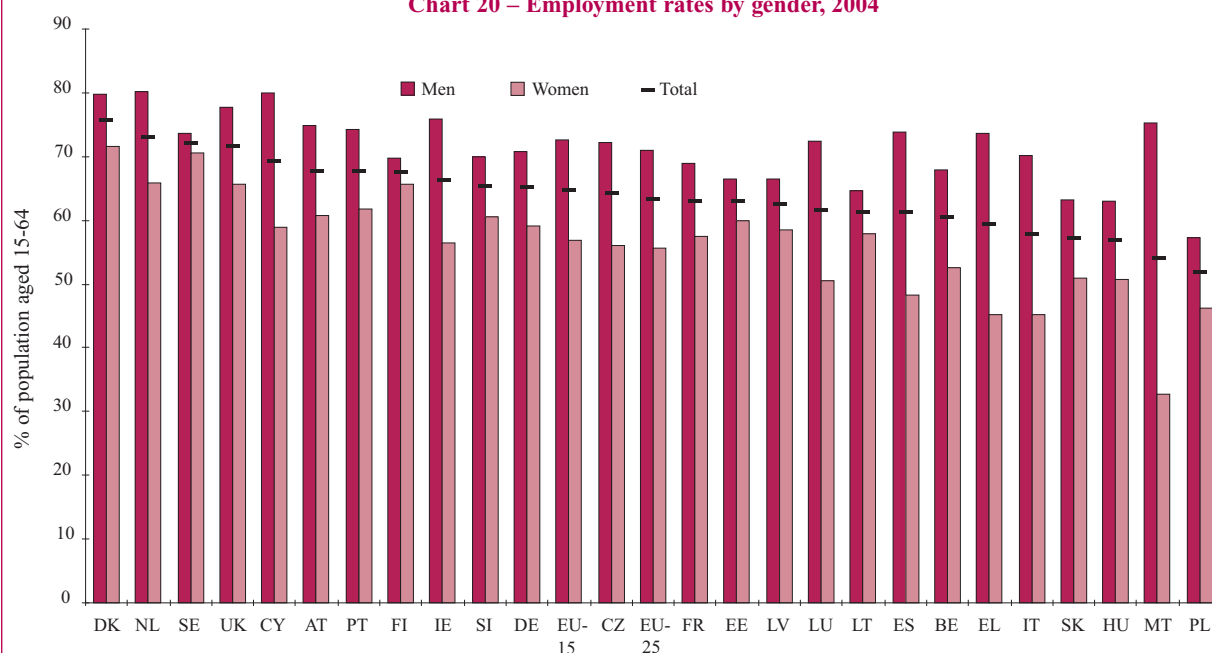
By contrast, employment rates increased by around 1.5 percentage points in Italy and Spain, and by almost 3 percentage points in Slovenia. It is also worth noting that employment rates remained stable in Germany and rose slightly in Poland in 2004, indicating signs of a positive turnaround in their labour markets following several years of decline, while, on the other hand, rate increases essentially ground to a standstill in France and the UK.

Due to the strong rise in the female employment rate while the rate for males remained unchanged, the gender gap in employment rates in the EU narrowed further between 2003 and 2004, falling by 0.6 of a percentage point to 15.2 percentage points. Despite the general reduction in the disparity between male and female employment rates at EU level, large gender differences of around 25 percentage points or more still remain in Greece, Italy and Spain, while in Malta the gap is still around 42 per-

centage points. While the average employment rates in the EU for men and women were 70.9% and 55.7% respectively in 2004, it is interesting to note that male employment rates were 70% or above in sixteen Member States, while female rates were 70% or above in only two (Denmark and Sweden). There remains scope, therefore, in many Member States for increasing female employment rates further.

Notable disparities persist within the EU between the employment rates of different age groups within the working age population. Employment rates are much lower for the youth (15-24) and older persons (55-64) age groups than for the prime working age (25-54) group (Table 4). For youth, the average employment rate for the EU was just under 37% in 2004, ranging from below 25% in Hungary, Lithuania, Luxembourg and Poland to over 60% in Denmark and the Netherlands. In recent years most Member States have witnessed falls in youth employment rates, this trend being most pro-

Chart 20 – Employment rates by gender, 2004



Source: Eurostat, QLFD.

Table 4 – Employment rates by age group, 2004

	Youth (15-24)	Prime working age (25-54)	Older people (55-64)
BE	27.8	77.3	30.0
CZ	27.8	81.4	42.7
DK	62.3	83.7	60.3
DE	41.9	78.1	41.8
EE	27.2	78.8	52.4
EL	26.8	73.5	39.4
ES	35.2	72.7	41.3
FR	30.4	79.6	37.3
IE	47.7	76.8	49.5
IT	27.6	72.2	30.5
CY	37.3	82.7	50.1
LV	30.5	77.9	47.9
LT	20.3	79.4	47.1
LU	21.4	78.7	30.8
HU	23.6	73.6	31.1
MT	47.7	61.8	30.9
NL	65.9	82.5	45.2
AT	51.9	82.6	28.8
PL	21.7	68.2	26.2
PT	37.1	81.1	50.3
SI	33.8	83.8	29.0
SK	26.3	74.7	26.8
FI	39.4	81.0	50.9
SE	39.2	82.9	69.1
UK	55.4	80.8	56.2
EU-15	40.0	77.6	42.5
EU-25	36.8	76.8	41.0

Source: Eurostat, QLFD.

nounced in the Czech Republic, Hungary and Luxembourg where rates have dropped by the order of 10 percentage points since 2000, reflecting, for the most part, similar falls in the level of youth labour market participation. For older people, the employment rate for the EU averaged 41.0% in 2004, while at individual Member State level rates ranged from 26% in Poland to 69% in Sweden. In contrast to the employment rates for youth, those for older people have risen substantially in the EU since 2000 and this trend continued with rates improving in a large majority of Member States between 2003 and 2004.

3.3.2. Progress in relation to the Lisbon and Stockholm targets

Given the developments outlined above, the overall, female and older people's employment rates remain some 7, 4 and 9 percentage points below the respective Lisbon and Stockholm employment targets for 2010 (Box 1). It should also be noted that the 2004 female employment rate, and in particular the 2004 overall employment rate, remain far away from the intermediate employment targets (for 2005).

Regarding the position of individual Member States with respect to the collective EU targets for 2010 (Table 5):

Table 5 – Employment rates in EU Member States in 2004 and progress towards the Lisbon and Stockholm targets for 2010												
Total employment rate					Female employment rate				Older people's employment rate			
	2004	Change 2003-2004	Change 2000-2004	Gap below 2010 target	2004	Change 2003-2004	Change 2000-2004	Gap below 2010 target	2004	Change 2003-2004	Change 2000-2004	Gap below 2010 target
BE	60.3	0.7	-0.2	9.7	52.6	0.8	1.1	7.4	30.0	1.9	3.7	20.0
CZ	64.2	-0.5	-0.8	5.8	56.0	-0.3	-0.9	4.0	42.7	0.4	6.4	7.3
DK	75.7	0.6	-0.6	>	71.6	1.1	0.0	>	60.3	0.1	4.6	>
DE	65.0	0.0	-0.6	5.0	59.2	0.3	1.1	0.8	41.8	1.9	4.2	8.2
EE	63.0	0.1	2.6	7.0	60.0	1.0	3.1	>	52.4	0.1	6.1	>
EL	59.4	0.7	2.9	10.6	45.2	0.9	3.5	14.8	39.4	-1.9	0.4	10.6
ES	61.1	1.3	4.8	8.9	48.3	2.0	7.0	11.7	41.3	0.6	4.3	8.7
FR	63.1	-0.1	1.0	6.9	57.4	0.2	2.2	2.6	37.3	0.5	7.4	12.7
IE	66.3	0.8	1.1	3.7	56.5	0.8	2.6	3.5	49.5	0.5	4.2	0.5
IT	57.6	1.5	3.9	12.4	45.2	2.5	5.6	14.8	30.5	0.2	2.8	19.5
CY	69.1	-0.1	3.4	0.9	59.0	-1.4	5.5	1.0	50.1	-0.3	0.7	>
LV	62.3	0.5	4.8	7.7	58.5	0.6	4.7	1.5	47.9	3.8	11.9	2.1
LT	61.2	0.1	2.1	8.8	57.8	-0.6	0.1	2.2	47.1	2.4	6.7	2.9
LU	61.6	-1.1	-1.1	8.4	50.6	-1.4	0.5	9.4	30.8	0.8	4.1	19.2
HU	56.8	-0.2	0.5	13.2	50.7	-0.2	1.0	9.3	31.1	2.2	8.9	18.9
MT	54.1	-0.1	-0.1	15.9	32.8	-0.8	-0.3	27.2	30.9	-1.6	2.4	19.1
NL	73.1	-0.5	0.2	>	65.8	-0.2	2.3	>	45.2	0.9	7.0	4.8
AT	67.8	-1.2	-0.7	2.2	60.7	-1.0	1.1	>	28.8	-1.3	0.0	21.2
PL	51.7	0.5	-3.3	18.3	46.2	0.2	-2.7	13.8	26.2	-0.7	-2.2	23.8
PT	67.8	-0.3	-0.6	2.2	61.7	0.3	1.2	>	50.3	-1.3	-0.4	>
SI	65.3	2.7	2.5	4.7	60.5	2.9	2.1	>	29.0	5.5	6.3	21.0
SK	57.0	-0.7	0.2	13.0	50.9	-1.3	-0.6	9.1	26.8	2.2	5.5	23.2
FI	67.6	-0.1	0.4	2.4	65.6	-0.1	1.4	>	50.9	1.3	9.3	>
SE	72.1	-0.8	-0.9	>	70.5	-1.0	-0.4	>	69.1	0.5	4.2	>
UK	71.6	0.1	0.4	>	65.6	0.3	0.9	>	56.2	0.8	5.5	>
EU-15	64.7	0.4	1.3	5.3	56.8	0.8	2.7	3.2	42.5	0.8	4.7	7.5
EU-25	63.3	0.4	0.9	6.7	55.7	0.7	2.1	4.3	41.0	0.8	4.4	9.0
2010 target		70%				More than 60%				50%		

Source: Eurostat, QLFD.

Note: The column "Gap below 2010 target" is for illustrative purposes only, since the 2010 target is a collective target for the EU and not individual Member States. The symbol ">" indicates that the respective target has already been exceeded by the Member States concerned.

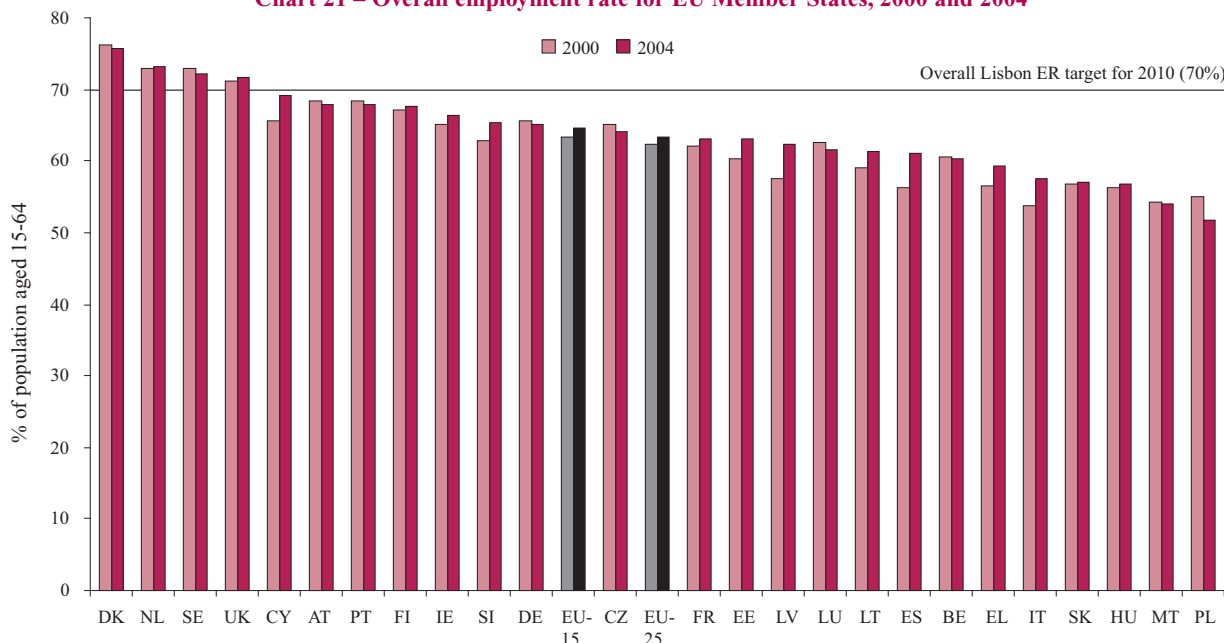
- Only four (Denmark, the Netherlands, Sweden and the UK) already meet the 70% overall employment rate target, while seven others (Austria, Cyprus, Finland, Germany, Ireland, Portugal and Slovenia) are presently within 5 percentage points (Chart 21). However, the gap remains over 10 percentage points in six countries, including the large Member States of Italy and Poland which are currently around 12 and 18 percentage points respectively below the EU target. Since the launch of the Lisbon
- Strategy the greatest improvements in the overall employment rate have taken place in Italy, Latvia and Spain where rates have risen by around 4 to 5 percentage points. However, rates have also declined in several Member States, most notably in Poland where the rate has fallen by over 3 percentage points since 2000.
- Nine Member States already meet the 2010 employment rate target for women, and seven others are within 5 percentage points (Chart 22).
- Seven Member States already meet the employment rate target for older people, but only four others are within 5 percentage points of it

Box 1 – Lisbon and Stockholm employment rate targets

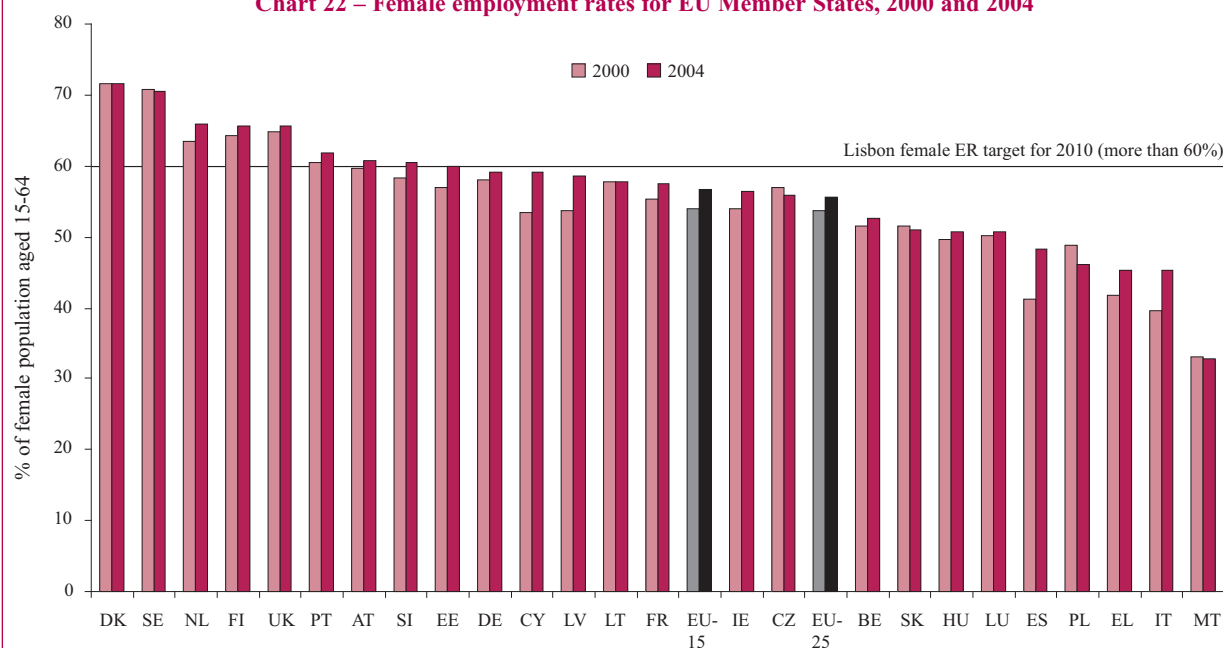
The Lisbon European Council of 2000 set a strategic goal, over the decade 2000-2010, for the EU “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”. It specifically stated that the overall aim of employment and economic policies should be to raise the employment rate to as close as possible to 70% by 2010 and to increase the employment rate for women to more than 60% by the same year, not least in order to reinforce the sustainability of social protection systems.

In addition to the 2010 Lisbon targets, the Stockholm European Council of 2001 set intermediate targets for employment rates in the EU in 2005 of 67% overall and 57% for women. It also set a new target of raising the average EU employment rate for older men and women (aged 55 to 64) to 50% by 2010.

Chart 21 – Overall employment rate for EU Member States, 2000 and 2004



Source: Eurostat, QLFD.

Chart 22 – Female employment rates for EU Member States, 2000 and 2004


Source: Eurostat, QLFD.

Chart 23 – Older people's employment rates for EU Member States, 2000 and 2004


Source: Eurostat, QLFD.

(Chart 23). Indeed, substantial gaps remain for many Member States, being of the order of 20 percentage points or more in nine cases (Austria, Belgium, Hungary, Italy, Luxembourg, Malta, Poland,

Slovenia and Slovakia). Nevertheless, substantial progress has been made towards the target in several Member States since 2000. In particular, eleven have achieved increases of over 5 percentage

points, with especially strong rises in Finland, Hungary and Latvia. Only Austria, Poland and Portugal have not experienced rises in rates since 2000, with only the last two seeing rates actually decline.

Box 2 – Relaunching of the Lisbon Strategy and the new integrated guidelines

In March 2005, five years after the launch of the Lisbon Strategy, the European Council reviewed the progress to date and, in view of the mixed results, concluded that urgent action was called for. On the basis of the European Commission's Communication "Working together for growth and jobs – A new start for the Lisbon Strategy"² it decided to relaunch the Lisbon Strategy without delay and refocus priorities on growth and employment. Following this decision, in April 2005 the European Commission adopted a new 3-year "Integrated Guidelines Package"³ for the period 2005 to 2008, designed to spur growth and jobs in Europe. Recommending concrete priority actions, it lays out a comprehensive strategy of macroeconomic, microeconomic and employment policies to redress Europe's weak growth performance and insufficient job creation. The new integrated guidelines bring simpler, more focused EU economic governance by reducing the number of guidelines and by concentrating on core measures to create growth and jobs.

On the basis of the guidelines, Member States will draw up 3-year national reform programmes and will report each autumn on the reform programmes in a single national Lisbon report. The Commission will analyse and summarise these reports in an EU annual progress report in January each year. On the basis of the progress report, the Commission will propose amendments to the integrated guidelines, if necessary. The new integrated guidelines underline that Member States and the EU should take every opportunity to involve regional and local governments, social partners and civil society in the implementation of the guidelines. They

should give details of the progress made in this area in the Lisbon reporting framework.

In addition to guidelines on macroeconomic and microeconomic policies for growth and jobs - which cover such issues as securing economic stability, safeguarding economic sustainability, promoting economic efficiency, making Europe a more attractive place to invest and work, and spurring knowledge and innovation for growth - a key component of the integrated guidelines are the new employment guidelines for more and better jobs.

New employment guidelines for more and better jobs

The Commission's proposal on the guidelines for the Member States' employment policies reflects the renewed focus on jobs under the relaunched Lisbon Strategy. The new employment guidelines, which were adopted by the Council in July 2005 and are to run from 2005 to 2008, continue to reflect the EU's overall goal of achieving full employment, quality and productivity at work, and social and territorial cohesion. They specifically mention, for the first time, the need to modernise social protection systems.

The proposal's three broad headings for action reflect the key recommendations of the Employment Taskforce⁴ set up in 2003 under the chairmanship of Wim Kok:

- *Attract and retain more people in employment, increase labour supply and modernise social protection systems;*

- *Improve adaptability of workers and enterprises;*

- *Increase investment in human capital through better education and skills.*

The new set of eight Employment Guidelines advocate a "lifecycle approach to work" that tackles the problems faced by all age groups. They address the need to:

- Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion;

- Promote a lifecycle approach to work;

- Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive;

- Improve matching of labour market needs;

- Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of social partners;

- Ensure employment-friendly labour cost developments and wage-setting mechanisms;

- Expand and improve investment in human capital;

- Adapt education and training systems in response to new skill requirements.

