



IMPLEMENTATION OF “EUROPE 2020” STRATEGY EMPLOYMENT TARGETS IN LATVIA AND EU COUNTRIES

Daira Barānova, University of Latvia, Latvia¹

Abstract. European Council adopted Europe 2020 Strategy in 2010 taking into consideration long-term challenges. The Strategy that will transform EU and ensure high employment level, productivity and social cohesion in EU. The strategy towards smart, sustainable and inclusive growth is a way to improve countries' productivity and competitiveness. Objectives of the strategy are expressed in five targets and one of them is employment target. The aim of the paper is to analyse “Europe 2020” strategy employment targets in the EU-27 to reach by 2020, as well as, national employment target of Latvia. In the given research such methods as the analysis of the literature and advanced papers in the field of employment in EU were used. Reflecting the “Europe 2020” strategy, core focus is on jobs. Assessment of challenges under the Employment Policy Guidelines and progress towards the EU headline and national employment rate targets compared to current and projected 2020 rates. In the result of this research key indicators of labour market performance in Latvia have been compared with EU countries.

Key words: *employment, employment targets, “EU 2020” strategy*

JEL code: E2, E6

Introduction

Macroeconomic questions have changed over the years and have usually been motivated by a concern to understand the actual economic problems. One of the goals of economic policy is to achieve full employment. High unemployment rates are a major economic and social problem to achieve full employment. The questions are: what determines the level of employment and unemployment? What actions do governments take to increase employment and smooth out fluctuations in unemployment? What are the objectives of EU for the current decade? What are the main measures envisaged to reach the employment target?

The aim of the paper is to explore “Europe 2020” strategy employment target, let out progress and challenges in Latvia and EU countries. To reach the aim, analysis of special literature and statistical data on employment and unemployment indicators and national employment rate targets compared to current and projected 2020 rates in Latvia and EU countries. Part I is dedicated to the employment rate target at the EU level. Part II contains the analysis of employment and unemployment trends in Latvia and EU countries. The paper investigates the impacts of the crisis on employment. Part III takes up different labour market policies to enhance job creation.

¹ Corresponding author – e-mail address: daira.baranova@lu.lv, telephone: +371 67034763



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1. Employment rate targets

The “Europe 2020” strategy adopted by the European council on 17 June 2010 is the common agenda for EU countries to improve competitiveness and productivity. The key objectives are expressed in five targets at the EU level. Progress towards the five targets is monitored by means of eight indicators and three sub indicators.

Reflecting the core focus of the Europe 2020 strategy on jobs, the European council adopted a headline target for the employment rate of the population aged 20-64 to increase to at least 75%, including through the greater involvement of women, older workers and the better integration of migrants in the work force.

The quantitative objective set by Latvia in the context of implementing the EU 2020 strategy is to reach an employment rate of 73% in the age group of 20-64 by 2020. Table 1 presents national employment targets in EU countries, as defined in the National Reform Programs. 12 of EU countries set the goal < 75%, 5 – 75% and 9 > 75%. Average employment rate target is EU 73.7-74.0% and EU-17 average is 73.8-74.2%.

Table 1

National employment rate targets

| < 75% | 75% | > 75% |
|--|-----------------------------------|--|
| BE (73.2), EL (70), ES (74), IE (69-71), IT (67-69), LT (72.8), LU (73), LV (73), MT (62.9), PL (71), RO (70), SK (72) | CZ, FR, HU, PT, SI UK n.a. | AT (77-78), BG (76), CY (75-77), DE (77), DK (80), EE (76), FI (78), NL (80), SE (>80) |

Source: author's construction based on European Commission, 2012

Table 2 shows employment rate aged 20-64 from 2008 to 2012 in EU countries. Denmark, Estonia, Cyprus, Latvia, the Netherlands, Austria, Finland and Sweden had employment rate above EU target 75% in 2008.

