A Single European Labour Market: moving it closer?

Discussion Paper

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The great recession and the subsequent debt crisis have been hard on the EU. Public-finance restructuring in many countries has resulted in a significant increase in unemployment in Europe from 7% in 2009 to 10.8% in 2013 and in very high unemployment in the periphery. The apparent pre-crisis EU convergence has turned into what seems like continuous divergence roughly along a north-south fault line.

One outcome of this development is the stark contrast in labour market conditions between on the one side Germany and a few other northern European countries and those of Spain, Italy and other peripheral countries. For young people, who are traditionally more mobile, the differences are staggering. In fact, *major* national labour-market performances have never before displayed the differences that are evident today.

The single European labour market

- *State of play, lessons from the crisis*
- *Time to think long term?*
- *What further role for the EU: Enter a European Unemployment Insurance scheme*
- *The role of skills*

No single European labour market without mobility

Thus, the impetus coming from economic factors for assessing the state of the single European labour market will hardly be any stronger than can be seen today.

Labour mobility within the EU has two components: east-west and south-north. None of these has changed *fundamentally* as a result of the crisis. East-west mobility slowed down following the initial recession, but it has since recovered. South-north mobility has increased from very low pre-crisis levels but it still overall remains small in absolute numbers.

While being contested in several member states, east-west mobility has been broadly beneficial, although there can be doubts as to long-term consequences for economic development in some sending countries. Given the economic fundamentals, south-north mobility is likely to run at its current full potential.

Instruments at the EU level – such as the EURES platform, 'My first EURES job' and targeted mobility schemes – have a role to play in integrating labour markets but their further potential is small. Defending free movement is the most important contribution from the European Commission in the short term.

Making it European: Time to think long term?

Enter a European Unemployment Scheme

An additional fiscal stabilisation mechanism is justified because Europe's monetary union has not provided adequate fiscal stabilisation during the crisis and fiscal policy has been pro-cyclical since 2011. Creating a European Unemployment Insurance (EUI) scheme would be an interesting option for stabilising economic cycles by directing financial flows to the unemployed wherever they are in Europe and supporting the economies of countries affected by major increases in unemployment.

An EUI scheme, however, cannot simply be analysed from a fiscal point of view. There exists substantial heterogeneity in labour-market institutions in the EU countries. The introduction of EUI would be therefore also be a major opportunity to fundamentally harmonise European labour markets and thereby improve the functioning of the monetary union, the single market and foster labour mobility. It would be a signal of the political determination to complete the monetary union and to bring a social dimension to the European project, which is often seen by citizens as oriented only towards technical matters. EUI could be seen as a way to create a direct solidarity link between European citizens.

The role of skills

Mobility (and a European unemployment scheme) might not be the end goal of a European labour market, but they are certainly key objectives[1] which shouldn't be considered in isolation. To achieve them, we need three elements: i) quick and easy recognition of qualifications[2], ii) harmonisation of social security systems[3] and iii) knowledge of languages. To facilitate professional reconversions, we should also consider transportability of training rights and/or training rights attached to the person.

The great economic and social divergence makes permanent passive transfers almost unsustainable, whereas there is massive underinvestment in the periphery and in those who need it the most**.** Social investment[4] would be a way to help the southern countries redress their competitiveness, assist the

[1] The rationale is economic, but also demographic, and social.
[2] Legal recognition is already possible in most areas, but immense limitations in implementation remain (Enderlein and Pisani-Ferry, 2014).
[3] Full transportability of unemployment insurance, but also health insurance, pension rights, vocational training rights and/or qualifications.
[4] Backed by the long-term investment fund to be set up, as reforming structural funds is beyond the 2014-2020 multi-annual financial framework.

eastern countries to catch up, move the environmental transition forward and fund growth. In addition, the divergence of national social models leads to a perception of a race-to-the-bottom. A European labour market could therefore seek a convergence on workers skills, stakeholders' dialogue, sustainability of our social security systems and fiscal convergence.[5]

More fundamentally, isn't the end goal of a European labour market to contribute to a competitive European economy? The key is thus to understand the change in the nature of work with an imperative of lifelong learning. This cannot happen without renewed training systems in conjunction with informational and technological transformations.

[5] The cost of labour should not be another competitive element in a race-to-the-bottom.