To raise the average employment rate in the EU to 70% by the end of 2010 seems increasingly challenging. Taking into account the latest demographic projections published by Eurostat, it is estimated that employment of the working age population would need to

increase by around 23 million in order to attain this target. Similarly, to meet the employment rate targets for women and older workers, increases in employment of around 7.5 million in each of these population subgroups would be necessary. In response to the mixed

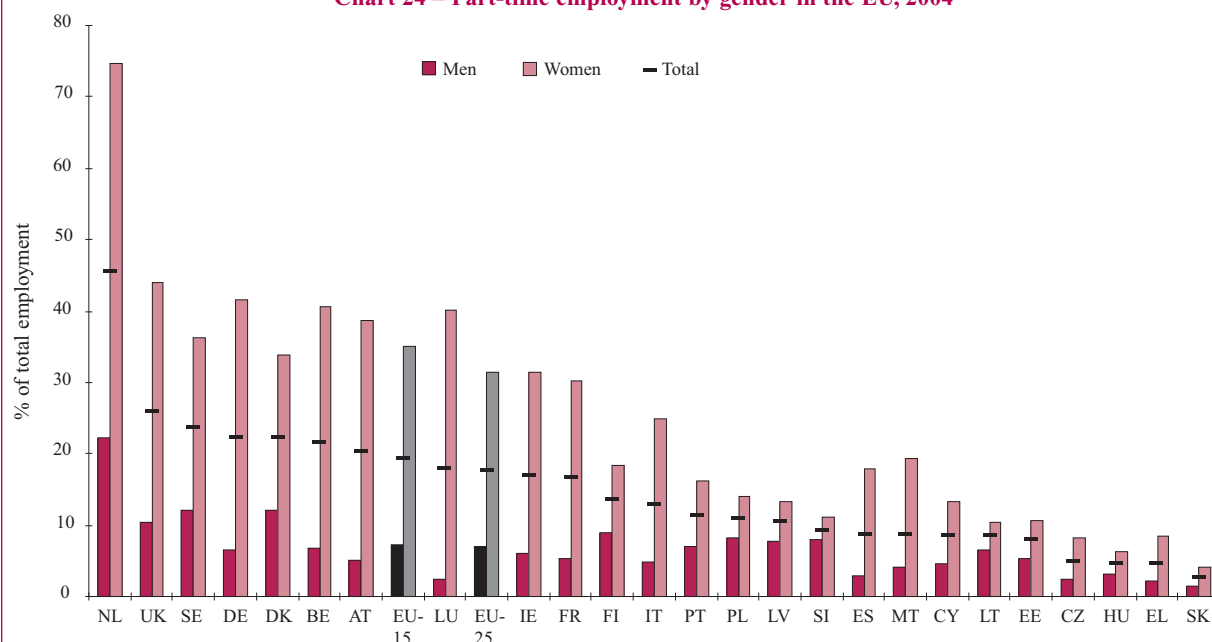
results achieved so far since the launch of the Lisbon Strategy and the increasing challenge posed by the 2010 targets, the European Council recently agreed to relaunch the strategy without delay and refocus priorities on economic growth and employment (Box 2).

2 Communication to the Spring European Council: *Working together for growth and jobs: A new start for the Lisbon Strategy*, COM (2005) 24.

3 *Integrated guidelines for growth and jobs (2005-2008)*, COM (2005) 141.

4 *Jobs, Jobs, Jobs – Creating more employment in Europe*, report of the Employment Taskforce chaired by Wim Kok, November 2003.

Chart 24 – Part-time employment by gender in the EU, 2004



Source: Eurostat, QLFD.

As part of this response, in 2005 a proposal for a set of new integrated guidelines was adopted by the Commission and later by the Council with the aim of spurring growth and job creation.

3.4. Recent employment trends according to type of employment

3.4.1. Part-time employment

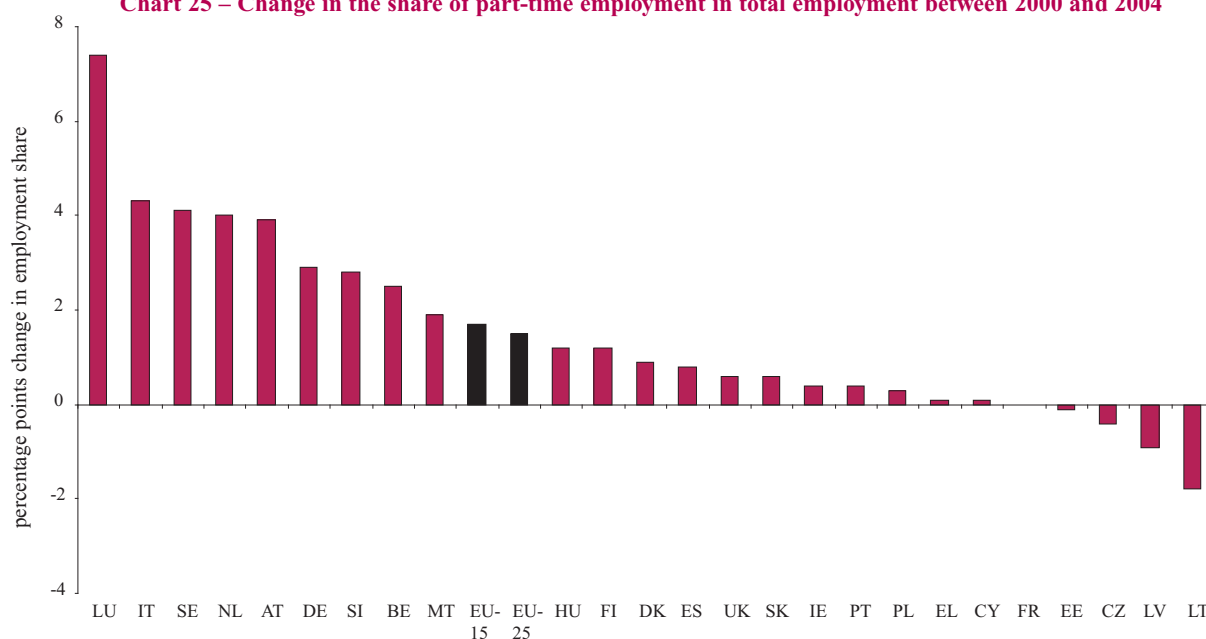
In 2004, the share of people in part-time employment in the EU relative to total employment amounted to just under 18%. The increase of 0.7 of a percentage point compared to the year before was much higher than in other recent years, and marks a continuation in the rising trend in the prevalence of this type of employment. Particularly strong rises in part-time employment occurred in Luxembourg and Slovenia, although in most of the new Member States the shares of part-time employment actually either declined or remained relatively stable.

Within the EU, the Netherlands clearly stands out as the Member State with the highest incidence of part-time employment, where it accounts for almost 46% of total employment (Chart 24). This is essentially due to the fact that three-quarters of female employment in that country is part-time. Indeed, part-time working remains predominantly a feature of female employment, with almost one-third of women in employment in the EU having a part-time job compared to only 7% for men. However, in the new Member States (other than Cyprus and Malta), the gender difference in part-time working is much less marked, although it is also the case that within these Member States the overall share of part-time employment remains relatively low. Indeed, the proportion working part-time is below 5% in the Czech Republic, Hungary and Slovakia (and is also the case in Greece), and among the new Member States the highest share is that in Poland at only around 11%. This compares with shares in excess of 20% in Austria, Belgium,

Denmark, Germany, Sweden and the UK, the Member States where, apart from the Netherlands, part-time employment is most common.

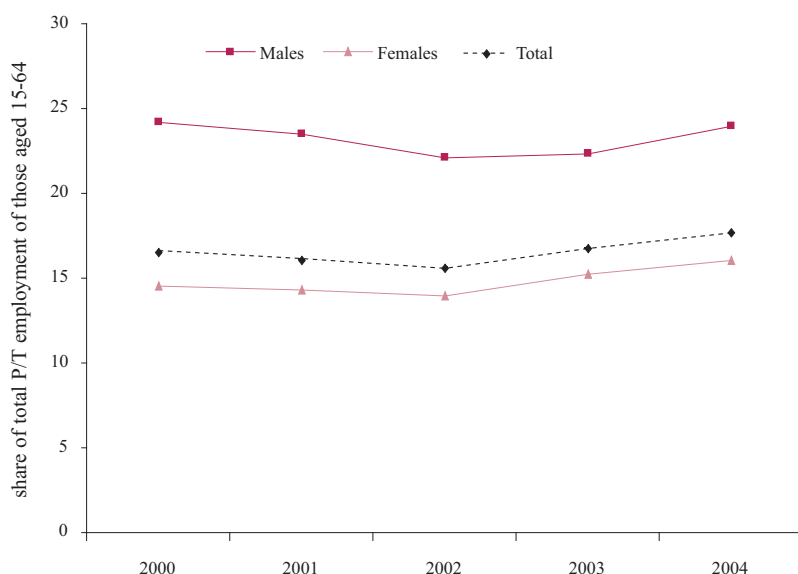
Looking at slightly longer-term developments, the vast majority of Member States have witnessed increases in the share of part-time employment since 2000, the only exceptions being the Czech Republic, Estonia, Latvia and Lithuania, where shares have fallen, and France, where the share has remained unchanged (Chart 25). Austria, the Netherlands and Sweden are among the Member States reporting the greatest increases since 2000, with shares rising by around 4 percentage points, while in Luxembourg the share has risen by more than 7 percentage points.

While the share of part-time employment has risen in recent years, there are indications that the proportion in such employment involuntarily is also increasing (i.e. a rising share declare that they work part-time because they are unable to find full-time work). At EU level the share of involuntary part-

Chart 25 – Change in the share of part-time employment in total employment between 2000 and 2004

Source: Eurostat, QLFD.

Note: Break in series for AT and IT in 2004.

Chart 26 – Involuntary part-time employment (as a % of total part-time employment for the working age population) by gender in the EU-25, 2004

Source: Eurostat, LFS spring results.

time employment (which accounted for around one sixth of people in part-time employment in 2004) has been rising since 2002, reflecting in particular strong increases in involuntary part-time employment in the Czech Republic, France and Germany.

While, in general, males are more likely to be in part-time employment involuntarily than females, recent rises in the share of involuntary part-time employment have been observed for both sexes (Chart 26).

3.4.2. Fixed-term employment

In 2004, the share of total employees within the EU on contracts of fixed duration was 13.7%, ranging from 32.5% in Spain to below 5% in Estonia, Ireland, Luxembourg and Malta (Chart 27). In general, fixed-term employment does not display the same large gender differences as part-time employment, with the average share for the EU being 14.3% for women compared to 13.2% for men. Nevertheless the difference is substantial in some Member States such as Belgium, Italy and Spain, where the share of fixed-term employment for women is around 5 percentage points higher than that for men, and Finland and Cyprus where the gap is around 7 and 9 percentage points respectively. By contrast, in many of the new Member States from central and eastern Europe, as well as Austria and Germany, larger shares of men were employed on a fixed-term basis than women in 2004.

2004 saw a noticeable rise in the share of employees on fixed-term contracts. After remaining static at around

13.0% for the previous three years the share increased by 0.7 of a percentage point in 2004. This was mainly driven by developments in Greece, Italy, Luxembourg, Poland and Spain, and also Slovenia where the share rose by close to 4 percentage points.

Taking a slightly longer perspective, the share of fixed-term employment has increased by only around 1 percentage point since 2000, although developments have been more pronounced in certain Member States. In particular, in Poland the share of

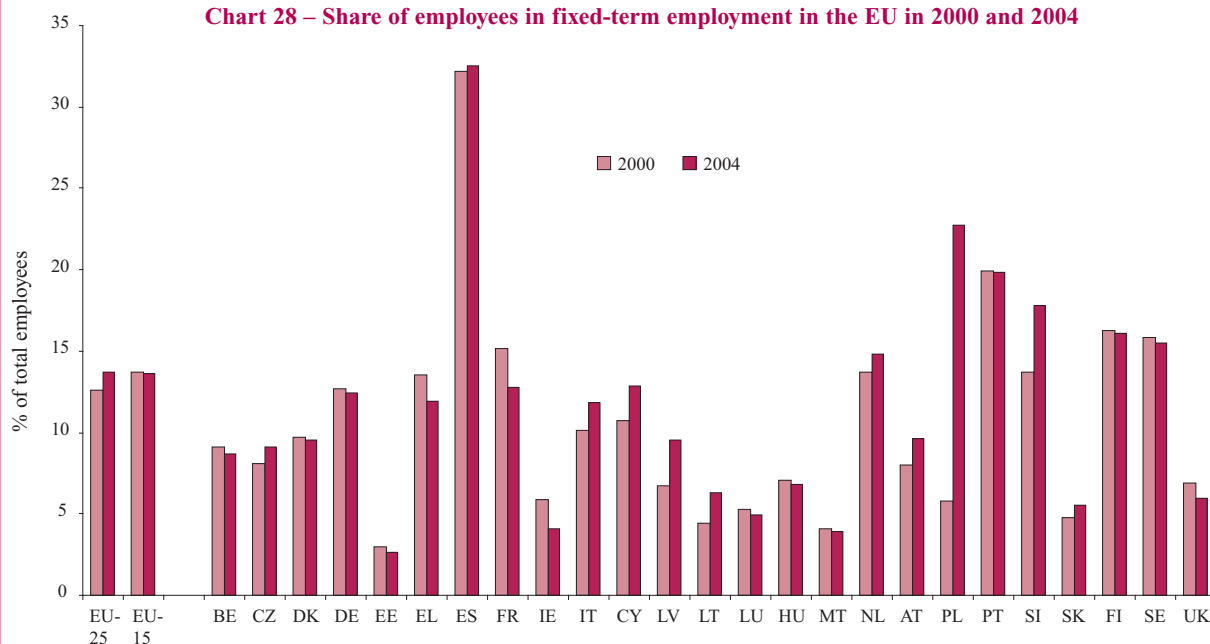
employees on fixed-term contracts has risen sharply from around 6% to 23% over this period, a much larger change than in any other Member State. While increases in the share of fixed-term employment since 2000 have mainly occurred in the new Member States

Chart 27 – Fixed-term employment by gender in the EU, 2004



Source: Eurostat, QLFD.

Chart 28 – Share of employees in fixed-term employment in the EU in 2000 and 2004



Source: Eurostat, QLFD.

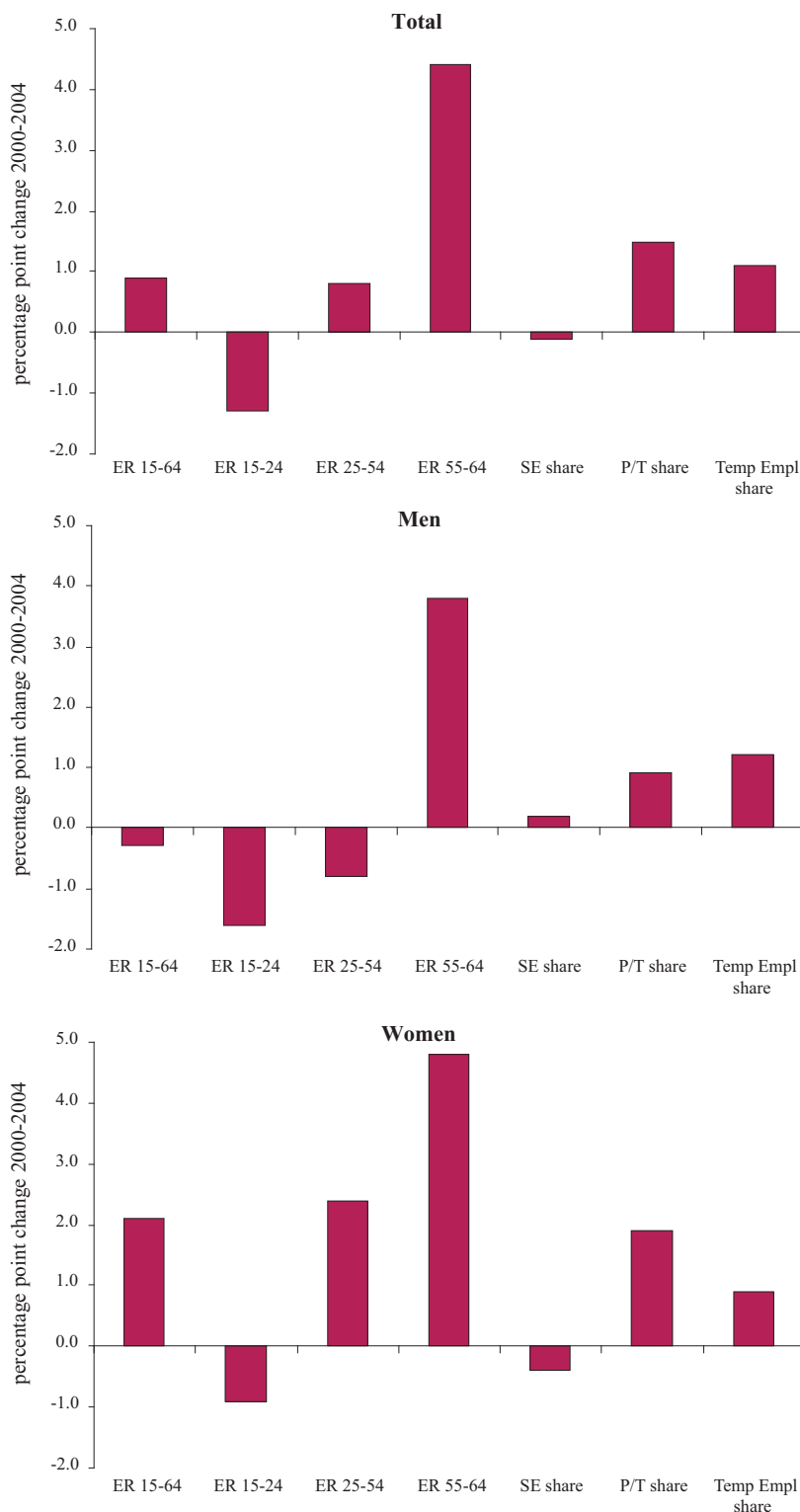
Note: Break in series for AT and IT in 2004.

(with some exceptions), shares have also risen appreciably in some of the old Member States, for instance the Netherlands (Chart 28).

3.5. Detailed employment trends between 2000 and 2004 in the EU and the larger Member States

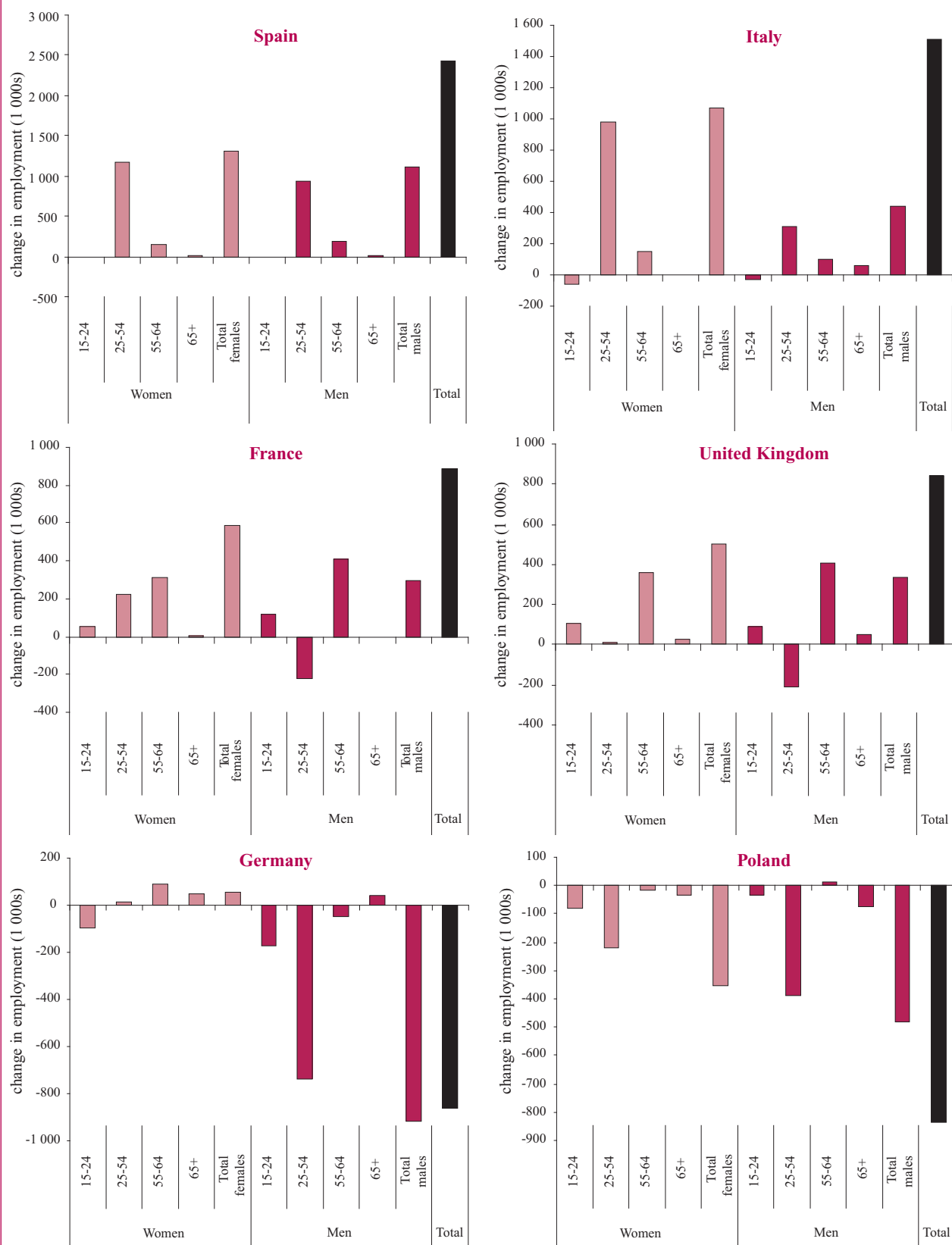
The key employment trends in the EU between 2000 and 2004 (Chart 29) can be summarised as follows. In terms of employment rates, the overall figure for the working age population has risen by only 0.9 of a percentage point over this period, consisting of a 2.1 percentage points rise for women as opposed to a decline of 0.3 percentage points for men. Underlying this overall trend there have been significant differences in developments for different age groups. For youth the employment rate has fallen by 1.3 percentage points, the decline affecting young men more than young women. By contrast, the overall rate for those of prime working age has risen by 0.8 percentage points, driven by a 2.4 percentage points rise for women, against a fall of 0.8 percentage points for men. Rates for older people aged 55 to 64 of both sexes have risen markedly since 2000, leading to an overall increase of 4.4 percentage points for this age group. In terms of different types of employment, the share of self-employment in total employment has remained essentially unchanged since 2000. By contrast, shares of part-time employment and fixed-term employment have both risen, by 1.5 percentage points and 1.1 percentage points respectively, the former mainly driven by employment developments for women and the latter by those for men.

