



DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT
ECONOMIC AND SCIENTIFIC POLICY **A**



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DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY

Proceedings of the Workshop on The Impact of the Crisis on Skills Shortages

Brussels, 23 March 2015

STUDY

Abstract

A workshop on "The impact of the crisis on skills shortages" was held in the European Parliament in Brussels on 23 March 2015. This Policy Department A document contains the programme, a summary of discussions, background papers and the presentations of that workshop.

This document was requested by the European Parliament's Committee on Employment and Social Affairs.

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CONTENTS

| | |
|--|-----------|
| 1. PROGRAMME | 4 |
| 2. PROCEEDINGS OF THE WORKSHOP | 6 |
| 2.1. Presentation of the study 'Labour market shortages in the EU' | 6 |
| 2.2. Skills and the crisis: implications for policy orientations | 7 |
| 2.3. Unemployment: Tackling skills mismatches through Active Labour Market Policies | 8 |
| 2.4. Skills mismatches and youth: transition to labour market and skills forecasts | 9 |
| 2.5. Concluding remarks | 10 |
| 3. BACKGROUND CONTRIBUTIONS | 11 |
| 3.1. Contribution by IDEA Consult: Executive Summary of the study on Labour Market Shortages in the EU | 11 |
| 3.2. Contribution by Konstantinos POULIAKAS: 'Skills and the crisis: implication for policy orientations' | 17 |
| 3.3. Contribution by John Mc Grath: 'Unemployment: Tackling Skill Mismatches Through Active Labour Market Policies' | 20 |
| 3.4. Contribution by Solveigh HIERONIMUS: Skills mismatches and youth: Education-to-Employment transitions and hurdles with regard to employment relevant skills in Europe'. | 22 |
| ANNEX 1: SHORT BIOGRAPHIES OF EXPERTS | 26 |
| ANNEX 2: PRESENTATIONS | 28 |
| PRESENTATION BY IDEA CONSULT | 28 |
| PRESENTATION BY KONSTANTINOS POULIAKAS | 40 |
| PRESENTATION BY JOHN MCGRATH | 46 |
| PRESENTATION BY SOLVEIGH HIERONIMUS | 56 |



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EUROPÄISCHES PARLAMENT EUROOPA PARLAMENT EΥΡΩΠΑΪΚΟ ΚΟΙΝΟΒΟΥΛΙΟ EUROPEAN PARLIAMENT
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1. PROGRAMME

Workshop on The impact of the crisis on skills shortages

- Agenda -

Workshop organised by Policy Department A

Monday, 23 March 2015 from 15:00 to 17:30

Venue: European Parliament, ASP 3G2

Chair: Marita Ulvskog (MEP)

The workshop is organised at the request of the EMPL Committee in connection with its ongoing work on the own-initiative report on 'Creating a competitive EU labour market for the 21st century: matching skills and qualifications with demand and job opportunities, as a way to recover from the crisis'.

| | |
|---------------|---|
| 15:00 – 15:10 | Welcome by the Chair, opening remarks. |
| 15:10 – 15:25 | Presentation of a study on Labour market shortages <i>Paul de Beer, Maarten Gerard, Anja Meierkoord, Idea consult</i> |
| 15:25 – 15:40 | Q&A |
| 15:40 – 15:50 | Skills and the crisis: implications for policy orientations <i>Konstantinos Pouliakas, Cedefop</i> |
| 15:50 – 16:05 | Q&A |
| 16:05 – 16:15 | Unemployment: Tackling skills mismatches through Active Labour Market Policies <i>John Mc Grath, Independent consultant / SOLAS</i> |
| 16:15 – 16:30 | Q&A |

| | |
|----------------------|--|
| 16:30 – 16:40 | Skills mismatches and youth: transition to labour market and skills forecasts <i>Solveigh Hieronimus, McKinsey & Company</i> |
| 16:40 – 16:55 | Q&A |
| 16:55 – 17:20 | Roundtable of experts; discussion with Members |
| 17:20 – 17:30 | Closing remarks by the Chair |

2. PROCEEDINGS OF THE WORKSHOP

The chair of the workshop welcomed the speakers and the participants and introduced the agenda and content of the workshop and reminded that this workshop was done in the context of an Own-Initiative Report of the EMPL Committee on 'Creating a competitive EU labour market for the 21st century: matching skills and qualifications with demand and job opportunities, as a way to recover from the crisis'.