The economic crisis had an effect on employment. Compared to 2010 the EU employment rate did not increase in 2012 and stood at 68.5%, which is still significantly below the pre-crisis level of 70.3%. As only marginal increases are expected for 2013 and 2014 reaching the Europe 2020 target will require considerable effort. This means that the employment rate will have to increase by over 6 percentage points in order to reach the target of 75%.

Differences between EU countries are large – 2008 Malta had the lowest employment rate 59.1% and Sweden the highest at 80.4%. In 2011 Greece had the lowest employment rate at 59.9% and Sweden the highest at 79.4%. The same situation in 2012: Greece had the lowest employment rate at 55.3% and Sweden the highest at 79.4%. Latvia had 75.8% in 2008 and 66.3% in 2011 and 68.2% in 2012 (Table 2).

Austria, Denmark, Germany, the Netherlands and Sweden has employment rate above the EU target of 75% in 2011 and in 2012. The highest distant from national target is in Hungary 12.9 percentage points and Greece and Spain (both – 14.7 percentage points). Germany is 0.3 percentage points below its national target in 2012. According to European Commission estimated average annual 2011-2020 employment growth necessary to reach national target: EU average 0.8%, EU-27 average 0.9%, EA-17 average 0.7% and Latvia – 2%. Taking into account data of 2012 the author's estimates shows that Latvia to reach the national target (73%) will need an average annual employment rate growth by 0.6 percentage point till 2020. But to reach EU average target (75%) – 0.85 percentage point.



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Table 2

Employment rate aged 20 to 64 in EU (%)

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| Austria (AT) | 75.1 | 74.7 | 74.9 | 75.2 | 75.6 |
| Belgium (BE) | 68.0 | 47.1 | 67.6 | 67.3 | 67.2 |
| Bulgaria (BG) | 70.7 | 68.8 | 65.4 | 62.9 | 63.0 |
| Czech Republic (CZ) | 72.4 | 70.9 | 70.4 | 70.9 | 71.5 |
| Cyprus (CY) | 76.5 | 75.7 | 75.4 | 73.4 | 70.2 |
| Denmark (DK) | 79.7 | 77.5 | 75.8 | 75.7 | 75.4 |
| Estonia (EE) | 77.0 | 69.9 | 66.7 | 70.4 | 72.1 |
| Finland (FI) | 75.8 | 73.5 | 73.0 | 73.8 | 74.0 |
| France (FR) | 70.4 | 69.4 | 69.2 | 69.2 | 69.3 |
| Germany (DE) | 74.0 | 74.2 | 74.9 | 76.3 | 76.7 |
| Greece (EL) | 66.5 | 65.8 | 64.0 | 59.9 | 55.3 |
| Hungary (HU) | 61.9 | 60.5 | 60.4 | 60.7 | 62.1 |
| Ireland (IE) | 72.3 | 67.1 | 65.0 | 63.8 | 63.7 |
| Italy (IT) | 63.0 | 61.7 | 61.1 | 61.2 | 61.0 |
| Latvia (LV) | 75.8 | 67.1 | 65.0 | 66.3 | 68.2 |
| Lithuania (LV) | 72.0 | 67.2 | 64.4 | 67.0 | 68.7 |
| Luxembourg (LU) | 68.8 | 70.4 | 70.7 | 70.1 | 71.4 |
| Malta (MT) | 59.1 | 58.8 | 60.1 | 61.5 | 63.1 |
| Netherlands (NL) | 78.9 | 78.8 | 76.8 | 77.0 | 77.2 |
| Poland (PL) | 65.0 | 64.9 | 64.6 | 64.8 | 64.7 |
| Portugal (PT) | 73.1 | 71.2 | 70.5 | 69.1 | 66.5 |
| Romania (RO) | 64.4 | 63.5 | 63.3 | 62.8 | 63.8 |
| Slovak Republic (SK) | 68.8 | 66.4 | 64.6 | 65.1 | 65.1 |
| Slovenia (SI) | 73.0 | 71.9 | 70.3 | 68.4 | 68.3 |
| Spain (ES) | 68.3 | 63.7 | 62.5 | 61.6 | 59.3 |
| Sweden (SE) | 80.4 | 78.3 | 78.7 | 79.4 | 79.4 |
| United Kingdom (UK) | 75.2 | 73.9 | 73.6 | 73.6 | 74.2 |
| European Union | 70.3 | 69.0 | 68.6 | 68.6 | 68.5 |