Chart 29 – Changes in employment rates, in shares of self-employment and part-time employment in total employment, and in shares of employees in fixed-duration employment between 2000 and 2004



Source: Eurostat, QLFD.

Chart 30 – Change in employment in the large EU Member States between 2000 and 2004, by sex and age group



Source: Eurostat, LFS, spring results.
Note: Break in series for IT in 2004.

A particular feature of employment growth post-2000 is that older people aged 55 to 64 account for the majority of the more than 5 million increase in total employment (by main employment, resident concept⁵) between 2000 and 2004. For this age group employment rose by 3.2 million, compared to 2.7 million for those of prime working age and a fall of 0.7 million for youth.

The Member States which have been the main drivers for the increase in the overall level of employment within the EU between 2000 and 2004 are Italy and Spain, where employment rose by 1.5 million and 2.4 million respectively (by main employment, resident concept), although France and the UK have also seen employment increases in the order of 0.8 to 0.9 million over this period. This contrasts with falls in employment of 0.8 to 0.9 million each in Germany and Poland over the same period.

Examination of the characteristics of the change in employment within these individual Member States reveals very different patterns in terms of employment developments across gender and different age groups (Chart 30). In Italy and Spain the rise in employment has been driven almost entirely by increased employment of people in the prime working age group. In Spain the increase in employment has been quite evenly spread between men and women, but in Italy it has been the rise in employment of females of prime working age that has dominated the overall rise in employment. In France and the UK employment expansion has mainly come about

through growth in employment of the 55-64 age group, with increases in this age group larger for men than for women, although overall (i.e. across all age groups combined) women have seen the largest rise in employment. In both these Member States, employment of men in the prime working age group declined while that for women rose, this being especially the case in France. In Germany and Poland, the two large Member States where overall employment has contracted since 2000, it is men of prime working age that account for most of the fall in employment. Furthermore, the 55-64 age group has been the least affected by the overall decline in employment, with little change in employment in this age group in Poland for both sexes, while in Germany employment has increased for older women but declined slightly for older men. For youth, employment has declined in both these Member States, with the decline stronger for young men in Germany, but for young women in Poland.

4. Sectoral employment structure and trends

4.1. Sectoral employment structure in the EU in 2004

At EU level, the overall sectoral employment structure⁶ in 2004 consisted of a dominant services sector (accounting for 67.1% of total employment), a still sizeable industry sector (27.9% of employment) and a relatively small share of employment

in the agricultural sector (5%). However, at the level of individual Member States there are substantial variations in the relative shares of employment in these broad sectors (Table 6 and Chart 31). For example, in Poland and Slovenia the services sector accounts for less than 55% of total main employment, compared to over 75% in Luxembourg, the Netherlands, Sweden and the UK. Industry's share of employment varies from around 20% in Luxembourg and the Netherlands to just below 40% in the Czech Republic and Slovakia. Agriculture's share in 2004 ranged from as low as 1.3% in the UK to close to 18% in Poland.

4.2. Sectoral employment trends in 2004

Between 2003 and 2004 employment growth in the EU was again driven by the continued expansion of employment in the services sector (Chart 32). Over 2004 the rate of growth in this sector remained stable at just above 1%, an increase on the rates in the previous year. By contrast, employment in both agriculture and industry continued to contract in 2004, although the recent trend suggests that the contraction in industry may be coming to an end. Employment growth in agriculture remained around the -1% level over the course of 2004, while in industry growth shifted from around -1% in the first quarter to zero (i.e. no change) in the last quarter of 2004.

Focusing on sectoral employment developments in the four largest

5 All persons employed who are resident in the country (also known as "national concept").

6 By main employment and resident concept.

Chart 31 – Comparative employment structure (by main employment) of the EU Member States by main sector, 2004

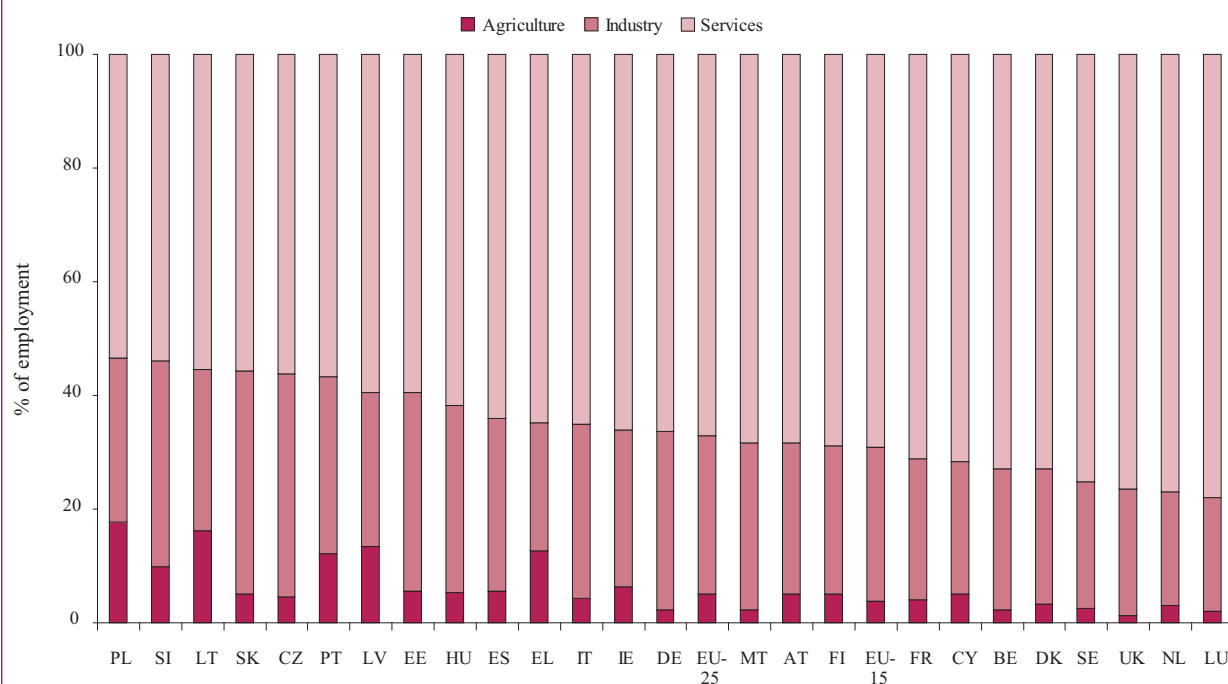


Chart 32 – Employment growth in the EU by main sector, 2000-2004

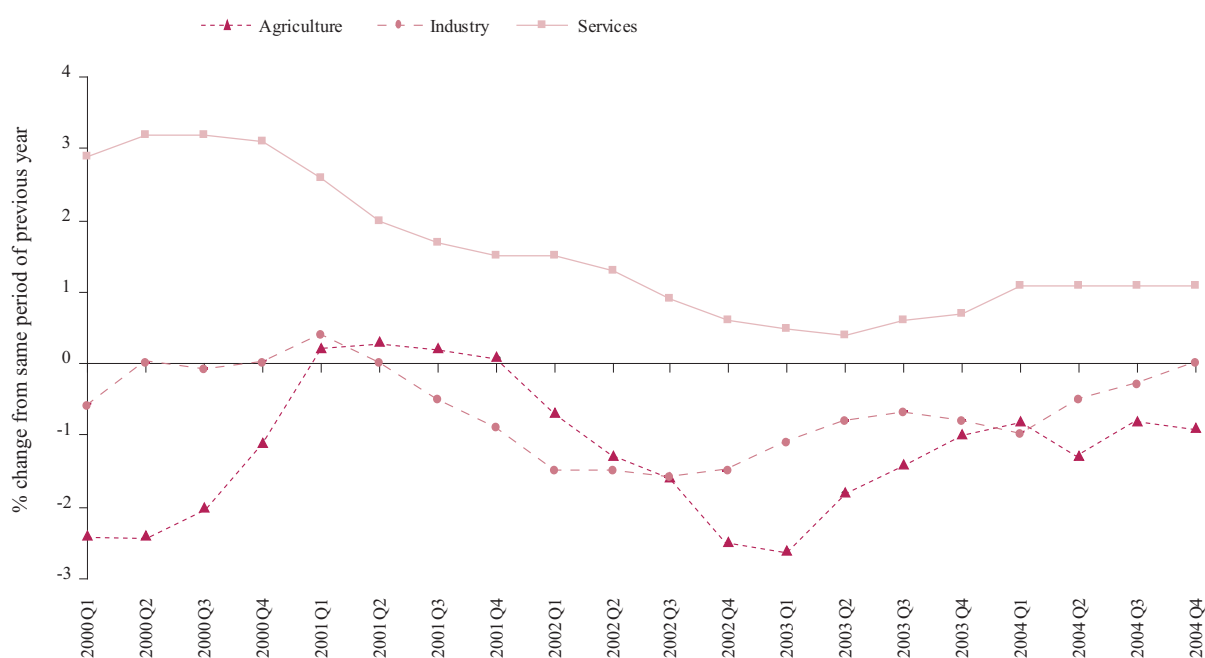


Table 6 – Employment structure in 2004 (% of total employment 15+, by main employment, resident concept)

Sector (NACE rev1 description)	EU-25	EU-15	BE	CZ	DK	DE	EE	EL	ES	FR	IE	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	SI	SK	FI	SE	UK
Agriculture, fishing and forestry	5.0	3.8	2.2	4.4	3.3	2.4	5.5	12.6	5.5	4.0	6.4	4.2	5.1	13.3	16.3	2.1	5.3	(2.3)	3.0	5.0	17.6	12.1	9.8	5.1	5.0	2.5	1.3
Mining and quarrying	0.4	0.2	0.1	1.3	(0.2)	0.3	(1.6)	0.3	0.3	0.1	0.4	0.2	:	:	:	:	0.4	:	(0.1)	(0.2)	1.6	0.2	(0.6)	0.7	0.2	0.1	0.3
Manufacturing	18.8	18.2	17.4	27.2	15.9	23.1	24.2	13.2	17.0	17.0	15.3	21.8	10.7	16.2	17.8	9.7	23.0	20.2	13.5	18.4	20.3	19.6	28.9	26.9	18.8	15.9	13.5
Electricity, gas and water supply	0.9	0.7	0.8	1.6	(0.6)	0.8	2.2	0.9	0.6	0.9	0.7	0.6	1.2	2.0	1.8	(0.5)	1.5	(2.3)	0.4	0.7	1.6	0.6	(1.0)	2.0	0.8	0.7	0.6
Construction	7.8	7.9	6.5	9.1	7.0	7.0	7.1	8.1	12.5	6.8	11.2	8.2	11.4	8.9	8.4	9.5	8.0	6.7	5.9	7.3	5.4	10.8	5.8	9.6	6.3	5.7	7.8
Wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods	14.7	14.7	13.7	13.4	15.4	13.9	13.4	17.3	15.7	13.5	14.2	15.4	17.8	15.1	15.7	11.3	13.9	15.1	15.9	15.9	14.5	15.3	12.8	12.0	12.4	12.5	15.5
Hotels and restaurants	4.1	4.3	3.1	3.8	2.2	3.4	2.9	6.5	6.7	3.3	5.9	4.6	9.1	2.1	2.2	3.3	3.8	7.9	4.0	6.0	1.7	5.1	4.0	3.8	3.1	3.0	4.4
Transport, storage and communication	6.2	6.1	7.3	7.7	7.0	5.6	8.8	6.3	6.0	6.4	6.2	5.6	5.6	10.2	6.3	6.8	7.6	8.0	6.1	6.5	6.0	4.1	6.0	6.5	7.1	6.2	6.8
Financial intermediation	3.0	3.2	3.5	2.0	2.9	3.6	(1.4)	2.6	2.2	2.7	4.5	2.8	4.6	1.6	(1.0)	10.2	2.0	3.0	3.5	3.8	2.0	2.0	2.3	2.1	2.1	2.1	4.2
Real estate, renting and business activities	9.3	9.9	9.0	6.1	8.8	9.2	6.9	6.5	8.8	10.1	8.4	10.2	6.8	3.9	4.0	8.6	7.1	5.9	13.1	9.4	5.7	5.6	6.2	5.6	11.3	13.1	11.3
Public administration and defence, compulsory social security	7.2	7.3	10.4	6.6	5.8	7.9	7.1	8.2	6.2	9.2	4.9	6.5	7.0	6.8	5.0	12.4	7.5	9.2	7.2	6.7	6.6	6.4	6.0	7.2	4.9	5.9	6.9
Education	7.2	7.1	9.2	6.0	7.9	5.7	8.1	7.3	5.7	7.2	6.4	7.4	6.4	8.3	9.7	6.4	8.6	8.4	7.1	5.8	7.8	6.1	7.0	7.4	7.0	11.2	9.2
Health and social work	9.7	10.3	12.1	6.7	17.9	11.3	5.7	5.1	5.7	11.8	9.6	6.6	4.4	5.2	7.4	8.6	7.0	7.1	15.4	8.6	5.8	6.0	5.2	7.1	15.1	16.0	12.0
Other community, social and personal service activities	4.6	4.8	3.9	3.9	5.0	5.3	4.7	3.6	4.0	4.2	5.1	4.6	5.0	5.7	3.6	3.5	4.3	3.6	4.8	5.2	3.1	3.0	4.3	3.7	5.7	5.2	5.6
Private households with employed persons	1.1	1.2	0.4	0.1	(0.2)	0.4	:	1.5	3.2	2.6	0.4	1.1	4.2	(0.4)	:	2.0	:	:	(0.2)	(0.1)	3.0	:	0.3	0.3	:	0.6	
Extra-territorial organisations and bodies	0.1	0.1	0.3	:	:	0.1	:	:	(0.1)	0.5	0.1	0.6	:	:	4.9	:	:	(0.2)	:	:	:	:	:	:	:	:	0.0
Total Agriculture, fishing and forestry	5.0	3.8	2.2	4.4	3.3	2.4	5.5	12.6	5.5	4.0	6.4	4.2	5.1	13.3	16.3	2.1	5.3	(2.3)	3.0	5.0	17.6	12.1	9.8	5.1	5.0	2.5	1.3
Total Industry	27.9	27.1	24.9	39.3	23.7	31.3	35.1	22.5	30.4	24.8	27.6	30.8	23.4	27.3	28.3	19.9	32.9	29.4	19.9	26.6	29.0	31.2	36.3	39.2	26.1	22.4	22.3
Total Services	67.1	69.1	72.8	56.3	73.0	66.4	59.5	64.9	64.1	71.2	66.0	65.0	71.5	59.4	55.4	78.0	61.8	68.3	77.0	68.3	53.4	56.7	53.9	55.7	68.9	75.1	76.5

Source: Eurostat, LFS, spring results.

Note: Data for NL refer to 2003. Data in parentheses () are not reliable due to the small sample size.

Member States (Chart 33), which have a strong influence on the overall EU aggregate, all experienced positive employment growth throughout 2004 in the services sector. However, while employment growth in services accelerated over 2004 in France and Germany (following a period of contraction in this sector in 2003 in both Member States) and remained broadly stable in the UK, it decelerated sharply in Italy over the course of the year. In industry, employment developments were rather mixed. In Germany employment in industry continued to contract, with negative growth of around -2% for all quarters, while in France the contraction generally accelerated over 2004 before easing off slightly in the last quarter. By contrast, in the UK the rate of decline in industry was lower than in previous years and the underlying trend shows a slightly improving employment situation in this sector. In Italy the improvement in employment in industry over 2004 was even stronger, with a turnaround from negative employment growth at the start of the year to growth of almost 2% in the last quarter. Employment developments in agriculture were also mixed, although in France employment in this sector continued to contract strongly over 2004, with negative employment growth of -2.0 to -2.5% in all four quarters.