2.1. Presentation of the study 'Labour market shortages in the EU'

Paul de Beer, Maarten Gerard, Anja Meierkoord, Idea consult - Presentation

This study provides an overview of different labour shortages, looking at their causes, their occurrence within the EU-28 and possible solutions to counter these labour shortages. In the wake of the crisis there are no overall quantitative shortages in the EU-28, but qualitative shortages, especially relating to skill shortages and mismatch, occur in several regions and Member States. Employers and Member States are the prime actors to counter these shortages effectively, but the EU can play an important supportive role through its influence on intra-EU mobility, by increasing the transparency of the labour market and by using its structural funds as supportive frameworks. The presentation first touched upon the importance of making a distinction between quantitative and qualitative labour shortages. It was said that overall quantitative labour shortages are currently not a problem in the EU. After defining the types of shortages, the study looks at the extent to which these shortages are present in the EU. The experts presented relevant Beveridge curves which showed that the labour market in the EU is now much less tight than it was before the crisis, i.e. currently a lower vacancy rate coincides with a much higher unemployment rate than before the crisis. In short, there is more competition for fewer jobs. Secondly, the curve shows that the matching process of the unemployed with the vacancies may have become relatively less efficient. This can be temporary or structural. While this reflects the situation of the EU-28, there are large variations when looking at different Member States. There are also shortages at the level of sectors, occupations and regions. Speakers mentioned that there were fewer shortages at sectoral level than before the crisis.

About the way to counter these shortages, it was said that very varied responses are to be found between employers, Member States and the EU. As the shortages vary, the responses are very varied in consequence. The presentation gave an overview of the different responses available. Recommendations include investing more in monitoring and forecasting tools, increasing the adaptability of the labour market, equipping the workforce with necessary basic skills, mainstreaming shortages in labour market policies, and taking into account shortages when designing new policies. Other recommendations comprised strengthening intra EU mobility, continuing to remove barriers and continuing schemes like your first EURES jobs, while involving all stakeholders.

Discussion

Cross-border regions encountering very different levels of unemployment were mentioned, together with the issue of forced and voluntary mobility. Social rights, language, labour law, still remain obstacles to be worked on, even in cross-border regions, so as to allow for the greatest mobility possible. It was mentioned that these barriers could be overcome through training or better job design. Some said that the problem of cross border mobility is similar to problems related to mobility in general as both cross-border mobility and overall mobility are linked to barriers such as the housing market and transport costs. The issue of forecasting tools was touched upon, together with the need to distinguish between

occupations and qualifications and to focus on the kind of skills needed, instead of focusing on small defined occupation groups. Of key importance is to translate formal qualifications into actual marketable skills that are comprehensible for an employer. It was also said that not only are there solutions on the supply side, other solutions exist to address shortages, such as working on preference mismatches and working conditions, in which case the employers can and/or should act directly. Moreover, in case of regional mismatch, increasing cross-regional mobility of companies might also be an effective way of tackling shortages.

2.2. Skills and the crisis: implications for policy orientations

Konstantinos Pouliakas, Cedefop – Presentation

Mr Pouliakas introduced the "First European skills and jobs survey" done by CEDEFOP; this survey was launched in 2014 and covered 50 000 employees across the 28 Member States. Tremendous challenges have risen as Europe is emerging from one of its worst economic downturns in its recent history with high rates of unemployment, and especially youth unemployment. This has called for reforms, especially in the field of skills mismatches. Skills shortages and mismatches are areas where there is lack of available and suitable data. However from the data available, for example from the European Company Survey, it shows that a consistently high share of European employers (30-40%) claim that they cannot find employees with the right skills. Differences between countries are however quite stark. Some observers have concluded that the high rates of unemployment in Europe reflect widespread skills deficit in the European workforce; however to conclude that there is skills shortages depends also on the demand side. Mr Pouliakas said that he believed that the notion that there are not enough skilled workers in Europe to take up the jobs available is generally refuted by the data. Skills shortages have declined since the economic crisis and have remained below the pre-crisis levels. The probability that skilled individuals accept jobs below their qualifications levels has increased since the economic crisis. Skills gaps between unemployed, long term unemployed and people who were previously unemployed have become narrower in the post-crisis period. Uncompetitive wage offer is another important factor to explain the vacancies that remained unfilled.

Mr Pouliakas explained that an important part of the bottlenecks are indeed genuine skills shortages which affect high performing private companies operating on the international market; the cost to them of not finding the people they need is high. They then tend to try to hire talents from abroad. Skills mismatch is a dynamic phenomenon, which reacts to change in demographics and market conditions; recruitment bottlenecks tend to be concentrated in certain fields of the economy. Regarding differences between EU countries with high/low difficulties filling jobs, those countries with more responsive education and training systems are those where companies encounter fewer difficulties to find the people they need. The analysis also confirms that the education and training systems cannot stand alone in the fight against skills shortages. The countries which had the lowest recruitment difficulties are also those where the companies adopted the best VET and human resources strategies and training policies and those where companies offered the best quality jobs.

Companies can work in parallel of the public sector and invest in the further VET training of their employees, and offer quality apprenticeships and jobs.

Finally, what the evidence alludes to is that EU strategies should aim at longer term goals, including to invest in the key competences of basic skills of individuals so as to enable their adaptability and at the same time further encourage creativity, innovation and entrepreneurship; a stronger social dialogue needs to be built to sustain the development and utilisation of skills of people within high quality jobs.