Source: Eurostat, Employment rate, by sex, 2013

EU must increase its overall employment rate: the employment rate is particularly low for women (62.3% against 75% for men aged 20-64 in 2011) and older workers, aged 55-64 (47.4% against 60% in the US and 65% in Japan).

In a long-term progress on EU employment target depend on economic growth and macroeconomic policies, especially suitable labour market policies.

2. Employment and unemployment trends

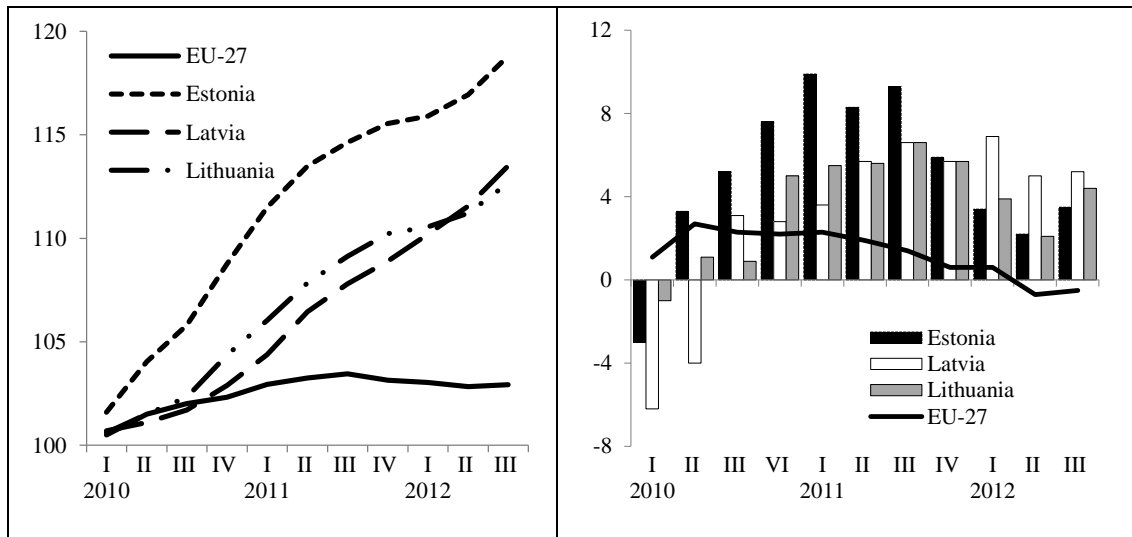
Fluctuations in employment follow closely the fluctuations in real GDP. Labour market conditions in the EU have worsened continuously, reflecting the deterioration in the overall economic situation and the heightened uncertainty. Since the second half of 2011, growth of the European Union in general and the



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euro zone in particular has been weak (Figure 1). The EU economy continues to struggle with the post-financial crisis correction.



Seasonally adjusted data, 4th quarter of 2009 = 100

Against the respective period of the previous year, %

Source: Ministry of Economics of Latvia, *Economic Development of Latvia*, December 2012, page 17

Fig. 1. GDP Dynamics by Quarters in Baltic countries and Latvia

Despite the weak economic growth in the EU, the economy of Latvia, Estonia and Lithuania kept growing rather fast in 2011-2012.