4.3. Sectoral employment trends in the EU since 2000

Since 2000 total employment in the EU has increased by more than 5 million. This has been due to strong net employment creation of over 8 mil-

Chart 33 – Sectoral employment growth in the four largest Member States, 2000-2004

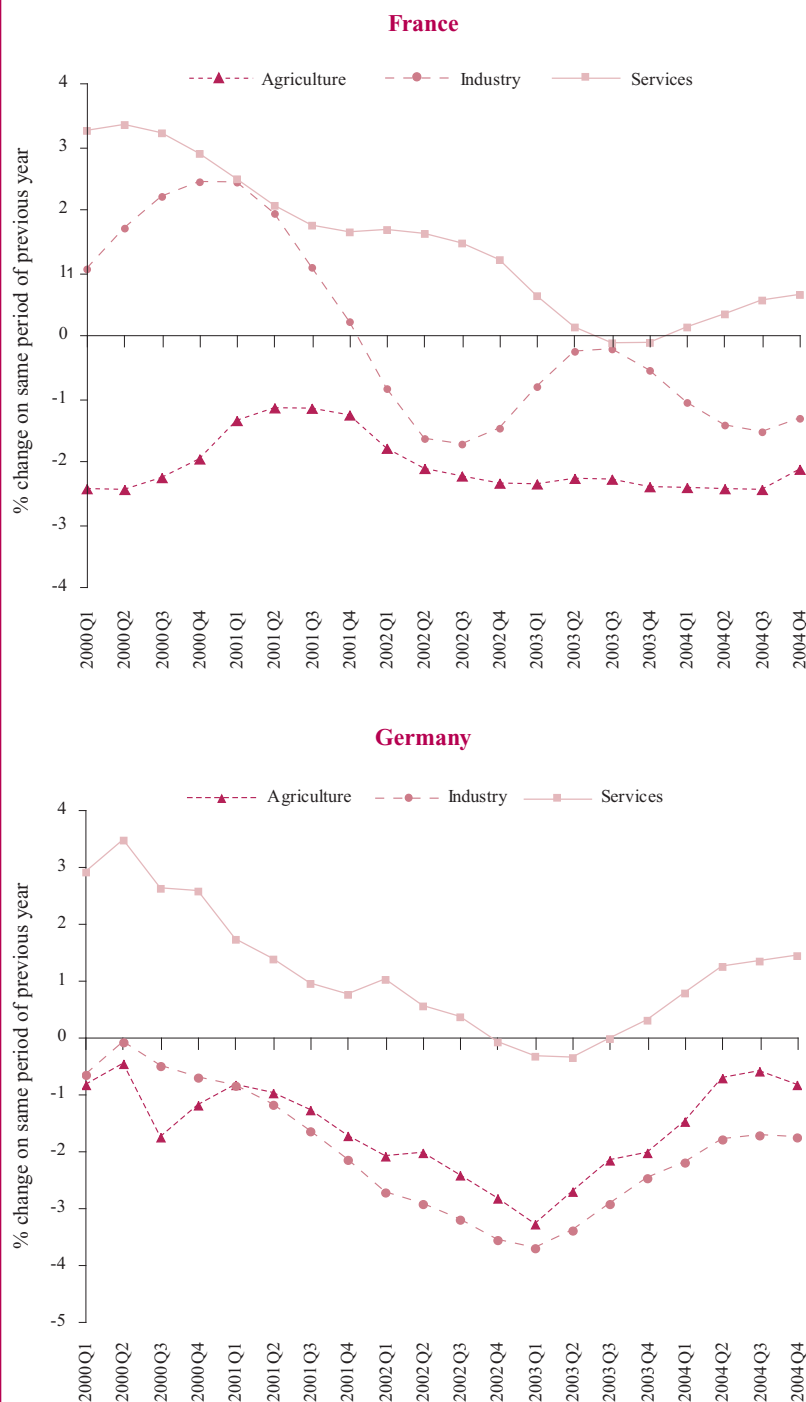
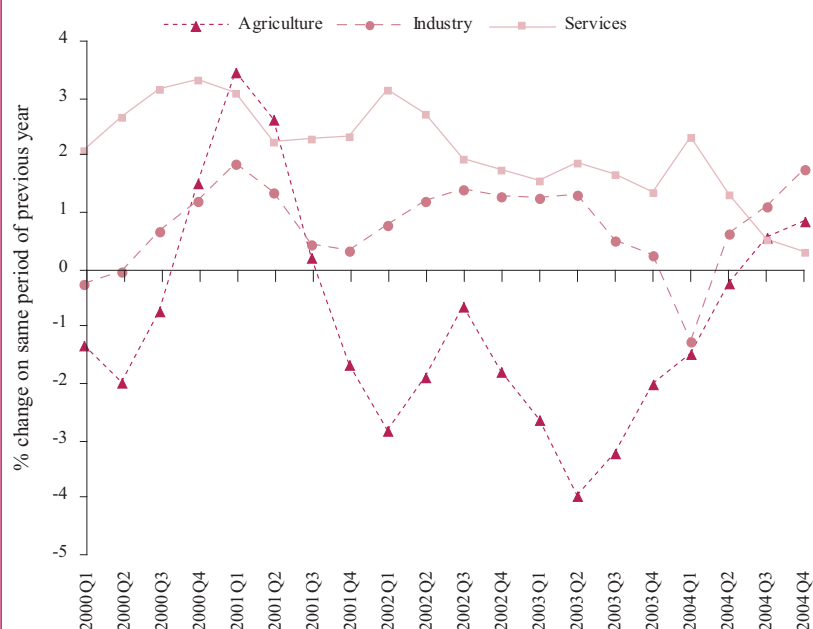
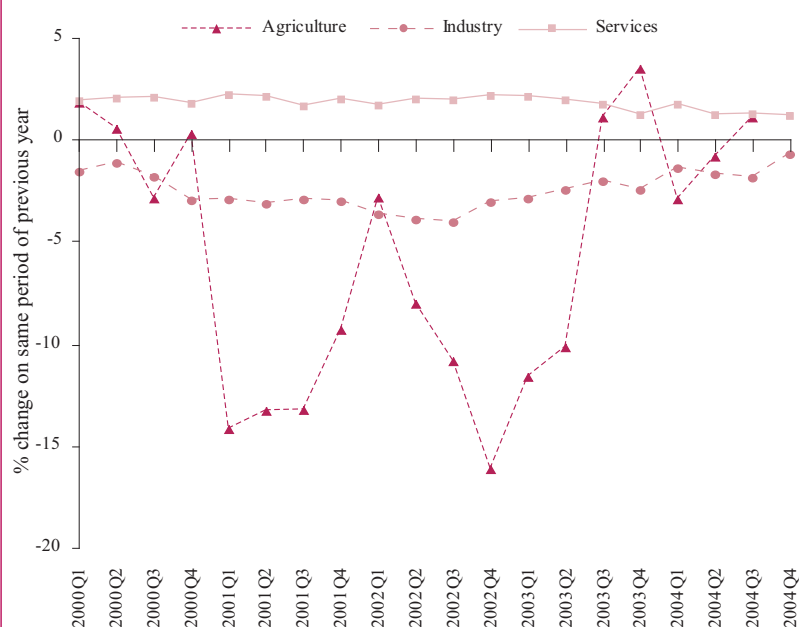


Chart 33 (cont.)

Italy



United Kingdom



Source: Eurostat, national accounts.

lion in the services sector⁷ (Chart 34), which has more than made up for the employment contraction in industry (down 1.7 million) and agriculture (down 1.1 million).

Within industry, employment has contracted particularly strongly in manufacturing, where it has fallen by 1.8 million (or about 5% on 2000 levels), and only the construction sector has generated any increase in employment. For services the picture is one of expanding employment in all sub-sectors apart from "Financial intermediation". Within services, employment creation has been especially strong in "Real estate, renting and business activities" (up 2.9 million), "Health and social work" (up 1.9 million) and "Education" (up 1.2 million), the last two normally accounting for a relatively high share of public sector employment in many Member States.

At country level, Italy and Spain are among the Member States that have witnessed a strong improvement in their labour market situation between 2000 and 2004. The strong overall employment growth in these countries shows a broadly similar sectoral pattern, the main exceptions between the two being in the "Electricity, gas and water supply" and "Public administration and defence, compulsory social security" sectors (Chart 35) where employment declined in Italy but rose in Spain. At broad sectoral level, both Member States experienced declines in employment in agriculture but increases in both industry and especially services. Within industry, employment growth was particularly strong in "Construction", and well above the EU average for this sector. For services, employment growth was well above average in almost all

Chart 34 – Changes in sectoral employment in the EU between 2000 and 2004

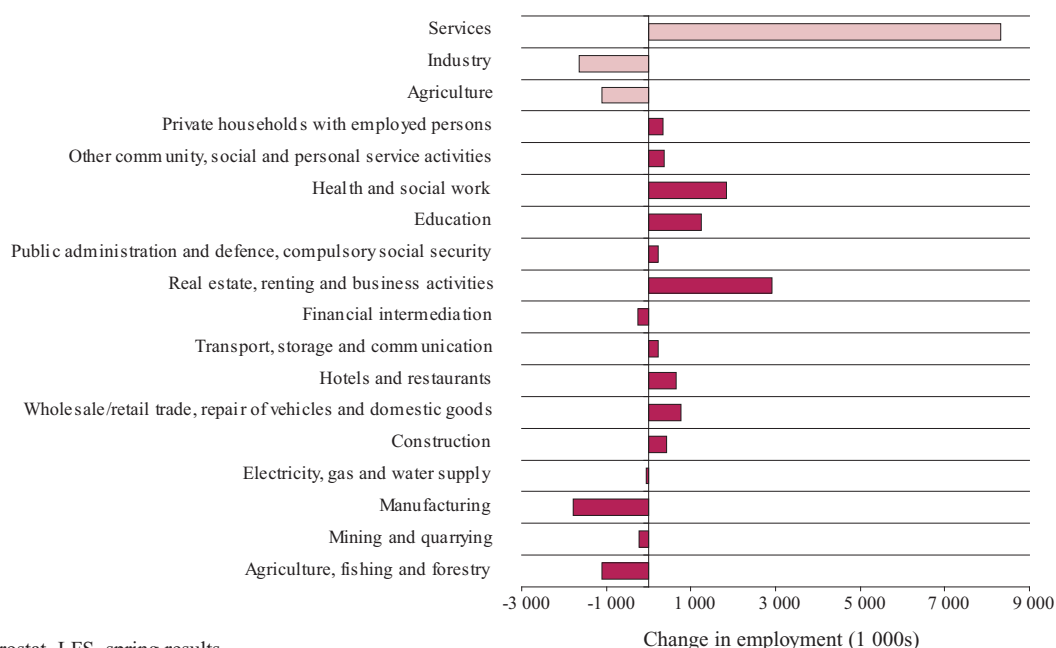
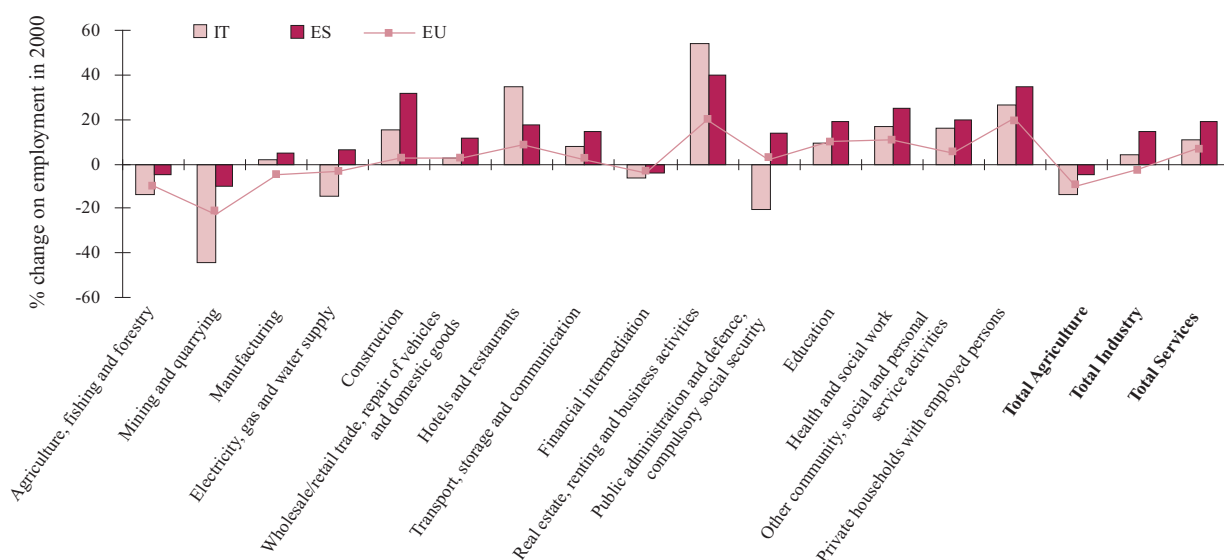


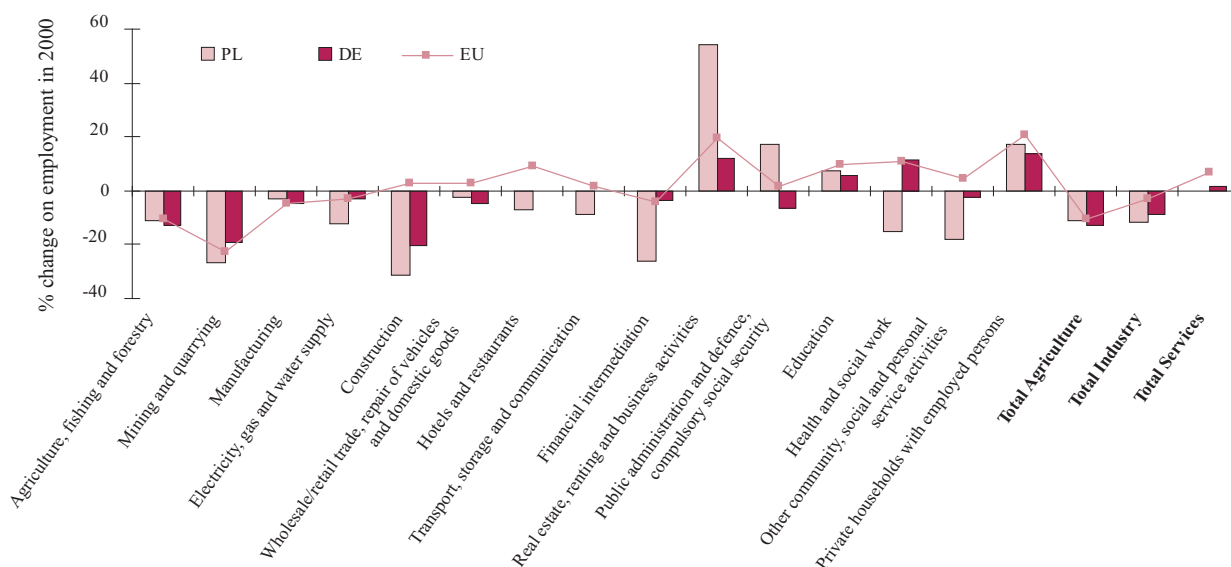
Chart 35 – Sectoral employment growth for Italy and Spain 2000-2004 compared to the EU average



sub-sectors in Spain, and for the most part in Italy as well where only “Public administration and defence, compulsory social security” was well below the EU average (declining by around 20%)

while growth in the “Wholesale/retail trade, repair of vehicles and domestic goods”, “Financial intermediation” and “Education” sectors was close to the EU average.

These sectoral employment trends in Italy and Spain between 2000 and 2004 contrast markedly with developments in Germany and Poland, Member States which have experienced a

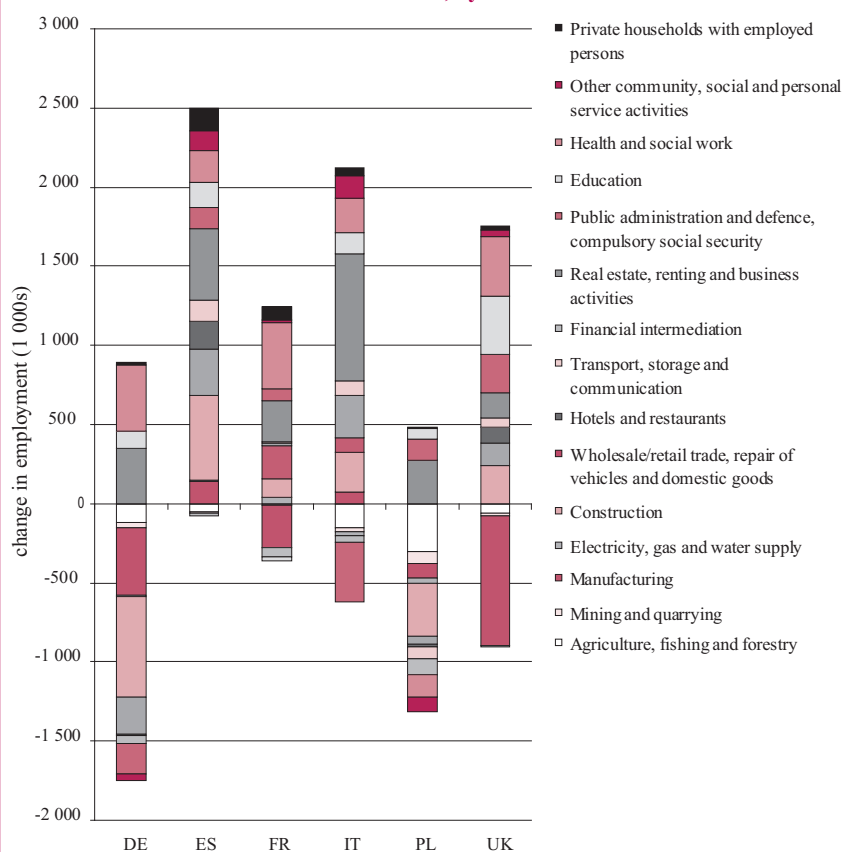
Chart 36 – Sectoral employment growth for Germany and Poland 2000-2004 compared to the EU average

Source: Eurostat, LFS, spring results.

Note: Break in series for AT and IT in 2004.

worsening labour market situation over this period. Developments in both have been characterised by strong negative employment growth in agriculture and industry, combined with weak or non-existent employment creation in the services sector (Chart 36). Employment growth has been below the EU average in almost all sectors, the main exceptions being “Real estate, renting and business activities” and “Public administration and defence, compulsory social security” in Poland and “Health and social work” in Germany. Importantly, these two countries have not experienced the same broad expansion in employment across the services sector that has characterised developments in Italy and Spain.

Examination of sectoral employment developments in the large Member States in terms of employment levels (Chart 37) shows marked variation across countries in terms of the sectoral contribution to changes in overall

Chart 37 – Change in employment in the large EU Member States between 2000 and 2004, by sector

Source: Eurostat, LFS, spring results.

Note: Break in series for IT in 2004.

employment between 2000 and 2004. For example, in Spain the “Construction” and “Real estate, renting and business activities” sectors were main contributors to the expansion in employment, followed by “Wholesale and retail trade, repair of vehicles and domestic goods”. The first two were also key drivers of employment increases in Italy together with “Hotels and restaurants”, although for Italy, in contrast to Spain, the contribution of “Real estate, renting and business activities” was more significant than that of “Construction”. In France and the UK, where the overall increase in employment was lower than in Italy and Spain, there was much less employment creation in the “Real estate, renting and business activities” sector and significant contraction in “Manufacturing”. However, both Member States registered large increases in employment in “Health and social work”, and in the case of the UK also in “Education” and “Public administration and defence, compulso-

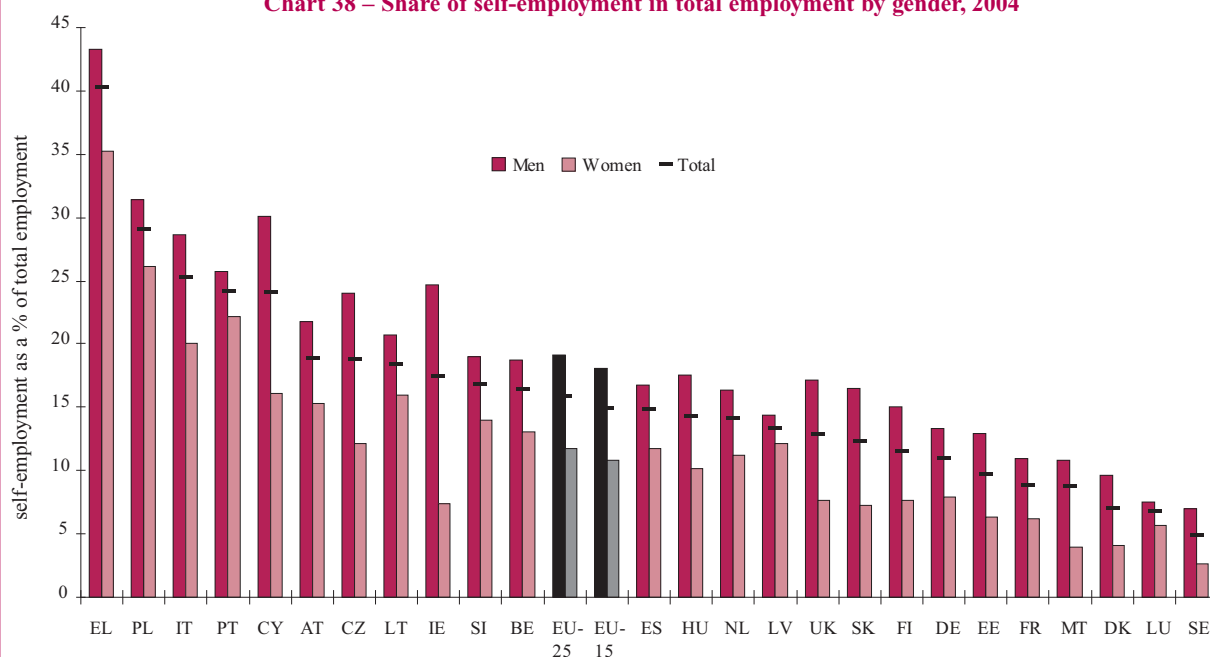
ry social security”. Indeed, in the UK these three sectors, traditionally areas with a high share of public sector employment, accounted for the majority of the expansion in employment in this period and helped offset the sharp decline of employment in manufacturing. In Germany, increases in employment in “Real estate, renting and business activities” and “Health and social work” could not make up for the marked declines in “Construction” and “Manufacturing”, with employment also falling in most other sectors. In Poland employment expanded only in the “Real estate, renting and business activities”, “Public administration and defence, compulsory social security” and “Education” sectors, with almost all the others witnessing employment losses, these being especially strong in “Agriculture” and “Construction”.

5. Self-employment in Europe

5.1. Trends in self-employment in Europe and the structure of the self-employed population in 2004

For the EU as a whole some 29 million people were self-employed (i.e. working in their own business, professional practice or farm for the purpose of earning a profit) in 2004, compared to around 161 million employees. This puts self-employment’s share of total employment at around 16% in 2004 (compared to a much lower share of around 7.5% in the US in 2003⁸), up slightly (by 0.2 percentage points) on the year before. However, at EU level the share has remained more or less stable around 16% since the late 1990s, and has remained essentially unchanged compared to 2000. However, even though the share of total employment has remained quite stable in the EU, in terms of overall employ-

Chart 38 – Share of self-employment in total employment by gender, 2004



Source: Eurostat, QLFD.

ment levels the number of self-employed has been increasing.