Discussion

The discussion started with a question on the health care sector in Europe, and the issues of education and low pay. One of the biggest problems in the health care sector is the mobility between Member States, and notably because of working conditions and differences in wages. Regarding forecasting tools, efforts are made but there are limits to them, notably because the major indicator is still qualifications and not skills, while the latter would allow for a better portrait of the situation. Tools being developed are hoped to help get closer to better predictions in the coming years. The importance of improving the image and attractiveness of jobs encountering skills shortages was also discussed, as well as the ways to attract people to these professions. Improving apprenticeships schemes was considered key in this regard. Another question concerned the responsibility and involvement of employers vis-à-vis skills mismatch. General focus has been put on the supply side but there is also an issue on the demand side. It was said that a lot of SMEs are using workplace practises that are not at the forefront of what they should be. Giving incentives is not enough because companies often have given architectures and it is difficult to change perceptions and ways of working of employers. Programmes like the latest Investment Programme can also help companies to adopt more dynamic market strategies and bring them to compete in terms of quality instead of costs.

2.3. Unemployment: Tackling skills mismatches through Active Labour Market Policies

John Mc Grath, Independent consultant / SOLAS - Presentation

The focus of Mr Mc Grath's presentation was to see how ALMPs could be designed to achieve maximum effectiveness including the eventual elimination of skills mismatch and chronic unemployment, especially among long-term unemployed. John Mc Grath presented the perceptions about the role of skills mismatch in contributing to persistent unemployment. He looked at relevant data and reviewed their implications on enhancing the quality and relevance of ALMPs. Decomposition of transitions in the European labour market shows that turnover accounts for most of the job vacancies. This does not mean that the people who transitioned did not benefit from ALMPS, but if they did then these measures could be considered as dead weight, because in these cases there has not been any change in the unemployment situation. It is really important to make a distinction between the different transitions, at the risk otherwise of funding measures that do not have a real impact on unemployment. Data availability is critical in this regard. Mr Mc Grath explained that the skills issue is not properly reflected by looking at occupations and qualifications; it also involves an element of competencies. New methodological techniques allow identifying the companies that are associated with the occupations where there is additional demand. Qualitative demands associated with these occupations must also be analysed. Mr Mc Grath gave an overview of the occupations and sectors encountering shortages. Often however are there elements of experience, languages and soft skills linked to these shortages. John Mc Grath explained that apprenticeships combining electronics and mechanics aspects are now the most sought in the EU. The question was raised about the cause of long term unemployment particularly in some countries. According to Mr Mc Grath, it is because ALMPs have been designed with the target of providing long term unemployed with 'any job'. He said this has made them more vulnerable to the crowding out by the better qualified, who typically push the lower qualified- likely the long term unemployed- out of the employment. It is thus important to treat the long term unemployed just as are treated the job-ready. Mr Mc Grath finished by pointing out that sufficient data are lacking, though they are necessary to maximise the impact of the ALMPs.

Discussion

The discussion addressed the differences between countries as to the measures aimed at tackling long term unemployment, as well as the role of the companies and other actors in this, and especially with regard to lifelong learning. Some evoked that it was of key importance that ALMPs do not provide measures doing what the market would have done anyway. Other issues addressed include apprenticeships and the necessity for a high involvement of employers in the way they are designed and evaluated.

2.4. Skills mismatches and youth: transition to labour market and skills forecasts

Solveigh Hieronimus, McKinsey & Company - Presentation

Ms Hieronimus introduced McKinsey & Company's recent research looking at what drives the difficulties in transitioning from education to employment and started by presenting briefly the methodology and approach used for this research. Ms Hieronimus highlighted three major findings, the first one being that despite high youth unemployment, employers in Europe still claim they cannot find the skills they need. Data even shows that in the countries with the highest youth unemployment rates, employers have the most difficulties. Ms Hieronimus explained that this was due to the lack of information flows and interaction between the three main actors in this field, i.e. education providers, young people and employers. The second insight of Ms Hieronimus' presentation was that young people face hurdles at three stages: enrolling in postsecondary education, building the right skills and finding a job. In this regard, one of the interesting findings mentioned by Ms Hieronimus was the content choice made by students; when students are making choices for tertiary education, very often they do not make them in line with the labour market needs, because outcomes are not transparent to them. Even when the content aspect is relevantly chosen, it may often be that the method of teaching this very content is not necessarily appropriate to today's students needs and learning patterns anymore. As far as employers are concerned, they need to be engaged in trying to fill their own talent needs. The third insight mentioned by Ms Hieronimus is that the transition from education to employment system is not working for half of employers – in particular SMEs struggle the most.