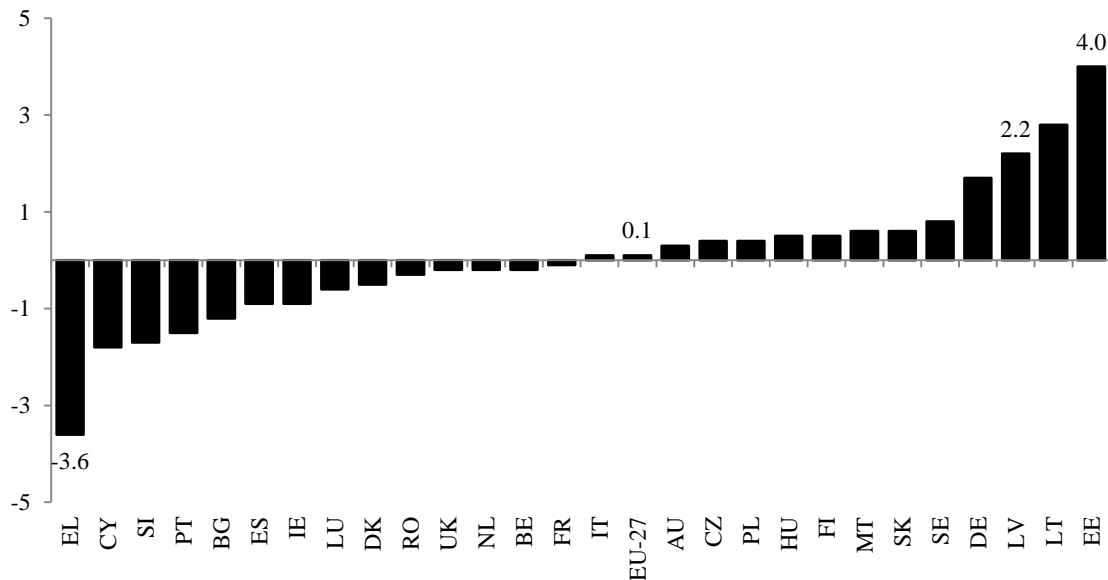
The situation in the labour market in Latvia has been improved within a year along with the increasing economic activities. The number of employed increased by 2.8% in 2012 compared to 2011. At the same time, the unemployment rate dropped by 1.3 percentage points constituting on average 14.9% in 2012. The situation in the labour market in Latvia is expected to continue improving also in the next years; moreover, improvements will be explicitly observed in terms of wages and job opportunities. At the same time, considering the expected weak economic growth in the European Union recovery in Latvia is going to be moderate.

The response of employment to growth has been quite uneven across EU countries in correspondence to different economic structures and policy settings. The highest increase in employment growth (Figure 2) was in Estonia and decrease in Greece in 2011. In 2011, the number of employed in EU average has increased by 0.2%. Employment expansion lost pace in the second half of 2011.

Employment expanded at moderate pace in manufacturing and more strongly in wholesale and retail trade (European Commission, 2012, 35 p.).

In the line with weak economic activity in 2012 employment decreased by 0.1%.

The recent labour market trends are partly the result of cyclical movements, and notably of the deep economic crisis, but they are also due to structural and institutional labour market challenges affecting economic activity and the performance of labour markets. For example, consistently implemented economic policy in the previous years has fostered improvement of macroeconomic situation and as result it contributes positively to the growth and employment in Latvia.



Source: Eurostat

Fig. 2. Changes in employment growth in EU in 2011 (percentage points)

When employment falls, the unemployment rises. There are four major flows between labour market states:

- Employed workers become unemployed by voluntary quitting or being laid off;
- Unemployed workers obtain employment by being newly hired or being recalled to a job from which they were temporarily laid off;
- Those in the labour force, whether employed or unemployed, can leave the labour force by retiring or otherwise deciding against taking or seeking work for pay (dropped out);
- Those who never worked or looked for a job expand the labour force by newly entering it, while those who have dropped out do so by re-entering the labour force (Ehrenberg Ronald G., Smith Robert S., 1988).

Labour market turnover presents flows into and out of unemployment, and between jobs.

Unemployment moves with the business cycle. Some factors that determine cyclical unemployment are: migration and demographics, minimum wages, growth characteristics of different sectors of the economy, unemployment insurance, importance of trade unions, labour taxes (high tax rates may also give a boost to the underground economy) and etc.