The prevalence of self-employment varies markedly between Member States (Chart 38). For example, the number of self-employed as a share of total employment is particularly high in many southern Member States including Greece, where the share is around 40%, and in Cyprus, Italy and Portugal where it is of the order of 25%. Of the remaining Member States only Poland has a share above 20%, at around 29%, although such a high share is quite atypical for central and northern European Member States and reflects the still high share of self-employment in agriculture in that country. Indeed, the share is below 15% for the majority of the abovementioned group, and is even below 5% in Sweden.

In all Member States there are higher proportions of men than women in self-employment, the gender gap being as high as around 14 and 17 percentage points in Cyprus and Ireland respectively. At EU level the gender gap in the share of self-employment is 7.3 percentage points, the average share being 19.1% for men and 11.8% for women in 2004.

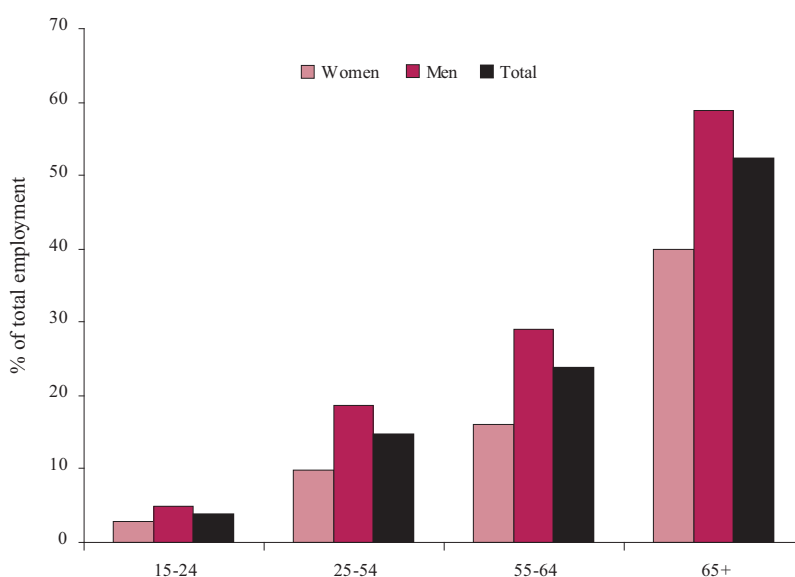
Examination of the structure of self-employment by age and gender at EU level (Chart 39) shows that the incidence of self-employment is higher in the older age groups, with the majority of workers aged over 65 in self-employment, while the share for youth is only around 4%. Furthermore, there are lower shares of women than men in self-employment for all age groups, and this disparity increases with age. For youth, male and female shares of self-employed are very similar, but for the 55 to 64 years and 65+ age groups the disparity is around 13 and 19 percentage points respectively.

Within the EU, on average the biggest share of self-employment is found

among low-skilled workers, 19% of whom are self-employed, followed by the high-skilled at just under 15% (Chart 40). Medium-skilled workers are the least likely to be self-employed,

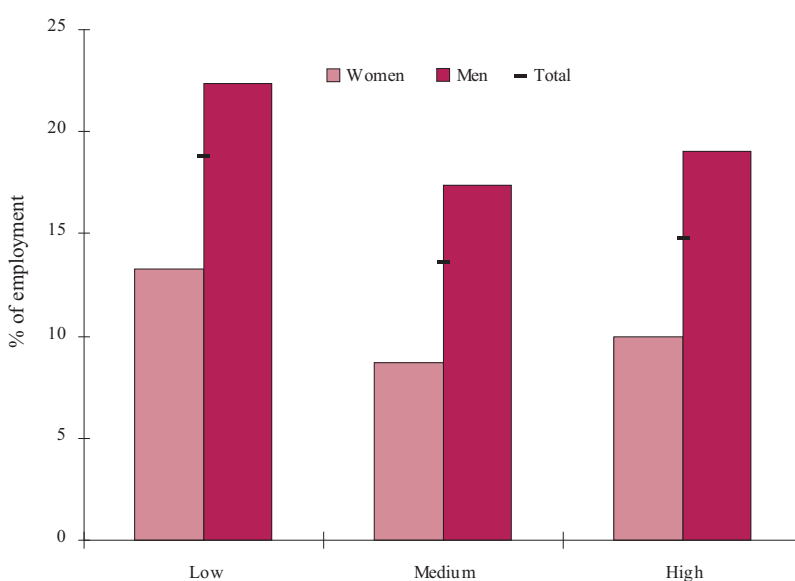
with a share of around 13.5%. This general pattern in the distribution of self-employment shares by skill level is common to men and women alike.

Chart 39 – Employment shares of self-employment in the EU-25 by age group and gender, 2004



Source: Eurostat, LFS, spring results.

Chart 40 – Shares of self-employment in employment in the EU-25 by skill level and gender, 2004



Source: Eurostat, LFS, spring results.

The foregoing results refer to the self-employed population as a whole. It is also of interest to examine only non-agricultural self-employment, i.e. excluding the self-employed in the

agriculture and fishing sectors (NACE⁹ economic activities A and B). Excluding agricultural employment, the self-employed population in the EU totalled 24 million in 2004, equivalent

to a share of around 13% of total non-agricultural employment (compared to only 6.9% in the US in 2003¹⁰).

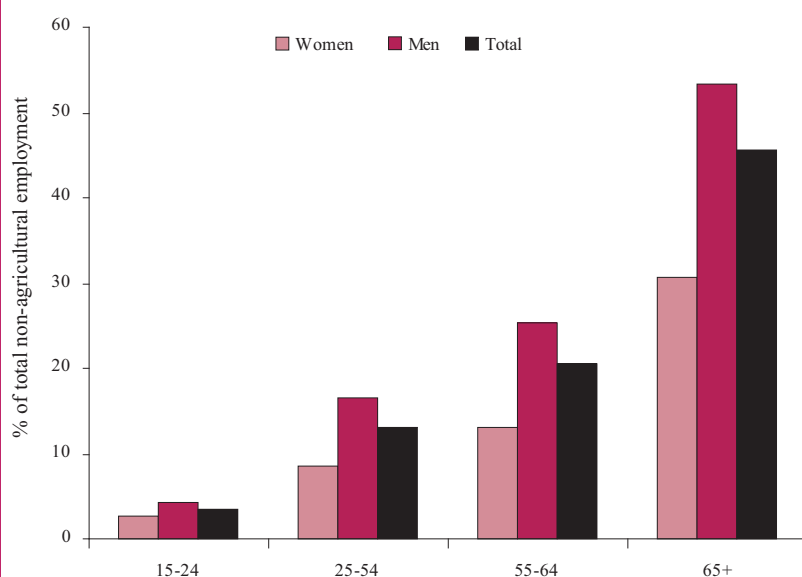
The age and gender structure of non-agricultural self-employment at EU level shows the same pattern as for the self-employed population as a whole (Chart 41). Again, the incidence of self-employment is higher among older age groups and comparatively rare among young people, with lower shares of women in non-agricultural self-employment for all age groups and with this disparity increasing with age. The only major difference relative to the self-employed population as a whole is with regard to the older populations aged 55 to 64 and 65+, where the shares of self-employment in non-agricultural employment are noticeably lower, reflecting the high amount of self-employment in agriculture for these age groups.

Concerning the shares of self-employment in non-agricultural employment according to different skill categories (Chart 42), the shares of the low-skilled and high-skilled in self-employment are very similar at 14 to 15%, while around 12% of medium-skilled workers are self-employed. This indicates that the share of low-skilled workers in self-employment in non-agricultural sectors is lower than in the self-employed population as a whole, and more evenly balanced with the share of high-skilled workers.

5.2. Structure of the self-employed population compared to employees

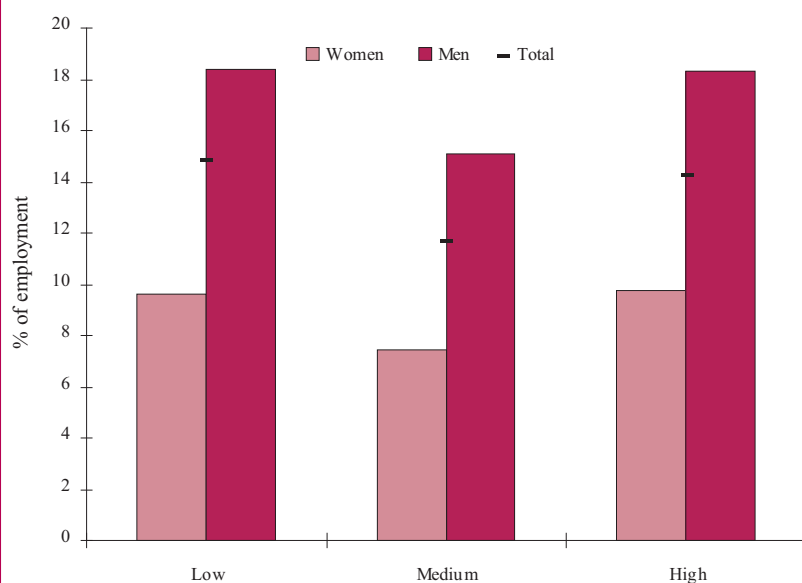
The structure of the population in self-employment shows marked differences with respect to the population of employees (Chart 43). Of the total population in self-employment, the

Chart 41 – Shares of non-agricultural self-employment in total non-agricultural employment in the EU by age and gender, 2004



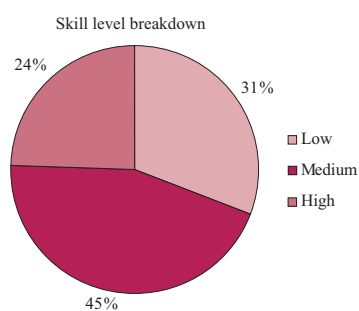
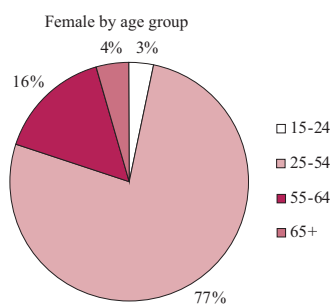
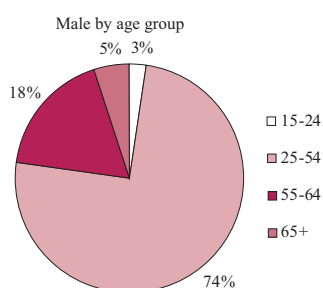
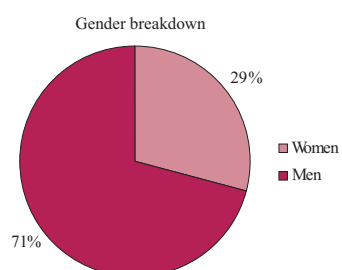
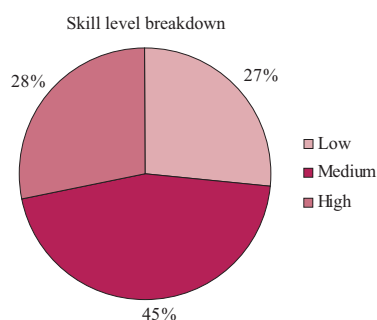
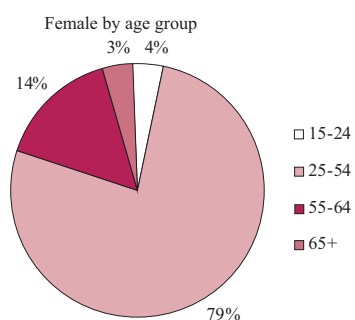
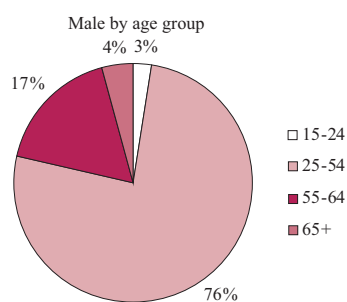
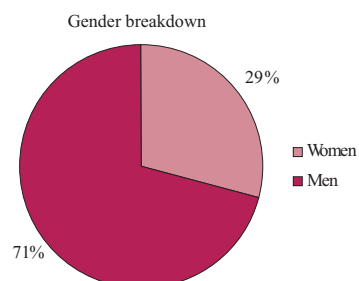
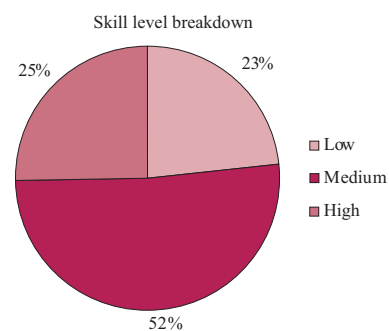
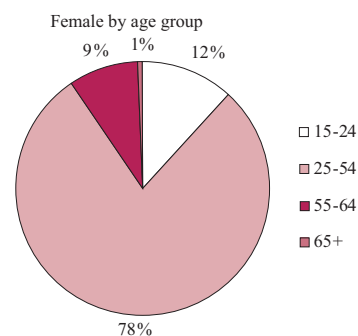
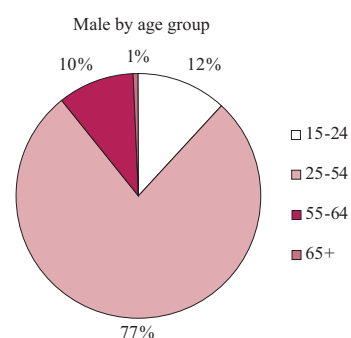
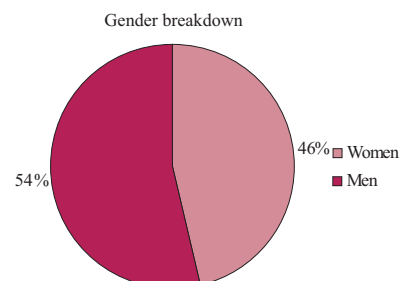
Source: Eurostat, LFS, spring results.

Chart 42 – Shares of non-agricultural self-employment in non-agricultural employment in the EU by skill level and gender, 2004



Source: Eurostat, LFS, spring results.

9 The statistical classification of economic activities (NACE Rev. 1).
10 OECD Labour Market Statistics.

Chart 43 – Composition of self-employed and employee populations in the EU in 2004 by gender, age group and skill level**Self-employed population****Non-agricultural self-employed population****Employee population**

Source: Eurostat, LFS, spring results.

Note: Skill level categories refer to low (ISCED 0-2: lower secondary), medium (ISCED 3-4: upper secondary), high (ISCED 5-6: tertiary). "Non-agricultural self-employed population" excludes employment in the agriculture and fishing sectors (NACE economic activities A & B).

vast majority are men (71%), while only 29% are women, and this difference between the genders is much more marked than for employees. The age distribution of the self-employed population also shows some differences compared to that for employees. For example, for both men and women, youth account for much lower shares of the self-employed than of employees (around 3% versus 12%), while the older age groups (55-64 and 65+) account for greater shares of the self-employed population than of employees. Broadly, this means that the self-employed population has an over-representation of older people and an under-representation of young people compared to the population of employees and, hence, an older age distribution overall.

There are also some differences with regards to the skills composition of the two groups. In terms of skill levels, 31% of self-employed are low-skilled, 45% medium-skilled and 24% high-skilled. Compared to employees the proportion of high-skilled workers is

essentially the same, but there is a higher share of low-skilled and a lower share of medium-skilled workers among the self-employed. This indicates that the skill level of the self-employed population is on average lower than that of the population of employees. Focusing on self-employment excluding the agricultural sector, the structure of the non-agricultural self-employed population is essentially the same as that for the overall self-employed population in terms of gender and age breakdowns (although with a slightly younger age distribution) but shows a higher overall skill level, with the low-skilled representing 27% of this population and the high-skilled 28%. Indeed, the share of high-skilled workers is greater than in the population of employees, but the share of low-skilled also remains higher.

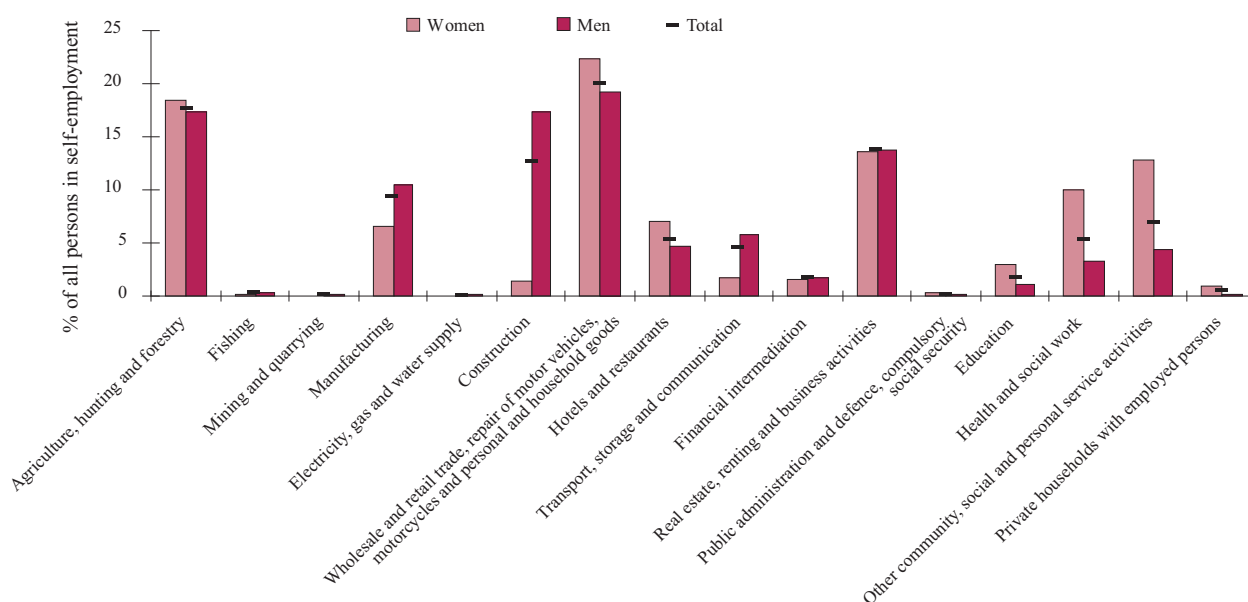
5.3. Sectoral structure of self-employment

Some sectors are more disposed to self-employment than others. Within the

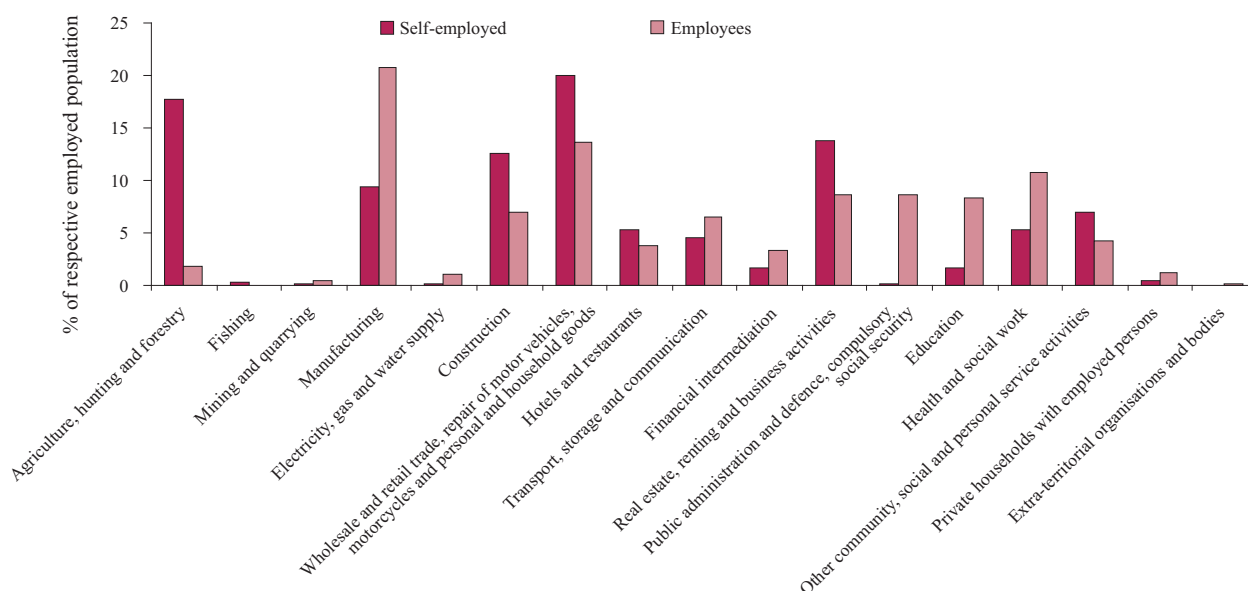
EU, on average the largest share of self-employed people work in the “Wholesale and retail trade and repair” sector, which accounted for 20% of all self-employment in 2004 (Chart 44). This is closely followed by “Agriculture, hunting and forestry”, with a share of just below 18%, and by “Real estate, renting and business activities” and “Construction” with around 14% and 13% respectively. Among these sectors, there is a marked gender difference only in the “Construction” sector, which clearly accounts for a much larger share of male self-employment than female (17.3% versus 1.4% respectively). Higher shares of male self-employment are also observed in “Manufacturing” and “Transport, storage and communication”, while by contrast far higher shares of female self-employment are found in the “Health and social work” and “Other community, social and personal service activities” sectors.