Areas of recommendation include: working on affordability and access to make sure students can continue their education; focusing by engaging youth in their career-planning in both a content perspective and a skills oriented perspective; making sure that the education providers are incentivised towards employability rates, instead of for example enrolment rates; structurally engaging the employers in the pathway of education to employment; privileging the solutions that can be scaled.

Discussion

Aspects discussed included the role of the European Union in tackling youth unemployment, for example in increasing the transparency of the labour market and developing 'a skills language', i.e. a common understanding of the skills possessed and expected, as well as making the Public Employment Services more effective. As far as apprenticeships schemes are concerned, it was mentioned that a key lesson is that the EU has been successful in pushing forward this agenda, and that this has contributed to facilitating education to work transition. Some also mentioned that efforts are still needed to customize the work based learnings systems to the different situations in Member States.

2.5. Concluding remarks

The chair concluded the workshop by thanking the speakers for their contributions, which provided valuable input in view of the debate on skills mismatches, a core issue for the EMPL Committee.

3. BACKGROUND CONTRIBUTIONS

3.1. Contribution by IDEA Consult: Executive Summary of the study on Labour Market Shortages in the EU



**DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT A: ECONOMIC AND SCIENTIFIC POLICY**

LABOUR MARKET SHORTAGES IN THE EUROPEAN UNION

EXECUTIVE SUMMARY

Abstract

This study, provided by Policy Department A to the Committee on Employment and Social Affairs, gives an overview of labour shortages, looking at their types and causes, their occurrence within the EU-28 and possible measures to counter them. It finds that there are no overall quantitative shortages at EU-28 level in the wake of the economic crisis, but qualitative shortages, especially relating to skills shortages and mismatch, occur in several regions, sectors, occupations and Member States. Employers and Member States are the prime actors to counter labour shortages effectively, but the EU can play an important supporting role through its influence on intra-EU mobility, by increasing the transparency of the labour market and by using its structural funds as supportive frameworks.

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EXECUTIVE SUMMARY

This study, prepared at the request of the Committee on Employment and Social Affairs of the European Parliament (EMPL), aims to provide a comprehensive overview of labour shortages in the European Union. It analyses the different types and causes of labour shortages, their occurrence within the EU-28 and lists possible solutions to counter these labour shortages by employers, Member States and the European Union. The study includes a number of cases studies on measures developed in different Member States to counter their specific labour shortages. Finally, recommendations are put forward to resolve current and future shortages by strengthening and improving current policies and practices.

There are quantitative and qualitative labour shortages, with different characteristics and causes

When individual employers cannot find the workers they need to fill open vacancies, labour shortages occur. Labour shortages refer to a situation in which labour demand exceeds labour supply. However, a distinction should be made between quantitative and qualitative labour shortages.

- In case of a **quantitative labour shortage**, there is an **absolute lack of workers** in the labour market. Labour demand is larger than labour supply, resulting in a large share of difficult-to-fill vacancies and a low unemployment rate. Quantitative shortages can be caused by increased demand for specific goods or services or economic growth more generally. The insufficient supply of labour can be caused by a decline in the working age population due to ageing or emigration or by a decrease in participation rates due to early retirement or the inactivity of certain groups.
- In case of a **qualitative labour shortage**, labour demand and labour supply are roughly in equilibrium (balanced), but a **large share of unfilled vacancies and a high unemployment rate** exist simultaneously. This signals a qualitative mismatch between supply and demand. A common cause is skill mismatch, either because there are not enough graduates with the necessary skills to fill open vacancies, or because skill requirements have changed or because job requirements by employers do not fit with the competences of jobseekers and graduates. Qualitative shortages can also be caused by a mismatch between the preferences of jobseekers and the characteristics of the open vacancies. This occurs when jobseekers do not want to fill a vacancy because of the working conditions offered or because the sector is seen as unattractive. Moreover, the lack of sufficient and correct labour market information for both employers and jobseekers can also contribute to qualitative shortages.

However, it should be noted that a **labour shortage is always relative** in the sense that it refers to labour demand in excess of labour supply of people *willing to work at a particular wage and under particular working conditions at a particular place and point in time* (Barnow, Trutko and Piatak, 2013). Offering better wages and working conditions can thus be effective at resolving shortages. Employers who do not increase wages in the face of shortages indicate that they expect to find a candidate at the current wage and labour conditions. Shortages are therefore relative to the terms offered, as wage levels might be the reason why students and jobseekers do not to opt for a field of study or job which could reduce the shortage.

In the EU there is currently no overall labour shortage

The tightness of the EU-28 labour market has decreased substantially compared to the pre-crisis period. At EU-28 level there is **no evidence of quantitative shortages**.