Examine the international experience with episodes of severe banking crisis to identify empirical similarities, Carmen M. Reinhart in the article "The Economic and Fiscal Consequences of Financial Crises" (2009) some of findings (about employment, unemployment and output) could be summarized as following:

- There are profound declines in output and employment;
- The unemployment rate rises an average of 7 percentage points over the down phase of the cycle, which lasts four years on average;
- Real GDP per capita falls (from peak to trough) an average of more than 9%, and the duration of downturn averages roughly two years.



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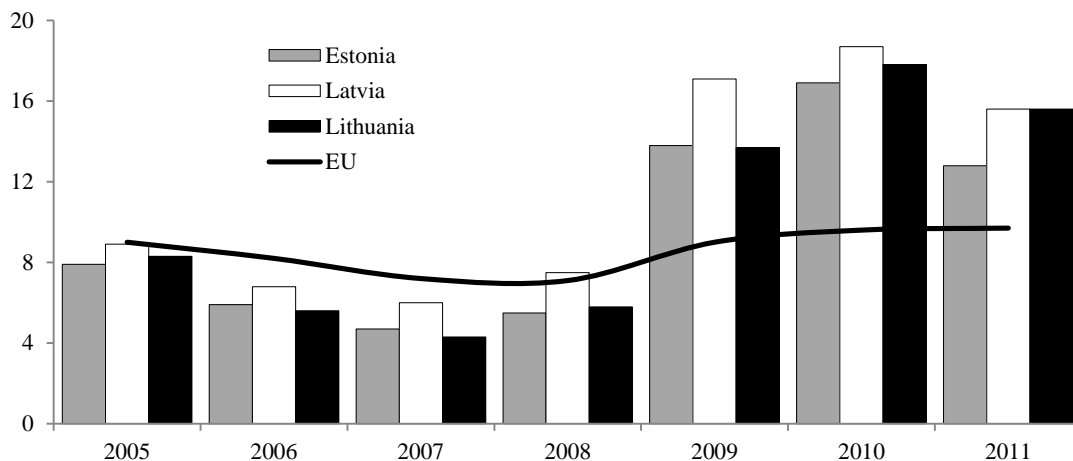
Schumpeter in the article “The great mismatch” analysing youth unemployment and gap between education and employment, said that McKinsey argues “A big part of the problem is that educators and employers operate in parallel universes – and that a big part of the solution lies to bring these two parts together: obliging educators to step into employers’ shoes and employers into educators’, and students to move between the two.” Education can at least help to deal with an absurd mismatch that has saddled the world not just with a shortage of jobs but a shortage of skills as well (The Economist, December 8, 2012).

The EU labour market have been characterised during the 2008-2009 recession and after recession. During 2008-2009 job creation was inefficient to offset the losses in employment, as a result high unemployment.

The current weakening in the labour market is result of worsening economic activity linked the aggregation of crisis. In some countries debt crisis required a resolute fiscal adjustment, which had an impact on employment and output. Tightening the fiscal condition linked to the ongoing delivering process compounded the impact of the debt crisis. Growing share of employment is on the temporary contracts.

The distribution of employment between permanent (73.4%), temporary (12.0%) and self-employment (14.6%) differs considerable across EU in 2011, with Mediterranean countries as well as Poland characterized by strong segmentation. At EU level share of permanent employment was almost unchanged in 2011, but relative strong increase took place in Romania and Portugal, as share of self-employed decreased. Distribution of employment between was such: permanent (83.9%), temporary (5.8%) and self-employment (10.3%) in Latvia in 2011 (European Commission, 2012, p. 31).

Unemployment data record high differences between EU countries. It was growing since 2008. In 2011 high unemployment rates in Baltic countries started falling. The unemployment divergence is partly the result of differences in developments in economic activity and partly the outcome of different responses of unemployed to growth. The reduction in unemployment related with stabilizing financial markets (fiscal consolidation) in Baltic countries (Figure 3).