Comparison of the sectoral employment structure of the self-employed with that of employees (Chart 45) indi-

Chart 44 – Sectoral structure of self-employment in the EU by gender, 2004



Source: Eurostat, LFS, spring results.

Chart 45 – Comparison of sectoral employment structures of the self-employed and employees in the EU, 2004

Source: Eurostat, LFS, spring results.

icates substantially higher shares of self-employed in the “Agriculture, hunting and forestry”, “Wholesale and retail trade and repair”, “Construction” and “Real estate renting and business activities” sectors. By contrast, substantially lower shares of self-employed work in the “Manufacturing” sector and, within services, in the “Education” and “Health and social work” sectors as well as, obviously, in the “Public administration and defence” sector where self-employment is essentially non-existent. It is clearly with regard to the agriculture and manufacturing sectors that the differences in employment shares are most pronounced.

5.4. Occupational structure of self-employment

In terms of occupations, around a quarter of self-employed people work in the occupational grouping¹¹ “Legislators, senior officials and managers”. For the self-employed this group, which includes managers of small enterprises

Chart 46 – Comparison of occupational employment structures of self-employed and employees in the EU, 2004

Source: Eurostat, LFS, spring results.

Note: Occupations refer to ISCO major groupings.

as well as legislators, senior officials and corporate managers, accounts for the highest share of employment, but in contrast accounts for only 6% of employees. High proportions of the self-employed are also found in the

occupational groups “Skilled agricultural and fishery workers” and “Craft and related trades workers”, each of which account for around one sixth of the population in self-employment (Chart 46). Among the high-skilled

11 International Standard Classification of Occupations (ISCO-88 (com)) classification of major occupational groups.

occupations, the shares of self-employed are similar to those of employees in the “Professionals” grouping but somewhat lower in the “Technicians and associate professionals” grouping. The greatest disparities in employment shares between self-employed and employees are for the occupational groups “Legislators, senior officials and managers”, “Skilled agricultural and fishery workers” and “Clerks”.

6. A more detailed review of recent labour market trends for the older and younger elements of the working age population

6.1. Older people of working age

Against a background of demographic ageing in the EU (driven by low birth rates and increasing life expectancy) and the need to increase labour market participation to reduce the mounting pressure on social protection systems, the EU has set itself two important objectives with regard to the employment of older people. First, the Stockholm European Council of 2001 agreed a target that at least 50% of older persons aged 55 to 64 should be in employment by 2010. Second, the Barcelona European Council of 2002 concluded that efforts should be stepped up to increase opportunities for older people to remain in the labour market, setting an objective of a five-year delay by the end of the decade in the average age at which people withdraw from the labour force.

On the whole, there is a lack of incentives for employers to retain or hire older people of working age and for older workers to remain in the labour force. This is despite the fact that companies can benefit from the acquired

skills of older workers, although they run the risk of becoming increasingly obsolete when access to training is limited. High separation costs deter employers from employing older people in the first place. Early retirement schemes, social security benefits and disability benefits have often been, and still are being, used by employees and employers alike as exit routes from the workplace. However, the fact that some Member States have achieved higher employment rates for older people suggests that something can be done to overcome the lack of incentives limiting the participation and employment of older people.

For example, to equip them to remain longer in active employment, attention must be paid to developing the competences of older people of working age. Currently, participation in lifelong learning decreases with age. The study “Achieving the Lisbon goal: The Contribution of VET”¹², found evidence that although a range of training initiatives do exist, most countries have not yet effectively included the needs of older workers as part of their lifelong learn-

ing strategies, although the study does point to positive developments in Belgium, Denmark, Finland and Sweden. Regarding the latter, between 1997 and 2002 some 800,000 adults in Sweden, including older working-age people, benefited from the Swedish Adult Education Initiative, which established targets to provide free full-time upper secondary education, mainly for the unemployed. Similarly, the Noste Programme launched in 2003 in Finland, which provides mostly employed 30-59 year-olds lacking upper secondary education with opportunities to complete initial vocational qualifications and improve their information society skills free of charge, is showing some success in raising the level of education among employed people in this age group.

6.1.1. Trends in older people's employment rates

Concerning the Stockholm objective, as detailed in the earlier section on recent developments in employment rates in the EU, there are still big differences between individual Member

Chart 47 – Change in employment rate of older people (aged 55-64) and working age population (aged 15-64)



Source: Eurostat, QLFD.

12 *Achieving the Lisbon goal: The Contribution of VET* (Leney, T. et al, November 2004). Study commissioned by DG Education and Culture for the Maastricht ministerial and conference on enhanced European cooperation in vocational education and training on 14-15 December 2004. (see http://europa.eu.int/comm/education/policies/2010/studies/maastricht_en.pdf)

States in employment rates for older people aged 55 to 64, which ranged from 26% in Poland to 69% in Sweden in 2004. Furthermore, while several Member States already meet the 2010 employment rate target, substantial gaps remain for many countries. Nevertheless, recent developments have been encouraging, with many Member States making substantial progress towards the target over recent years. This has allowed the employment rate for older people in the EU to increase from 36.6% in 2000 to 41.0% in 2004. Some Member States, such as the

Netherlands, Sweden and the UK, are clearly doing better or have made more progress than others, suggesting that policies can make a difference (Box 3).

At EU level, employment rates for older people in the working age population increased rather modestly between 1997 and 2000 but rose strongly over the subsequent three years before returning to a slightly more moderate increase in 2004 (Chart 47). Whereas before 2000 the employment rate increases for older

people aged 55 to 64 were below those for the working age population as a whole, after 2000 the situation was reversed, with rate increases for the older age group well above those for the working age population. Apart from 1999 and 2004 (when rates for older women rose substantially more than for older men) there were no large differences between annual employment rate increases according to gender, and during the years of greatest expansion (2001-2003) the increases for older men were general-

Box 3 – Recent approaches to employment of older people in the Netherlands, Sweden and the UK¹³

Various approaches have recently been taken in the Netherlands, Sweden and the UK to improve the labour market participation and employment levels of the older members of the working age population.

In the UK and the Netherlands, the flow of older workers into disability allowances has been stemmed through stricter controls, and current recipients of benefits have also been re-assessed. In the Netherlands, legislation has also been introduced which requires employers to pay the employee's wage for the first two years of disability. These measures discourage employers and employees from abusing the system for the purpose of early retirement. Other disincentives to early retirement include the obligation for workers over 57.5 years of age to continue to look for work and the deduction of severance payments from unemployment benefits. Sweden has also introduced changes to the pension scheme to encourage people to stay in work longer or to exit more gradually.

Employability of older people is particularly problematic for those with lower levels of education, since employability at later stages of working life is still to a large degree determined by investments in human capital earlier in life. This suggests that the issue of early school leavers must be addressed, and human capital invest-

ment and mobility during people's careers must be enhanced. This approach is taken by Sweden, which has a very high activity rate among older workers. For people who already belong to the older element of the working age population or who will enter this category in the next few years, training, mobility and wage-subsidy schemes may help to increase employment rates. Job mobility schemes can be an effective solution to the changing productivity of older workers, in particular when the physical demands of the job become too arduous.

Active labour market policies can also make a difference for older inactive or unemployed people, particularly job counselling, job search monitoring, sanctions (for those who do not search for jobs), and placement subsidies for regular jobs. For the older unemployed, training seems to have positive effects on their job chances. Schemes such as "New Deal 50+" and "Pathways to work" in the UK provide tailored support back into employment for unemployed older workers and people on incapacity benefits respectively.

Prejudice against older workers may also play a role. Awareness-raising is necessary to reduce discrimination against older workers and has been used quite extensively and with some success in the

UK. A "National Guidance Campaign" for employers was launched to argue the case for employers to hire or keep on older workers plus an "Age Positive" campaign to promote good practice on age diversity in the workplace. In Sweden a great deal of work has been done on changing attitudes and negative perceptions towards older workers.

In light of the above, the following types of policies may help to increase employment rates for older people:

- Policies increasing the incentives for employers to employ older people, and for older people to continue to participate in the labour market, including reforms of pension and early retirement schemes;
- Policies improving the employability of older people either by reducing the labour costs for older workers or by enhancing their productivity;
- Policies aimed at changing attitudes and stereotypes about older workers and mobilising them for participation in the labour market;
- Active labour market policies focused on the needs of older people.

13 Extracts from the Synthesis Report *Attracting more people to the labour market*, July 2005 (produced in the framework of the mutual learning programme of the European Employment Strategy, see www.mutual-learning-employment.net).

ly similar to those for older women. The marked increase in employment rates post-2000 suggests that policies to improve the participation of older people, and especially reforms of pension systems and early retirement schemes, may be taking effect in the labour market.

This improvement in the employment rate of older workers since 2000 has, for the most part, been a general feature across individual Member States (Chart 48). Since 2000, almost all have witnessed substantial increases in the employment rates for older people aged 55 to 64, with particularly strong rises in Finland, France, Hungary, Latvia and the Netherlands, all with increases of 7 percentage points or more. Only Austria, Cyprus and Greece have not witnessed substantial rises in employment rates since 2000, while only Poland and Portugal have seen rates actually decline.

In order to reach the Stockholm employment rate target for older people, it is estimated that employment of people in the 55-64 age group would need to increase by around 7.5 million between 2004 and 2010, or about 1.3 million per year. Over the period 2000 to 2004, employment in this age group increased by an average of around 800,000 per year. Therefore, despite the recent improvement in older people's employment rates, efforts need to be stepped up if the 2010 target is to be met.

6.1.2. Recent trends in the exit age

Concerning the second objective set by the European Council – to increase the average exit age by five years by the end of the decade – developments over the period 2001 to 2003 indicate that there has been a gradual increase in the average age at which older peo-

Table 7 – Average exit age from the labour force 2001-2003

	2001	2002	2003
EU-25	59.9	60.4	61.0
EU-15	60.3	60.8	61.4
BE	56.8	58.5	58.7
CZ	58.9	60.2	60.0
DK	61.6	60.9	62.1
DE	60.6	60.7	61.6
EE	61.1	61.6	60.8
EL	59.4	61.8	63.2
ES	60.4	61.5	61.4
FR	58.1	58.8	59.6
IE	62.8	62.4	64.4
IT	59.8	59.9	61.0
CY	62.3	61.4	62.7
LV	62.4	:	60.3
LT	58.9	:	63.3
LU	56.8	59.3	:
HU	57.6	59.2	61.6
MT	57.6	58.2	58.8
NL	60.9	62.2	60.4
AT	59.2	59.3	58.8
PL	56.6	56.9	58.0
PT	61.9	63.0	62.1
SI	:	56.6	56.2
SK	57.5	57.5	57.8
FI	61.4	60.5	60.3
SE	61.7	63.2	63.1
UK	62.0	62.3	63.0

Source: Eurostat, LFS, spring results.

Note: Break in series for LV and LT in 2003.

ple exit from the labour force¹⁴ (i.e. EU (Table 7). By 2003 the exit age transit from active to inactive life had risen to 61.0 years compared to purely in labour market terms) in the 59.9 years in 2001, with the vast

14 Exit age figures are derived from a model using activity rates by individual year LFS data to calculate the probabilities that individuals in each same age cohort will stay active in period t compared to period t-1. For a full description of the model see the annex to EiE 2003, Chapter 5. The results from the model do not refer to the effective retirement age but rather provide an estimate for the average exit age from the labour force for active persons aged 50 to 70, regardless of whether they are receiving a pension or not.

majority of Member States recording increases in the exit age over this period, most notably Belgium, Greece and Hungary. Nevertheless, wide variations remain across Member States,

with exit ages ranging from as low as 56.2 years in Slovenia to a high of 64.4 years in Ireland in 2003 (Chart 49). Furthermore, it is still the case that no Member State has an average

exit age above the Barcelona target, equivalent to an EU average of around 65 years, and that for the EU as a whole the 55-64 age group accounts for around one third of the total eco-

Chart 48 – Changes in employment rates of older people aged 55-64 between 2000 and 2004 across EU Member States



Source: Eurostat, QLFD.

Chart 49 – Average exit age from the labour force in 2003



Source: Eurostat, LFS, spring results.

Note: No data for LU for 2003.

nomically inactive population (see Chapter 5 for further discussion of this point). Strong efforts are therefore still needed to encourage older people not to withdraw from the labour force at relatively early ages and to increase opportunities for them to remain economically active. As shown in *Employment in Europe 2003*, this means continued efforts to address such issues as health and safety at work, flexible forms of employment and continuing training for older workers, as well as reforms of pension and early retirement schemes.

6.1.3. Sectoral employment structure for older workers

The sectoral employment structure for older workers shows some significant differences with respect to other age groups (Chart 50). At EU level, employment in agriculture accounts for around 7.5% of total employment of people aged 55 to 64, around double the share for the young and prime

working age groups. Older workers are also over represented with regard to the other age groups in the education sector, which accounts for close to 10% of employment of older persons. By contrast, relatively low shares of older workers are employed in the “Wholesale and retail trade and repair” and “Hotels and restaurants” sectors compared to the share of youth employment in these sectors. Indeed, the sectoral employment structure for older workers is markedly different from that of the younger age group, but apart from “Agriculture”, “Education” and to a certain extent “Manufacturing”, is rather similar to that of the prime working age group.

As mentioned earlier, people in the 55-64 age group accounted for around 3.2 million of the total increase in employment between 2000 and 2004 (by main employment, resident concept). The sectoral distribution of this increase in employment of older workers was quite broad with employment for this age group increasing in all main economic sectors (services and industry)

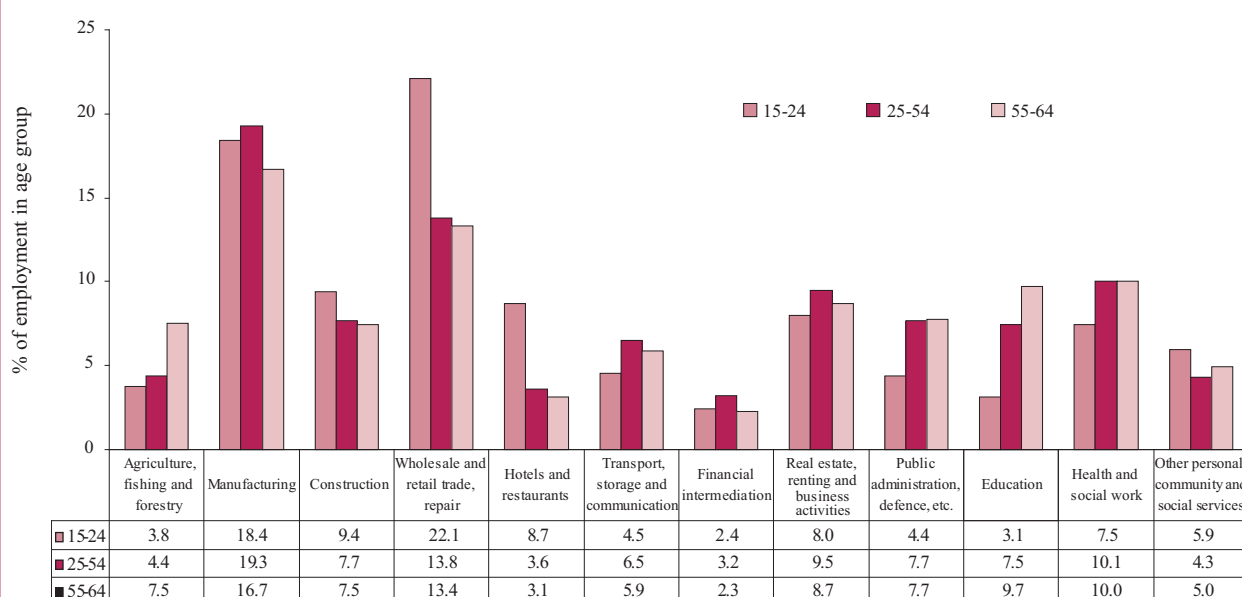
except agriculture (Chart 51). The strongest rise in employment for this age group was in the “Health and social work” sector with an increase of around 0.6 million, followed by the “Real estate, renting and business activities” and “Education” sectors with around 0.5 million each and “Wholesale and retail trade, and repair” with around 0.4 million. In fact, employment levels increased for older people of working age in all service sectors. It is interesting to note that this was also the case in the “Manufacturing” and “Construction” sectors of industry, in both of which employment of people in the 55-64 age group increased by around 0.2 million.

6.2. Youth

6.2.1. Trends in employment rates for youth

Looking at labour market trends for the youth element of the working age population, as shown in last year’s *Employment in Europe* report the vast

Chart 50 – Sectoral employment structure in the EU in 2004 by age group (% of employment in each age group)



Source: Eurostat, LFS, spring results.

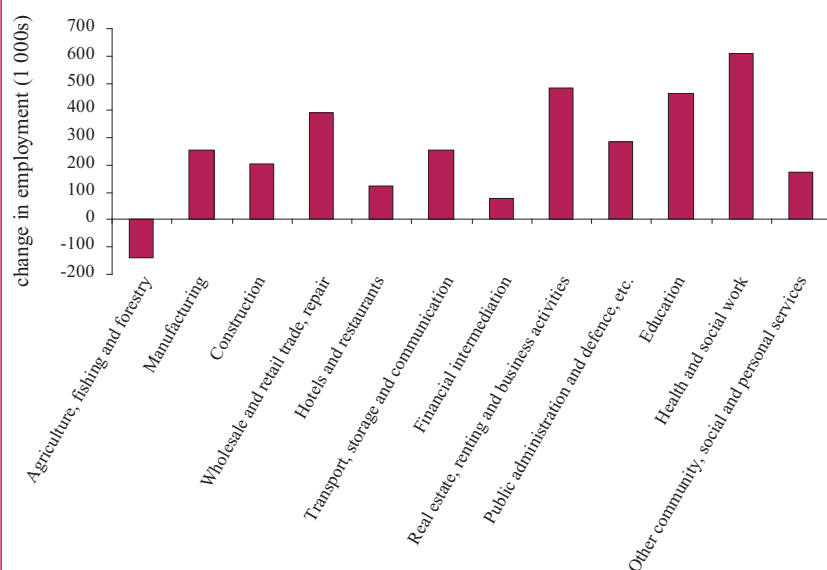
majority of Member States have experienced a deterioration over recent years in the labour market situation of young people¹⁵ (although this trend must also be seen in the context of efforts to increase participation rates

in education, in line with the EU objective to have at least 85% of 22-year olds having completed upper secondary education by 2010). This deterioration has been particularly severe in the Czech Republic, Hungary and

Luxembourg, where employment rates for the 15-24 age group have declined by the order of 10 percentage points since 2000 (but also where participation rates in education have risen). Nevertheless a few countries, including the large Member States of France, Italy and Spain, have bucked this general trend, with employment rates rising for this section of the working age population (Chart 52).