Unemployment is high compared to the number of vacancies, indicating there are **enough jobseekers to meet the demand of the labour market**. However, we do observe tighter labour markets in some Member States than in others, highlighting that labour demand and supply are not balanced across Member States. Moreover, there are **geographical mismatches within countries**, i.e. a shortage of workers in one region and a surplus in another region. This is true for regions in **Belgium, Italy** and **Spain**, for example. As the crisis has largely decreased the tightness of labour markets throughout Europe, quantitative shortages may grow if the economic recovery picks up.

But specific shortages, especially skill related shortages occur across Member States

Within Member States and regions, sector and occupation **specific labour shortages occur**. Two in five companies claim to have difficulties recruiting people with the required skills to fill their open vacancies and many employees have difficulties to find a job which matches their qualification level. This signals the **presence of skill mismatches** and possibly **skills shortages**. Skills shortages can be observed for low, medium and high-skilled jobs. Throughout Europe there is some consistency across Member States when it comes to occupational groups with shortages: metal, machinery and related trade workers, science and engineering as well as ICT professionals. However, when analysed in detail, the specific occupations experiencing shortages differ between Member States.

The occurrence of qualitative shortages and especially skill mismatches indicates that additional training and retraining is necessary to counter these shortages, which take time to have an effect. This implies that filling open vacancies with the unemployed is often not an option in the short-term and reducing the current labour market shortages is therefore not a quick-fix for unemployment.

Member States can counter their specific shortages through various measures

Within Member States, several strategies can be followed to reduce shortages, either initiated by governments or in cooperation with social partners and individual employers. The optimal approach to counter shortages depends on the cause and the scale of the shortages experienced.

- **Activation policies:** These are aimed at reducing quantitative shortages by bringing more people into the labour market. If combined with training in basic and therefore transferable skills, these measures can also help in reducing skills shortages in the long run. Especially important is the transition of young people into the labour market to ensure the future supply of labour. As is shown by a good practice in **Italy**, this requires the collaboration between PES, educational institutions and social partners.
- **Attract workers from abroad:** Migration can decrease shortages, but does not provide a long term solution, as systematic emigration or brain drain in the "sending" country might hinder economic development in that country. Within the EU context, targeted intra EU mobility can be a solution for skills shortages and can be mutually supported by Member States, for example within EURES. A good practice example in **Germany** shows that mobility-schemes also need to take contextual and cultural factors into account to function properly.
- **Stimulate geographical mobility within a Member State:** National authorities in Member States with large regional disparities have the primary responsibility when it comes to removing barriers or even creating incentives or wage-subsidies for workers and students to relocate. They can also facilitate functional mobility by

reforming institutions, including labour legislation such as hiring and firing regulations.

- **Training the (un)employed:** As skill mismatches are the most prevalent cause of shortages, Member States can focus on training. Good practices in **Ireland** and the **UK** show that when training initiatives are coordinated and set up in partnership with employers they can leverage large funds benefitting the upskilling of workers. Equally, guiding young people towards educational choices leading to employment in (future) shortage sectors or occupations can be a relevant solution, but is a more long-term strategy. Good practices in **Austria** and **Poland** show such measures can greatly increase the number of students choosing an education which leads to qualifications needed by the labour market.
- **Increase the attractiveness of sectors/professions:** Through awareness campaigns, but also through measures to improve working conditions, shortages in less desired sectors or professions can be eased.
- **Increase labour market transparency:** Better job matching by PES, better information to employers and jobseekers and the development of forecasting tools, allow Member States to reduce shortages caused by information mismatches.

But employers also have a role to play in reducing shortages

Employers are often the first ones to encounter a particular shortage, especially when identifying a bottleneck occupation. Consequently, they also have developed several strategies to deal with those bottlenecks.

Individual **employers often upgrade the skills of their (potential) staff** to counter shortages through (re)training, or offering internships, apprenticeships and supporting education systems, including working and learning. Other employers resort to **targeted migration**, obtaining the needed skilled workers from elsewhere. Some employers, when confronted with shortages, also resort to measures that **increase the productivity** of their workers through outsourcing or automation. In other words, the shortage is alleviated by lowering the demand for labour.

As employers control **job design and working conditions**, they have important tools at their disposal to alleviate shortages. Evidence shows that some employers change job content to better match profiles available on the labour market, while others raise the wage or improve other working conditions to make their jobs more attractive.

The EU plays an important supportive role

The EU can contribute substantially in a number of domains to allow both Member States and employers to counter shortages effectively. The EU is most active on issues of mobility, labour market transparency and its support to training provided by the structural funds.

- **Intra-EU mobility** is strongly supported by the EU's efforts to **reduce barriers to mobility**. This is done by stimulating convergence and transferability of national regulations and labour laws and by setting up **targeted mobility schemes** such as the EURES network and *Your first EURES job*.
- **Labour market transparency** is greatly supported by **monitoring tools** such as for example the European Vacancy monitor and the EU Skills Panorama. Transparency on the labour market is also increased by the introduction of **frameworks for qualifications and skills** throughout the EU such as European Qualifications Network (EQF) and the ESCO-classification. The latter identifies and categorises European Skills, Competences, Qualifications and Occupations in a standard way.