Source: Eurostat

Fig. 3. Unemployment rate in Baltic countries and EU, age group 15-74 (% of age group 15-74 years)

Four years after the absence financial crisis job finding rates remains low in most EU countries. Duration of unemployment has been in the most EU countries; the highest increase was in Ireland, Estonia, Latvia, Lithuania, Slovakia and Spain.



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The economic crisis is having an exceptionally severe impact on young people. Youth unemployment rates for those aged 15-24 increased dramatically in Greece, Portugal, and Spain and remained high in Baltic countries. 7.5 million Europeans aged 15-24 are neither in employment nor in education or training. Youth unemployment rate varied from 7.6% (the Netherlands) to 46.4% (Spain) in 2011.

Why unemployment is so high? The question is about unemployment nature – whether it is mostly structural or cyclical? Structural unemployment means that there is mismatch between skills demanded and skills available in the labour market. Its level is determined both by institutional factors and fiscal measures (unemployment benefits, tax rates). Empirically the structural unemployment rate cannot be observed (structural unemployment rate has to be estimated). Cyclical unemployment suggests that the major constraint for creating new jobs is lack of demand.

The evidence indicates that unemployment becomes increasingly structural. The “Beveridge curve” for the euro area has clearly been shifting outward since 2010. According to 2012 data, structural unemployment rates above EU average were in Spain, Latvia, Ireland, Portugal, Lithuania, Slovakia, Estonia, Bulgaria, Hungary and France. Austria, the Netherlands, Luxembourg and Denmark have significantly lower structural unemployment rate, close to actual (European Commission, 2012, p. 5).

3. Labour market policies to enhance job creation

Labour market policies include:

- Labour market participation;
- Job creation;
- Labour market functioning, combating segmentation;
- Active labour market policies;
- Adequate and employment oriented social security system.

Table 3 shows policy direction to reach the objective, which are planned on labour demand side and labour supply side in Latvia.

In order to facilitate real progress towards the overall national targets, it is necessary to focus on the most vulnerable labour market groups. Job retraining, incentives to improve mobility or tax incentives are possible measures to reduce unemployment and increase employment.

While passive labour market policies are aimed at providing income support to the unemployed, as active labour market policies aim at improving employability of job seeker. The majority of policy instruments were intended to increase employability, improve the matching process and facilitate labour market transactions, reinforcing activating and supporting employment by cutting labour cost.

Starting from 2010, the need to address long-term labour market weakness and large imbalances in a number of EU countries, led to the rapid phasing-out of crisis-related measures and to an intense structural reform activity. Reform intensity in the field of unemployment and other welfare-related benefits was overall stable over the period 2008-2011. Activation and job-search assistance policies have remained one of the most widely used policies to fight unemployment. New strategies and action plans have been desired to improve matching, by focusing on reinforced individual support and an early activation (Finland, France, Spain, Portugal, Denmark, Ireland, Sweden, Luxembourg), especially of the young and long-term unemployed. A wide range measures have been adopted to enhance the training offer (Greece, Lithuania, Sweden, Spain, Latvia, Luxembourg, Bulgaria, Estonia, Denmark, Ireland, Belgium and Germany) (European Commission, 2012, p. 50).



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Table 3

Policy directions to reach the objective in Latvia

| For improving labour supply | For improving labour demand |
|---|--|
| Active labour market and lifelong learning policy measures which correspond to the situation in the labour market and flexible to implement. | Structural reforms in goods and services market. |
| Improvement of quality of work environment, development of normative framework of legal relationships in the labour market and labour protection. | Improvement of business environment. |
| Timely identification of labour market needs. | |
| Reduction of undeclared employment. | |
| Promotion of self-employment and business. | |
| Improvement of social infrastructure and care services and increase availability of thereof. | |
| Reforms in educational system. | |

Source: author's construction based on Ministry of Economics, 2010, p. 79

In particular, the youth unemployed are a policy concern. According to European Commission assessment Member States, in particular those with the highest youth unemployment rates should take decisive measures in the following four main areas (European Commission, 2011, pp. 7-8):

- Preventing early-school leaving;
- Developing skills that are relevant to the labour market;
- Supporting a first work experience and on-the-job training;
- Access to the labour market: getting a (first) job.