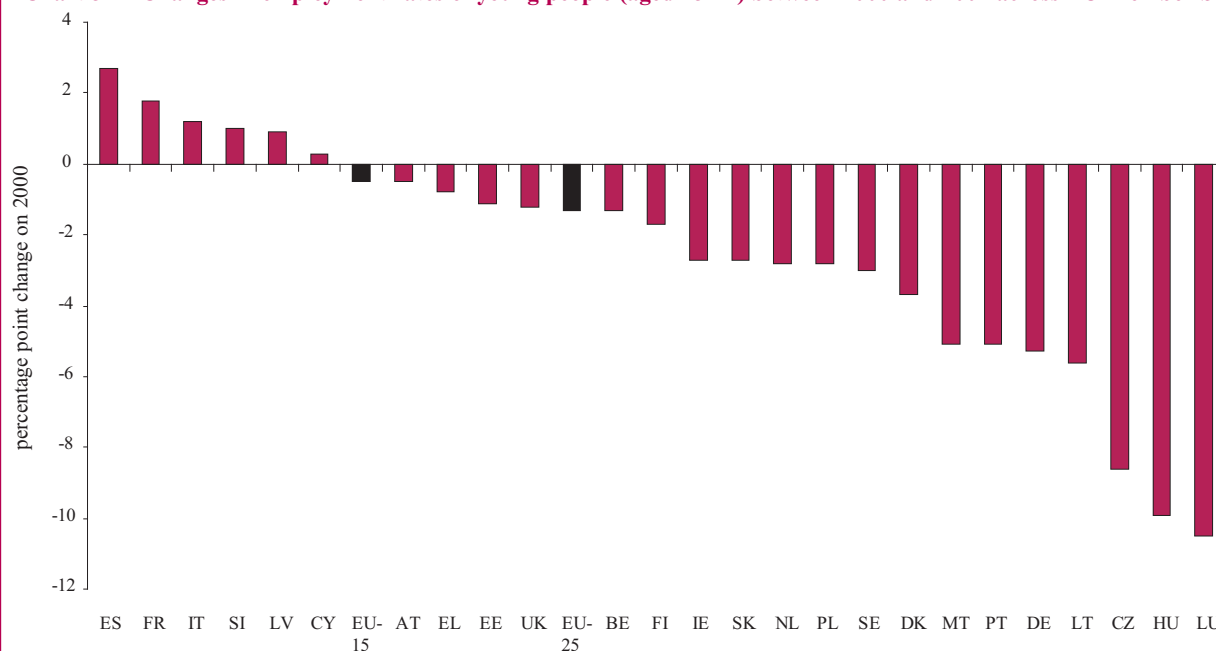
As in the case of older workers, there remain large variations at the level of individual Member States, with employment rates for young people ranging from 20% in Lithuania to 66% in the Netherlands in 2004. The Netherlands together with Denmark stand out as having very high employment rates for youth, with Austria, Ireland, Malta and the UK also having rates well above the EU average. However, even these “good performers” in terms of youth employment rates have all seen rates decline over recent years.

Chart 51 – Change in employment levels between 2000 and 2004 for older people aged 55-64 by sector



Source: Eurostat, LFS, spring results.

Chart 52 – Changes in employment rates of young people (aged 15-24) between 2000 and 2004 across EU Member States



Source: Eurostat, QLFD.

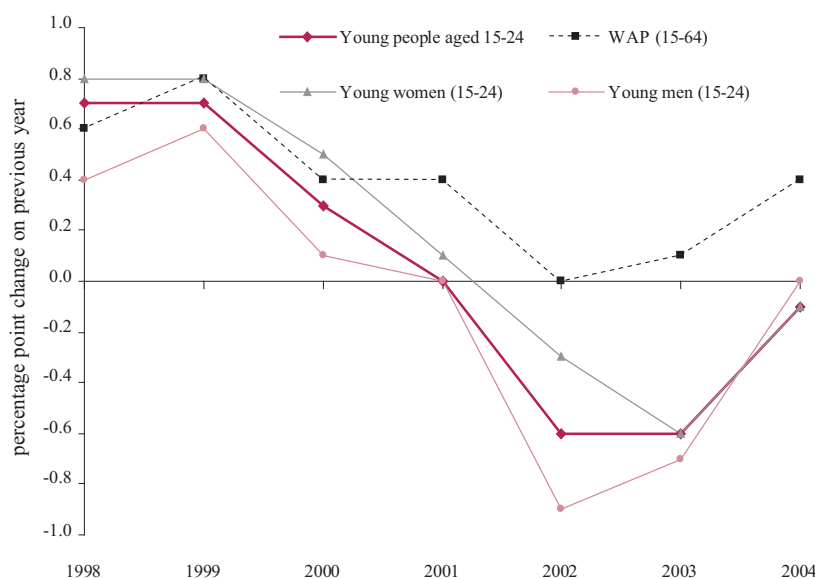
15 See *Employment in Europe 2004*, Chapter 1, for a detailed assessment of developments in individual Member States.

At EU level, the increases in the employment rate for young people over the late 1990s and up to 2000 have given way to declines from 2002 onwards, with broadly similar trends for both sexes although more severe

for young men than young women (Chart 53). It is also worth noting that, apart from 1998, the year-on-year increases in the employment rate have always been below the increase for the working age population as a

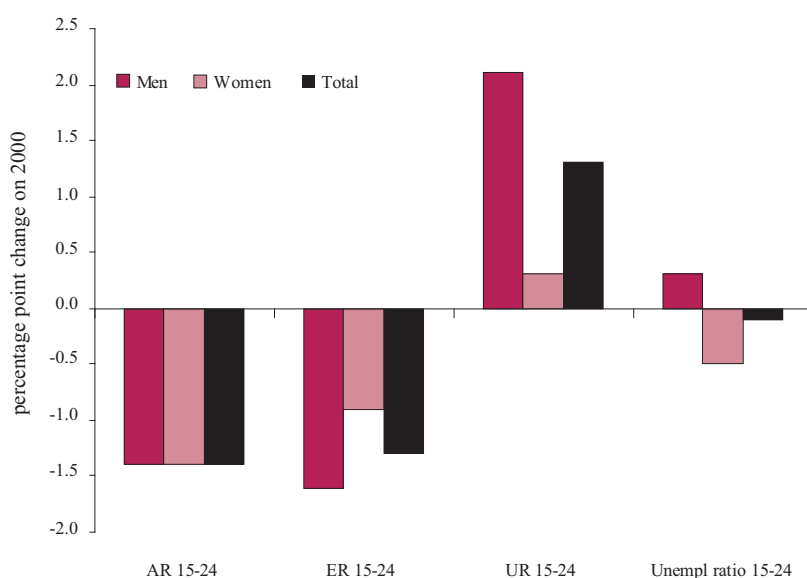
whole, with a marked divergence in employment rate developments from 2001 onwards. Nevertheless, the falls in the employment rate in 2002 and 2003 were followed by a much more moderate decline in 2004.

Chart 53 – Change in employment rate of young people (aged 15-24) and working age population (aged 15-64)



Source: Eurostat, QLFD.

Chart 54 – Developments in the labour market situation of young people (aged 15-24) in the EU between 2000 and 2004



Source: Eurostat, QLFD.

6.2.2. Trends in youth participation in the labour market

This evolution in employment rates reflects the general trend in youth labour market activity in Europe. After a trend of gradual rises over the late 1990s, from 2000 onwards labour market participation by young people has been falling. At EU level the youth activity rate declined by 1.4 percentage points between 2000 and 2004 (from 46.5% to 45.1%), with the decline in participation being the same for young women and young men (Chart 54). In line with this decrease in participation, the employment rate fell by a similar amount, while the unemployment rate rose from 17.4% to 18.7%. Since the employment rate fell more for men than women, this was reflected in a stronger rise in the unemployment rate for young males of around 2 percentage points, while for young females the rise in unemployment was much more subdued at 0.3 percentage points. However, the ratio of youth unemployed to the total youth population changed very little overall, and in fact declined marginally, indicating that for the youth population as a whole the development in unemployment was much less significant. In conclusion, recent developments for youth as a whole (i.e. at EU level) have been driven mainly by the trend for young people to participate less in the labour market, as opposed to their being economically active and becoming unemployed.

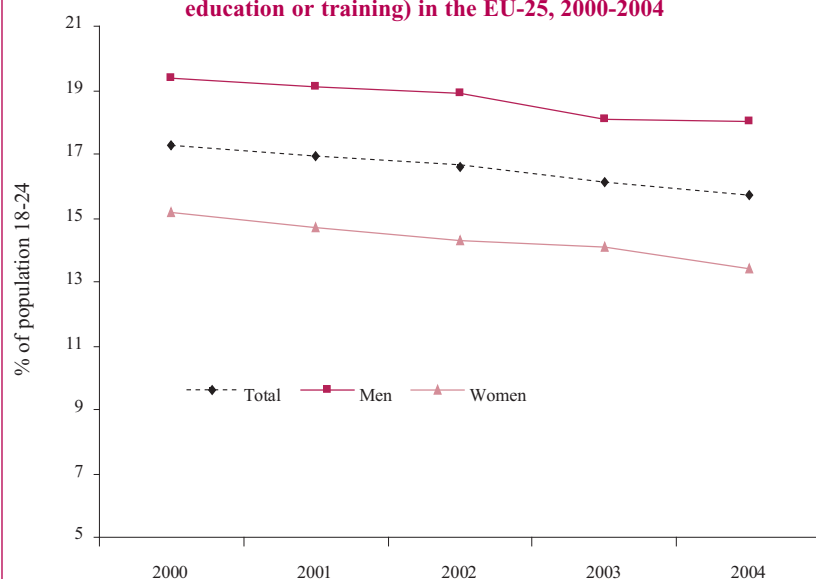
Falling youth participation in the labour market may to a large extent be

the flip side of increasing participation in education, and could in that sense be considered a positive development, contributing towards greater employability when they eventually join the labour market. In this regard, declin-

ing participation rates for youth seem to coincide with recent trends for young people to remain longer in education and training. For the EU as a whole, the share of early school leavers (i.e. the percentage of the

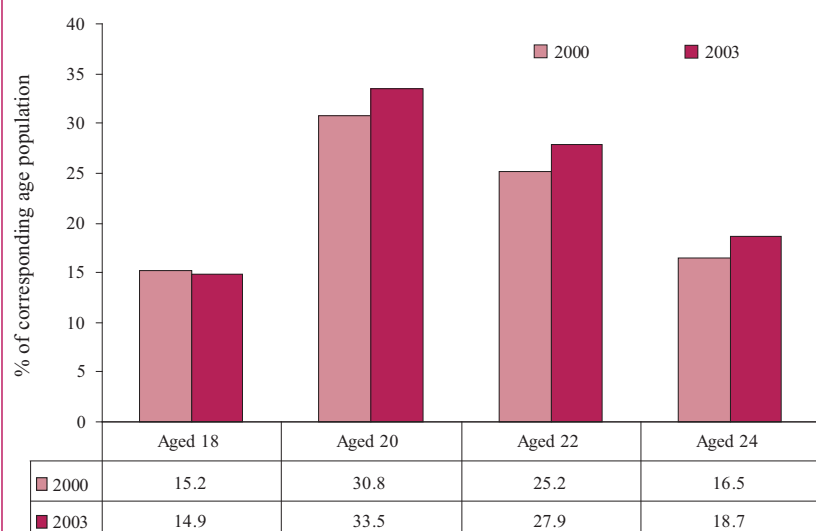
population aged 18 to 24 with at most lower secondary education and not in further education or training) has declined from 17.3% in 2000 to 15.7% in 2004 (Chart 55), while the share of students in the 15-24 age group has risen from 56.3% in 2000 to 59.0% in 2003 (Table 8). In addition, there has been a clear increase in the shares of young people participating in tertiary education (ISCED levels 5 and 6) since 2000 (Chart 56). These developments indicate that the declines in youth employment are at least partly linked to the tendency for young people to stay in education longer rather than participate in the labour market at an early age and are in line with aims to ensure that youth receive an education which prepares them well for the world of work. This would suggest that raising employment among youth may require greater efforts to increase the availability of more flexible forms of employment, such as part-time work, which would allow young people to better combine work responsibilities with education.

Chart 55 – Trends in the share of early school leavers (% of the population aged 18-24 with at most lower secondary education and not in further education or training) in the EU-25, 2000-2004



Source: Eurostat, Structural Indicators.
Note: Break in series in 2003.

Chart 56 – Students in the EU-25 at ISCED levels 5-6 by age (as % of corresponding age population)



Source: Eurostat, Education Statistics.

6.2.3. Improving the labour market integration of young people

International comparisons suggest there is scope to increase participation and employment rates for youth in the EU. Youth employment as a whole is generally low in Europe (in 2004 the employment rate for youth was around 54% in the US¹⁶ and 40% in Japan, compared to only 37% in the EU) and most Member States have not insignificant shares of youth who are neither in the labour force nor in education (generally varying across Member States in the region of 3% to 6% of the youth population). This suggests that greater efforts are needed to integrate young people into the labour market and to support them as they pursue

Table 8 – Students (all ISCED levels) aged 15-24 years (as a percentage of the population of the same age) in EU Member States 1998-2003

	1998	1999	2000	2001	2002	2003
EU-25	:	55.3	56.3	57.7	58.8	59.0
EU-15	:	56.5	57.2	57.4	58.4	58.1
BE	:	65.5	65.3	65.3	65.9	67.6
CZ	44.7	44.2	47.9	52.0	55.1	56.2
DK	56.9	57.0	58.4	61.9	61.0	62.8
DE	61.7	62.4	62.8	63.0	63.2	63.5
EE	54.4	57.4	60.7	62.1	63.0	62.5
EL	51.3	51.2	53.6	52.3	57.6	58.1
ES	55.7	55.0	56.3	55.8	54.9	54.0
FR	61.8	61.9	61.8	61.1	60.2	60.3
IE	54.6	54.2	54.3	54.6	54.7	55.2
IT	46.4	46.3	46.9	48.1	50.9	53.0
CY	:	37.8	37.0	37.5	39.2	42.1
LV	50.0	53.3	55.4	59.3	62.1	62.9
LT	50.9	55.6	60.1	64.1	66.0	68.0
LU	:	41.2	40.8	43.1	43.2	43.6
HU	46.4	48.2	50.1	51.6	54.0	56.5
MT	:	36.4	37.1	37.1	37.8	40.4
NL	61.4	62.8	62.7	63.1	62.4	62.4
AT	49.9	51.3	50.9	51.3	50.4	50.4
PL	57.6	59.8	61.6	64.3	66.1	67.3
PT	50.7	50.2	52.5	52.4	51.5	50.7
SI	53.6	56.3	59.3	62.7	65.2	66.9
SK	:	:	:	46.0	47.2	49.4
FI	63.9	66.4	67.5	68.3	68.3	69.4
SE	61.5	63.9	64.5	64.7	65.2	66.1
UK	47.8	52.7	53.0	53.5	57.2	55.2

Source: Eurostat, Education Statistics.

Note: For CY & LU, most tertiary students study abroad and are not included; Data for DE, IT, PL, SI are without ISCED 6; For BE data exclude independent private institutions.

“non-linear” careers alternating between employment, study, unemployment and retraining or skills updating. With this in mind the European Council recently adopted a *European Youth Pact* (Box 4) to enable young people to benefit from a set of policies and measures fully integrated into the revised Lisbon Strategy, which should lead to better integration of youth into the labour market in the years ahead. This pact provides a framework for formulating policy responses combining both employment and education objectives, notably for building new employment pathways and developing action plans with job assistance, guidance and training.

6.3. Comparison of labour market developments for older workers and youth

Comparing the changes in employment rates since the start of the economic slowdown in 2000 with those during the period of economic expansion of the late 1990s, there seems to have been a change in the characteristics of labour market developments post-2000 (Chart 57). During the period 1997 to 2000, employment rates rose across all age groups and for both men and women. The rise in youth employment rates was greater than for older workers and similar to that for prime age workers. Post-2000, which was marked by a period of economic slowdown, the increase in the overall employment rate slowed considerably and was accompanied by marked variations in employment rate developments across age groups and sexes. Between 2000 and 2004 employment rates for women continued to rise

Box 4 - The European Youth Pact

A return to sustained and sustainable growth requires greater demographic dynamism, improved social and vocational integration and fuller utilisation of the human potential embodied by European youth. To this end, the March 2005 European Council concluded that young people should benefit from a set of policies and measures fully integrated into the revised Lisbon Strategy, and adopted the European Youth Pact which focuses in particular on employment and social advancement.

The Youth Pact aims to improve the education, training, mobility, vocational integration and social inclusion of young Europeans, while making it easier to reconcile working life and family life. It should ensure the overall consistency of initiatives in these areas and provide the

starting point for strong, ongoing mobilisation on behalf of young people.

In this context, the European Council has called on the Union and Member States to draw upon a number of lines of action. Within the specific area of employment, integration and social advancement these are the following:

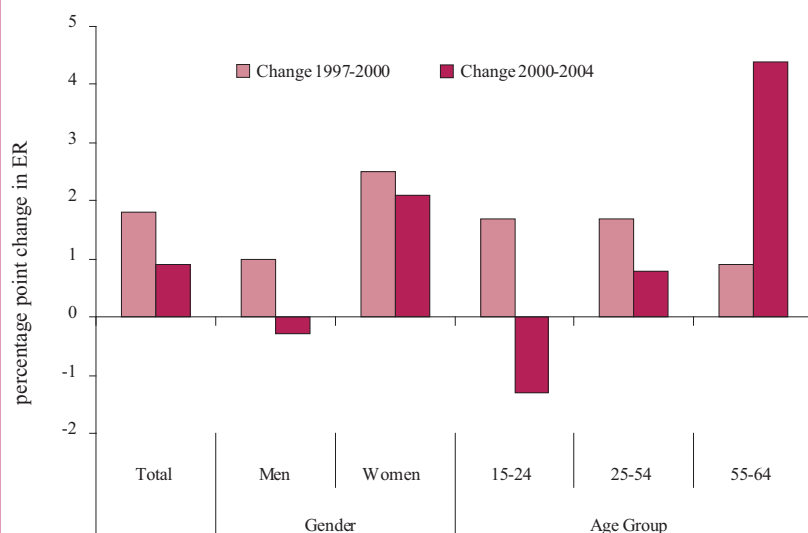
- Specifically monitoring policies for the sustained integration of young people into the labour market, in the context of the mutual learning programme on employment;
- Endeavouring to increase employment of young people;
- Giving priority under national social inclusion policy to improving the situ-

ation of the most vulnerable young people, particularly those in poverty, and to initiatives to prevent educational failure;

- Inviting employers and business to display social responsibility in the area of vocational integration of young people;
- Encouraging young people to develop entrepreneurship and promoting the emergence of young entrepreneurs.

In addition to these, other lines of action cover such issues as preventing early school leaving, improving the quality of education and matching initial training more closely to labour market demands.

Chart 57 – Change in employment rates by gender and age group over the two periods 1997-2000 and 2000-2004



Source: Eurostat, QLFD.

almost as strongly as before the slow-down, while rates for men declined slightly. There was also wide variation across age groups, with employment

rates for older persons aged 55 to 64 rising sharply while those for prime age workers rose less strongly and those for youth fell.

Clearly, therefore, labour market developments post-2000 have been quite varied for different sections of the working age population. With this in mind, it is sometimes said that improving the employability of certain groups will only reduce the job entry chances of other groups, although this reasoning is essentially based on the rather dubious assumption that the volume of total employment is fixed. Looking further into this issue and focusing on changes specifically for the youth and older persons' age groups, during the period of strong economic expansion of the late 1990s there seemed to be in general strong complementarity in employment creation for both young and older people of working age, with a broad trend of parallel movements in employment rates for both age groups across the majority of Member States as well as for the EU as a whole (Chart 58). However, this parallel movement seems to have broken down after 2000, during the period of economic

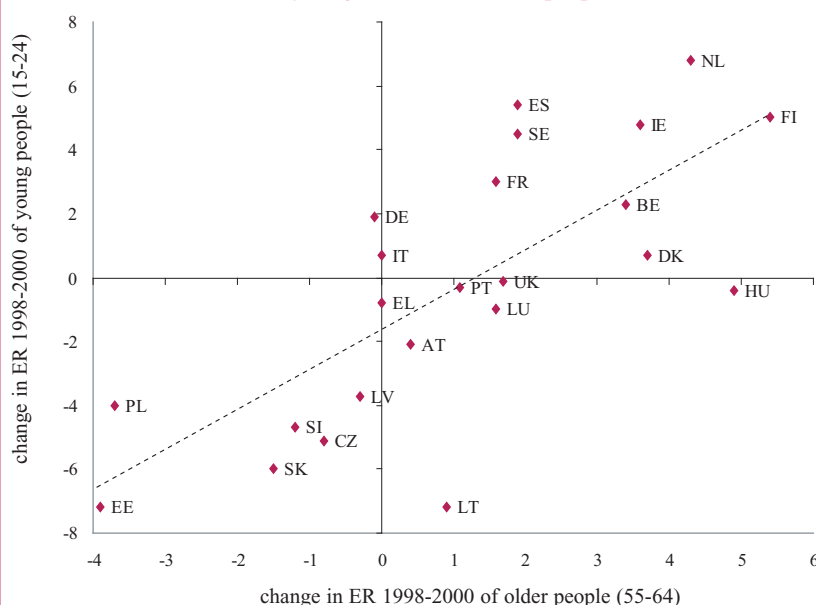
slowdown, with the result that there is now no clear relationship across Member States between the changes

in the employment rates for older people and those for youth (Chart 59). For example, Finland, Ireland, the Nether-

lands and Sweden are among the Member States which showed very strong increases in employment rates for both young and older persons during the late 1990s, but post-2000 these Member States have seen a clear decoupling of the movements in rates, with those for younger people falling while those for older people continue to rise strongly, while by contrast, France and Spain have maintained strong parallel improvements in employment rates of both younger and older people beyond 2000.