- Through its structural funds such as the European Social Fund and European Globalisation Adjustment Fund the EU **supports the activation and skill strategies of Member States**. Initiatives such as the European Youth Guarantee provide additional incentives and funding for activation and skill policies aimed at young people.

Policy recommendations

In order to counter shortages in the future further measures can be taken.

Firstly, to identify current shortages, **investment in better monitoring of vacancies**, can be of great value. Currently, only limited information is available on open vacancies through local PES and developments such as the European Vacancy Monitor. PES data and employers surveys could be improved to collect information on actual job openings, hirings and separations, rather than just subjective skills shortages. This would allow for the detection of trends and management at micro-level. Secondly, the development of long-term strategies requires powerful **forecasting tools to predict** labour market evolutions and future skill requirements. The European Parliament **could support all efforts to strengthen the further development of monitoring and forecasting tools** by the Commission.

Secondly, it is also essential to **increase the adaptability of the workforce** as an automatic stabiliser to counter future shortages. Given that skill mismatches are often the cause for shortages, a key part of the solution to increase the adaptability of workforce lies in the skills of the workers: by investing in the key competences, functional mobility will be enhanced. Similarly the policies and measures taken in the context of shortages must also be flexible as the adaptability of shortage measures contributes to their effectiveness. The European Parliament could **call on the Commission to use structural funds**, especially the ESF, to **increase the adaptability of the workforce**, especially basic skills, as a preventive measure to shortages.

Another recommendation would be to **embed shortage policies in the active labour market policies** including a special focus on skills. The European Social Fund (ESF) can provide a useful framework, as well as a key source of funding, for targeting shortages and supporting policies designed to alleviate specific shortages. The EP could **call upon the Commission to ensure that Member States include an analysis of labour/skills shortages** when designing national Operational Programmes (OPs). This analysis should lead to more targeted actions and interventions in the national programme.

Fourthly, the EU remains a key-actor in removing barriers to mobility. Issues such as transferability of social security rights and welfare benefits need to be developed further. The Parliament can call upon the Commission to **expand on the experience of the EURES network and the action *Your first EURES job***.

Finally, the **involvement of all relevant stakeholders** is key to success when designing and implementing shortage measures. This means **calling upon better and more structural partnerships for medium term alleviation of shortages**: between social partners, sectors and education actors for a better school to work transition or a better match, between employers and PES for increased transparency, involvement of sectoral skills councils, and of temporary work agencies. The EU has taken up a role by setting up European Sector Skills Councils: the sharing of information and experiences, learning from each other, and ensuring that national organisations cater more effectively to the needs of the various sectors are their main aims. The European Parliament could **encourage the spread of these Councils to many more sectors**.

3.2. Contribution by Konstantinos POULIAKAS: 'Skills and the crisis: implication for policy orientations'

KEY FINDINGS

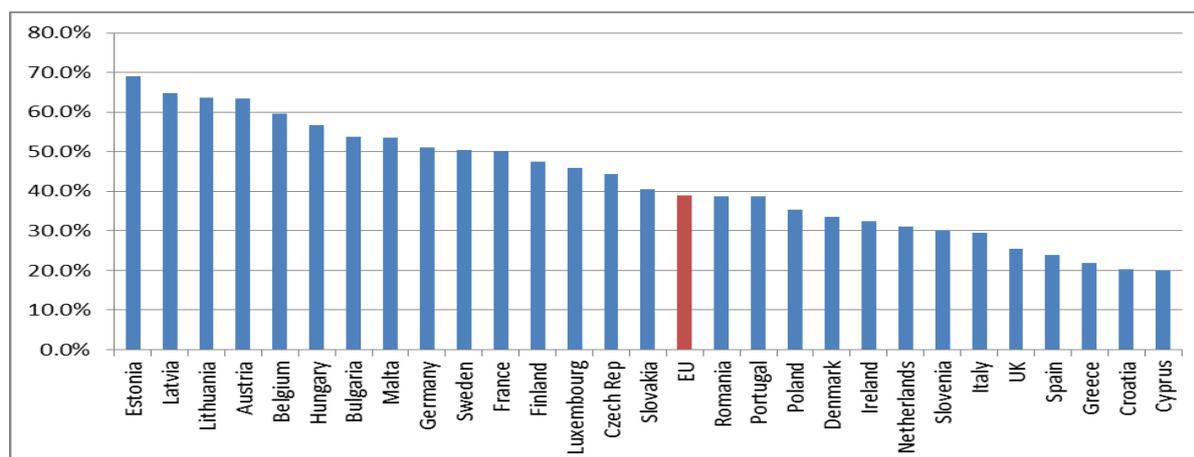
- **About 4 in 10 EU firms have difficulties finding the right talent.** Many attribute such recruitment bottlenecks to skill deficits of individuals. EU policy supports subsidising training to meet employer demand for skills. However, skill shortages are only part of the reason why employers face recruitment difficulties.
- **According to Cedefop's analysis, genuine skill shortages** account for about a third of employers' recruitment difficulties. The rest reflect inefficient human resource management, uncompetitive wage offers and poor job conditions. Genuine skill shortages mostly arise in manufacturing and constrain innovative, dynamic EU enterprises. During the economic crisis skill shortages decreased and remain below their pre-crisis levels.
- EU policies to mitigate skill shortages should better align training policies with shortage sectors and occupations. Strategies to update skills will be more effective if **validation** of existing skills is improved.