The primary responsibility for tackling youth unemployment lies with Member States, including at regional and local levels. Their authorities finance education and social programmes and have the policy levers and the budget to support youth employment schemes. The EU level can play a supportive role in helping Member States to improve the employment and educational situation of young people in two ways:

- By reviewing national policies and performances, highlighting priorities from an EU perspective and suggesting lines for action based on good practices;
- By providing financial support to national and cross-border action in line with agreed priorities: this is done by a variety of programmes, notably the European Social Fund and other EU programmes such as the Lifelong Learning Programme, Youth in Action. Other EU funds such as the European Regional Development Fund, the European Agricultural Rural Development Fund, the European Fisheries Fund or the European Fund for the Integration of third-country nationals also support measures helping to tackle youth unemployment (European Commission, 2011, p. 6).

The Commission adopted the Youth Employment Package on 5 December 2012. It includes a proposal for a Council Recommendation on Establishing a Youth Guarantee, launches a second-stage social partner consultation on a Quality Framework on Traineeships, announces a European Alliance for Apprenticeships and outlines ways to reduce obstacles to mobility for young people.

To tackle the problem, Latvia is already implementing the following measures targeted at young unemployed:

- Wage subsidies for young people;
- Profession trials (young unemployed can try out 3 professions which could help them to choose a profession);
- Support for unemployed youth participating in voluntary work;



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Additionally, young people can participate in measures targeted to all the unemployed (professional and general training, professional consultations, career guidance, training at the request of the employer, business start-ups, public works etc.) implemented by the Latvian State Employment Agency.

Latvia implements several measures to reduce early school leaving, such as pedagogical correction programme, tracking and monitoring systems. One of the new instruments in Latvia is development of career education system and revision of the existing system. Development and implementation of flexible education programmes by providing the opportunity to acquire labour market demanded qualifications in a short period of time is other instrument to increase employment level. Job search assistance are being developed in order to improve matching of unemployed individuals to vacant jobs and select most appropriate support measures for individuals.

The situation in EU identifies reduction of structural unemployment risk and ensuring better matching in the labour market as one of the key macro-structural bottlenecks for growth and jobs. Therefore, the emphasis of policy making is more than ever on structural measures supporting labour market adjustment and enchaining growth and competitiveness to achieve target set in Europe 2020 strategy.

Conclusions

1. The economic crisis had an effect on employment. Compared to 2010 the EU employment rate did not increase in 2012 and stood at 68.5%, which is still significantly below the pre-crisis level of 70.3%. This means that the employment rate will have to increase by over 6 percentage points in order to reach the target of 75%.
2. There are large differences among the factors that affect different response of EU labour markets to the crisis. Differences between EU countries are large: in 2012 Greece had the lowest employment rate at 55.3% (aged 20-64) and Sweden had the highest at 79.4%. Latvia had 75.8% in 2008 and 66.3% in 2011 and 68.2% in 2012.
3. Employment rate depends on changes in labour market and unemployment rate and causes of unemployment. According to 2012 data, structural unemployment rates above EU average were in Spain, Latvia, Ireland, Portugal, Lithuania, Slovakia, Estonia, Bulgaria, Hungary and France. Youth unemployment rates increased dramatically in Greece, Portugal, and Spain and remained high in Baltic countries.
4. According to national targets and in order to make real progress towards the common goal it is necessary to focus on enchaining growth and competitiveness and addressing most vulnerable labour market groups: young people, older workers.
5. In light of the much differentiated labour market conditions across Europe, the policy response needs to be differentiated and coordinated.
6. The emphasis of policy making is more than ever on structural measures supporting labour market adjustment and enchaining growth and competitiveness to achieve target set in Europe 2020 strategy.

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