The developments post-2000 do not, however, necessarily imply any clear general substitution effect between older and younger workers. There is no clear negative relationship across Member States between the changes in older people's employment rates and those for the youth age group. Furthermore, in those countries where the employment rates of older workers fell significantly in the period 1998-2000, there was no corresponding rise in the employment rate of young workers, and this was also the case for Poland and Portugal post-2000. Also, certain Member States such as Italy, Latvia and Slovenia recorded increases in older people's employment rates only for the period 2000-2004, but youth employment rates also rose over this period. The case for a generally more complementary rather than substitution relationship between older and younger workers is supported by the fact that in general Member States with higher employment rates for older people aged 55 to 64 also tend to be among those with higher rates for youth (Chart 60), i.e. there is no evidence of an inverse relationship. In particular, Denmark and the UK have high employment rates for older persons combined with high, and very similar, rates for youth as well. Finally, as shown earlier, post-2000 trends are linked at least in part to young

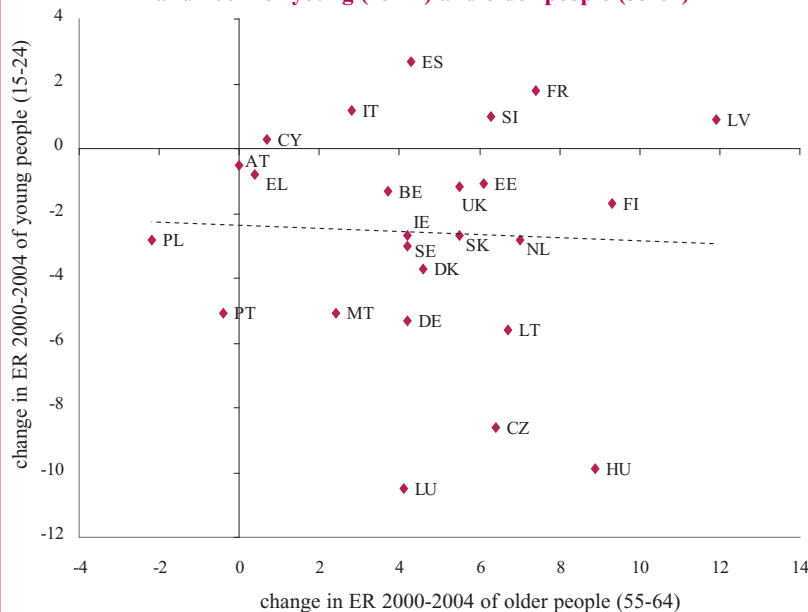
Chart 58 – Changes in employment rates in EU Member States between 1998 and 2000 for young (15-24) and older people (55-64)



Source: Eurostat, QLFD.

Note: Individual data for the New Member States start to be available from 1998, except for CY and MT.

Chart 59 – Change in employment rates in EU Member States between 2000 and 2004 for young (15-24) and older people (55-64)



Source: Eurostat, QLFD.

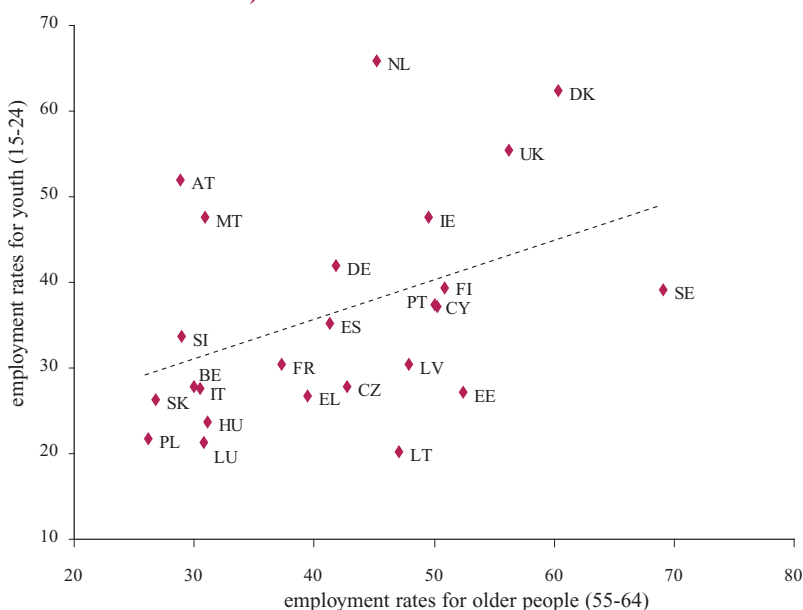
people remaining longer in full-time education and participating less in the labour market at early ages. This trend responds to some extent to the increasing demand for higher skill levels in work and so may have longer term labour market benefits.

On the other hand, examination of sectoral employment developments for the young and older working age groups between 2000 and 2004 seems to indicate there could be an element of substitution between old and young people at sectoral level, since employment changes for these age groups moved in opposite directions in several sectors. However, it must also be highlighted that although comparison of sectoral developments for the two age groups indicates different directions of employment change (increasing for older workers and declining for youth) in services sectors such as “Wholesale and retail trade, and repair”, “Transport, storage and communication” and “Financial intermediation” the falls in youth employment

in these sectors are relatively limited (Chart 61) and, apart from the first, are not sectors that traditionally account for a high share of youth employment. It is also clear that, at

EU level, the greatest factor in the decline in youth employment in recent years has been the marked fall in youth employment in manufacturing (which goes a long way to explaining

Chart 60 – Employment rates for youth (15-24) versus older persons (aged 55-64) across EU Member States in 2004



Source: Eurostat, QLFD.

Chart 61 – Comparison of changes in employment of young (15-24) and older people (55-64) between 2000 and 2004 by sector in the EU



Source: Eurostat, LFS, spring results.

why young men have been affected more than young women) and to a lesser extent agriculture. Indeed, the fall in employment in manufacturing for the youth age group has been around 0.7 million since 2000. This development suggests that, at least at overall EU level, the recent evolution in employment for youth may to some extent be more a reflection of the ongoing general decline in manufacturing in Europe rather than a result of any major substitution effect between older and younger workers, especially as employment for the older age group in this sector rose by only 0.25 million and given that employment for those of prime working age (25-54) also declined by some 1.3 million.

At Member State level, sectoral employment changes suggest there may be a stronger case for evidence of a substitution effect between employment of older and younger workers for some Member States. For example, there appears to be some support for the presence of such an effect in the

Czech Republic (Chart 62) and Hungary, where sectoral employment changes for the older and younger sections of the working age population have clearly moved in opposite directions in virtually all sectors. However, it is also the case that for these two Member States there has been a very pronounced reduction in labour market participation by young people (down around 10 percentage points since 2000 in both cases) which has been mirrored to a large extent by substantial increases in the proportion of students in this age group. Indeed, the percentage of students aged 15 to 24 years in the total population of the same age rose from 47.9% in 2000 to 56.2% in 2004 in the Czech Republic and from 50.1% to 56.5% in Hungary over the same period. This highlights that a key issue in assessing the presence of a substitution effect is whether the fall in activity rates for youth is due to increased and longer participation by young people in education out of a clear desire or need to do so, or as a result of lack of job opportunities specifically linked to higher employment of older people in

the labour market. Such an assessment is beyond the scope of this chapter.

In conclusion, based on the above rudimentary examination of recent developments for the young and older elements of the working age population, there appears to be no clear overall evidence of an employment substitution effect between these age groups, at least at EU level. In any case, given that overall employment growth in the EU has been rather limited since 2000 due in part to labour hoarding during the slowdown, even if keeping older workers in employment longer or encouraging them back into the labour market would have had an impact on employment opportunities for youth during the period of slowdown, considering the general aim to raise total employment levels towards full employment and the more positive economic outlook, there is no clear reason not to expect a return in coming years to the same general pattern of parallel developments in older people's and youth employment rates as was observed over the late 1990s.

Chart 62 – Comparison of changes in employment of young (15-24) and older people (55-64) between 2000 and 2004 by sector in the Czech Republic



Source: Eurostat, LFS, spring results.

7. Conclusions

Overall, this chapter shows that despite the pick-up in economic activity both in the EU and worldwide, employment growth in the EU was again weak in 2004 and has now been low for three years in a row. As a result, progress towards the Lisbon and Stockholm employment objectives has continued to be limited, although at country level employment performance in 2004 was generally positive, with negative employment growth in only a few

Member States. The services sector continued to drive employment expansion, in contrast to agriculture and industry where employment continued to contract in 2004.

Over recent years, there has been an increase in the shares of more flexible types of employment, such as part-time and fixed-term employment. Employment of older people has increased markedly and accounts for the majority of the increase in total employment since 2000 compared to other age groups, suggesting that policies to

improve the participation of older workers and reforms of pension systems and early retirement schemes may be taking effect in the labour market. Yet deep concerns remain about the employment situation of youth, which has deteriorated over recent years, although this trend seems to coincide with young people staying longer in education and training. This points to the need to step up efforts aimed at enabling young people to better combine education and employment, in the overall context of improving youth integration into the labour market.

Box 5 - Overview of the labour market situation in the Accessing and Candidate Countries

After successfully expanding from 15 to 25 members in May 2004, the European Union is now preparing for the next enlargement. Following the signing of the Accession Treaty on 25 April 2005, Bulgaria and Romania are now “Accessing Countries” likely to become full EU Members in 2007, while Croatia and Turkey are “Candidate Countries”, in the process of negotiations for EU membership. It is appropriate, therefore, to examine the labour market situation in these four countries and compare how they stand relative to the EU as a whole.

The labour market situation in 2004 compared to the EU

For all four countries the activity rates and employment rates in 2004 were considerably below the average for the EU (Chart 63). While in Bulgaria, Romania and Croatia employment rates were 6 to 9 percentage points lower than in the EU in 2004, the gap with regard to Turkey was significantly wider at 17 percentage points, largely due to the exceptionally low employment rate for women of only 24.3% (Chart 64).

Unemployment rates are generally on a par with the EU average, although lower in Romania and slightly higher in Bulgaria and Turkey. Part-time employment is less common in these countries than for the EU as a whole, and is especially low in Bulgaria where only 2.4% of those in employment are working part-time. Similarly, shares of employees employed on fixed-term contracts are, apart from Croatia, generally much lower than in the EU.

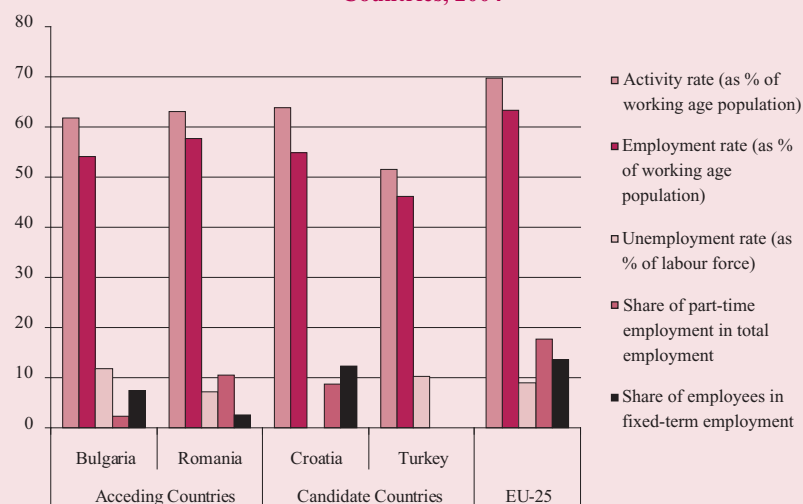
Recent labour market trends

Over recent years the employment rate has risen by almost 4 percentage points in Bulgaria, from 50.4% in 2000 to 54.2% in 2004, driven by a fall in unemployment from around 16% to 12% and a slight improvement in the overall activity rate (Chart 65). Employment rates rose particularly strongly among the older persons' age group (55-64) where labour

market participation has risen sharply, especially for older women, although rates for young and prime working age people have also risen. By contrast,

employment rates in Romania and Turkey have fallen by around 5 and 3 percentage points respectively since 2000, although in Romania (within the

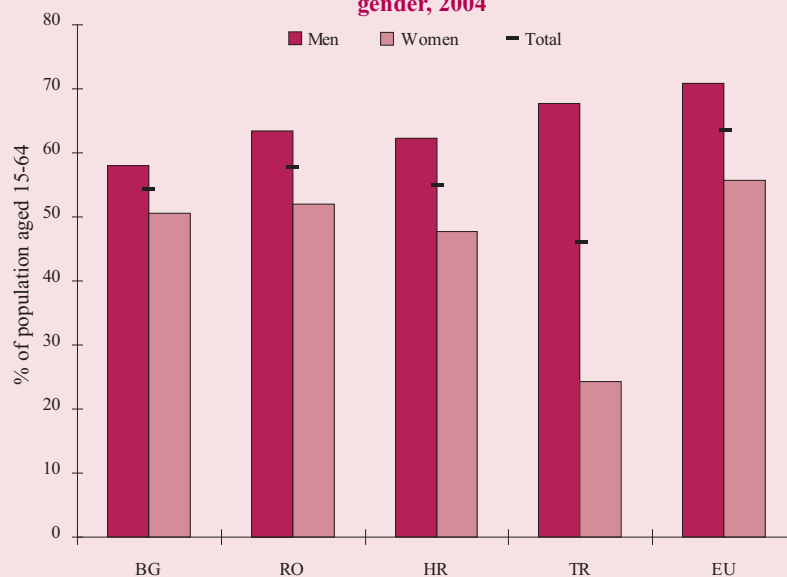
Chart 63 – Labour market indicators in the Accessing and Candidate Countries, 2004



Source: Eurostat, QLFD and harmonised series on unemployment.

Note: No UR data for HR, no P/T or fixed-term empl share data for TR.

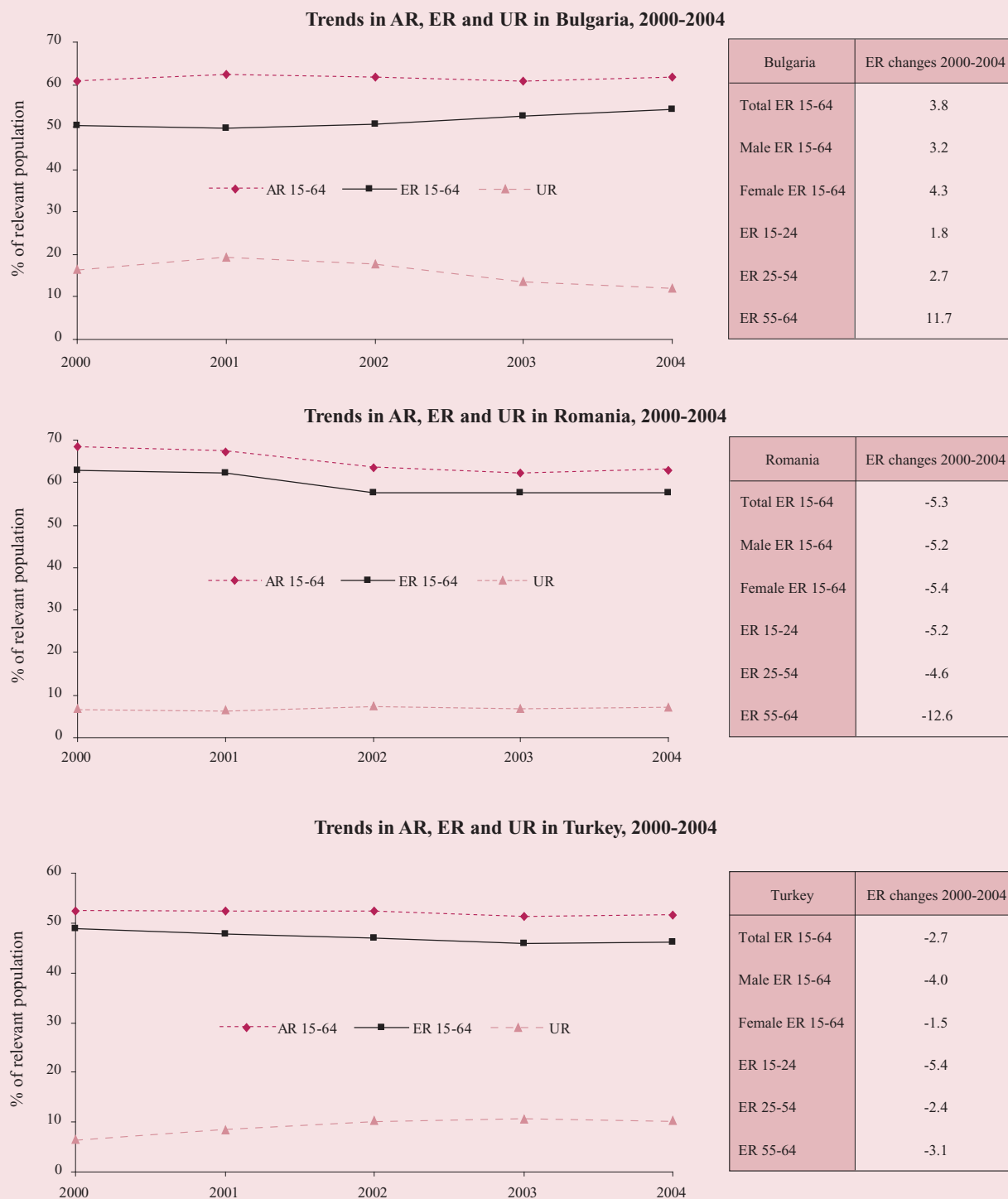
Chart 64 – Employment rates in Accessing and Candidate Countries by gender, 2004



Source: Eurostat, QLFD.

Box 5 (cont.) - Overview of the labour market situation in the Acceding and Candidate Countries

Chart 65 – Trends in activity rates, employment rates and unemployment rates in Bulgaria, Romania and Turkey, 2000-2004



Source: Eurostat, QLFD and harmonised series on unemployment.

Note: Break in series for RO in 2002 (new employment and unemployment definitions).

Box 5 (cont.) - Overview of the labour market situation in the Acceding and Candidate Countries

limitations of the data available)¹⁷ this reflects a similar fall in the activity rate and little change in the unemployment rate, while in Turkey the overall activity rate changed little and the main impact has been a rise in unemployment of close to 4 percentage points. Unlike Bulgaria, in Romania labour market participation and, hence, employment rates for the 55-64 age group have fallen markedly since 2000. (Comparable data for Croatia are available only from 2003 onwards, so it is not possible to comment on developments in that country since 2000.)

Sectoral employment structure in the Acceding Countries

Focusing on the Acceding Countries, data on the sectoral employment structure (by main employment, resident concept) in 2004 (Table 9) reveal that in both countries there are higher shares of people who are mainly employed in agriculture than for the EU as a whole, especially in Romania where around one third of all main employment is accounted for by this sector. In fact, the employment structure (by main employment) for

Romania broadly consists of one third of total employment in each of the main sectors, with employment in services much less developed than in the EU. While Bulgaria also has a low share of people with employment in services as their main employment in comparison to the EU as a whole, its sectoral employment structure is broadly similar to that of certain existing Member States such as Portugal and Slovenia, while, in contrast, Romania has a structure quite unlike that of any EU Member State.

At a more detailed sectoral level, within industry both Bulgaria and Romania have higher shares of employment (by main employment) than the EU in the manufacturing, utilities and mining sec-

tors but considerably less in construction (Chart 66). Within services, Bulgaria has broadly similar shares to the EU in many sectors, the main exceptions being "Real estate, renting and business activities", "Financial intermediation" and "Health and social work" which account for much lower shares of employment than in the EU. By contrast, in Romania all services sectors account for much lower employment shares compared to the EU, in line with the relatively low overall level of employment in services in that country. This indicates that Romania faces a much greater challenge to restructure its economy if it is to adjust to a sectoral employment structure more typical for the EU.

Table 9 – Employment structure (% of employment) by main employment in Bulgaria, Romania and the EU, 2004

	BG	RO	EU
Total Agriculture	10.7	32.6	5.0
Total Industry	32.9	31.1	27.9
Total Services	56.3	36.4	67.1

Source: Eurostat, LFS, spring results.

Chart 66 – Comparison of sectoral employment structure (by main employment) of Bulgaria, Romania and the EU, 2004



Source: Eurostat, LFS, spring results.

17 There was an important break in data series in Romania in 2002 related to revised employment and unemployment definitions