- **A high share of EU firms cannot attract the right talent**

In a protracted economic downturn, about 4 in 10 EU firms still report difficulties finding staff with the right skills. This is a paradox, given that the European workforce is the most highly qualified in its history and more than 40 million people are currently unemployed or underemployed. Many attribute the problem to skill mismatches and a lack of appropriate skills in the workforce. However, the inability of firms to attract the 'right' workers may arise for other reasons, such as uncompetitive wages, poor working conditions, lower intensity of search during recruitment and geographical barriers. The 'right' policy mix to reduce skill mismatches depends critically on identifying the real underlying sources of recruitment bottlenecks.

Vacancy bottlenecks are more prominent in manufacturing and health care

More than a half of employers in some Member States (such as the Baltic States, Austria, Belgium, Bulgaria, Hungary and Germany) faced recruitment problems in 2013. However, in other EU countries such as Spain, Greece, Cyprus and Croatia the figure was less than 25% (Figure 1). Recruitment bottlenecks vary considerably across Member States, reflecting their diversity in terms of economic structure, responsiveness of education and training systems, employer commitment to talent management and the economic cycle. Difficulties finding workers with the required skills are most widely reported by employers in manufacturing and health care and least common in financial services and public administration.

Figure 1: Difficulties finding staff with required skills in European firms, 2013, EU-28

Source: European Company Survey (2013); Cedefop (2015, forthcoming)¹

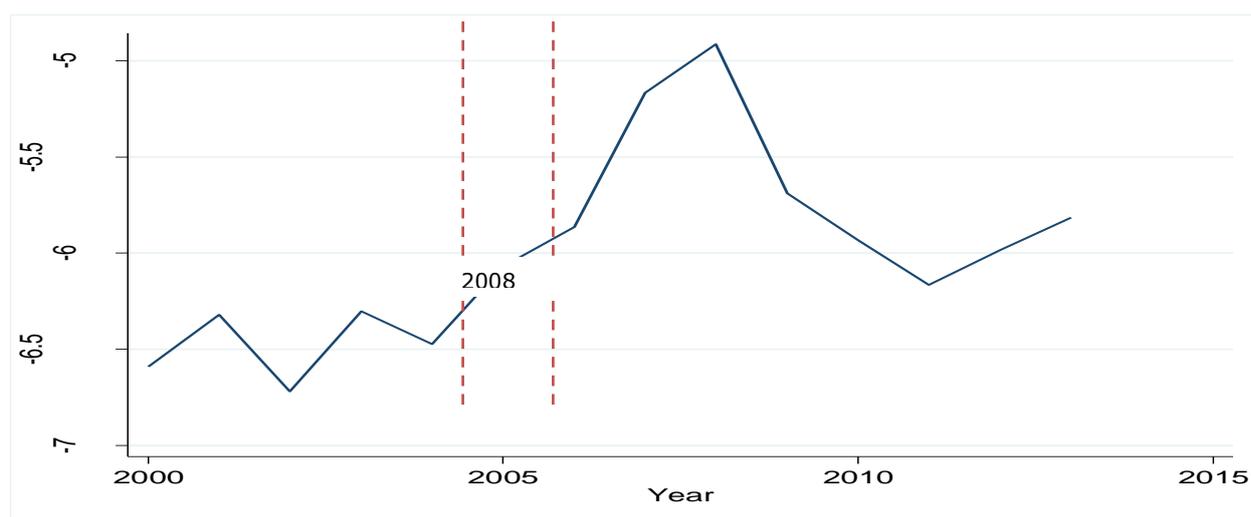
After the crisis skill surpluses, not shortages, are on the rise

In the EU, skill shortages declined during the economic crisis and have remained below their pre-crisis levels (Figure 2). During 2008-14 demand for highly-qualified people increased, but at the expense of those with lower qualifications. This has increased skill mismatch as more people took jobs for which they were overqualified. Consequently, post-crisis, overskilling is on the rise rather than skill shortages. Evidence from Cedefop's new *European Skills and Jobs survey*² shows that in the post crisis period 2008-14:

- **The probability has increased of individuals accepting a job requiring lower qualifications and skills than they have.**
- **Unemployed people are more likely to have skill gaps when starting a new job. However, their skill gaps when moving back into work have become less pronounced in the post-crisis period.**

¹ Cedefop (2015), *Skill shortages and skill gaps in European enterprises: More than meets the eye*, Cedefop reference report, forthcoming.

² The European Skills and Jobs (ESJ) survey, the first pan-European survey on skill mismatch, was carried out by Cedefop in 2014. Some 50,000 adult employees across all 28 Member States were surveyed to quantify the extent of qualification and skill mismatch and to see how it develops during individuals' careers. The survey examines drivers of skill development and mismatch in relation to the changing complexity of people's jobs. It also considers the capacity of initial and continuing vocational training to mitigate skill mismatch.

Figure 2: Shortage of skilled labour, 2000-2014, EU+

Source: IMD WCY (2014); Cedefop's analysis.

- **Genuine skill shortages are one type of recruitment bottleneck**

Genuine skill shortages arise when employers cannot fill their vacancies despite offering market-clearing wages and good working conditions (including a reasonable location).

Cedefop's analysis of European data confirms that genuine skill shortages are a major barrier to innovation, as they are more likely to affect growing, high-performance, international EU enterprises. Overall, about a third of employers' recruitment difficulties are due to genuine skill shortages (Table 1). The rest reflect inefficient human resource management, uncompetitive wages and poor job conditions.

Table 1 : Difficulties in filling vacancies by reason, employers that have recently recruited higher education graduates, 2010, EU+

| Type of recruitment bottleneck | % among firms with difficulty filling vacancies |
|---|---|
| GENUINE SKILL SHORTAGES - Shortage of applicants with the right skills and ability to offer a competitive starting salary | 34% |
| UNCOMPETITIVE WAGE OFFER - Inability to offer a competitive starting salary | 29% |
| WEAK SKILL SHORTAGES - Shortages of applicants with the right skills & inability to offer a competitive starting salary | 24% |
| HRM INEFFICIENCIES - Lack of offer of competitive graduate training and development program and slow hiring process | 13% |

Source: Flash Eurobarometer 307; Cedefop's analysis; Cedefop (2015, forthcoming).

Countering skill shortages in Europe depends critically on firms taking a long-term perspective to hiring and managing talent. This includes widening the pool of potential applicants (for example females, older-aged workers and migrants) and investing in the internal skill development of employees. It requires better workplaces, stable employment, learning opportunities and motivating jobs that develop and use people's potential.

- **Mitigating skill shortages requires targeted EU policies**

To address skill mismatches Member States need to strengthen the institutional framework that brings together the worlds of education and training and work. Well-developed VET systems, with established work-based learning frameworks (e.g. apprenticeships) governed together with social partners, are effective in reducing the disconnection between education and training and the labour market. Sectoral or local skills councils, which facilitate the exchange of market signals via the cooperation of relevant stakeholders, can also act as brokers of skill systems.

Comprehensive national qualification frameworks based on learning outcomes, updated skill forecasting systems and better labour market intelligence (e.g. monitoring of the transition and employability of young graduates) need to be systematically used for education and training governance and provision.

General and apprenticeship-type work-based learning and temporary job subsidies have been long-used to help unemployed people back to work. However, there is still much scope for customising training and guidance provision to individuals' existing skills and to align such skills better to sectors and/or occupations susceptible to genuine skill shortages. A well-defined connection between skill needs anticipation and Active Labour Market policies (ALMPs) may facilitate this goal. Continued reforms to strengthen the validation of non-formal and informal learning as part of VET and ALMPs may also serve to mitigate recruitment difficulties faced by employers and help the unemployed find suitable work. Innovative digital platforms and ICT-tools for public employment services that profile the skills of job applicants and vacancies should be further developed across EU Member States.

3.3. Contribution by John Mc Grath: 'Unemployment: Tackling Skill Mismatches Through Active Labour Market Policies'

KEY FINDINGS

- Active labour market measures must be targeted at vacancies which represent additional job opportunities rather than vacancies per se.
- The long term unemployed require significant upskilling to secure sustainable employment and avoid 'crowding out'.
- An EU data strategy is a pre-requisite to enabling the type of analysis which is required to identify additional job opportunities and maximise the effectiveness of active labour market programmes and policies.

- **Identifying additional job opportunities**

Tackling unemployment in Europe must involve identification of real employment opportunities for both job-ready job-seekers and disadvantaged job-seekers.

This can only be done by decomposing vacancies into those vacancies that represent additional job opportunities, and those vacancies which are filled in the normal course of events and do not represent additional job opportunities.

The research shows that there is both a quantitative and qualitative dimension to identifying these vacancies.

Identifying vacancies which correspond to additional employment opportunities will make active labour market measures much more effective in reducing unemployment.

Alternatively, if active labour market measures are designed to respond to vacancies per se, a significant proportion of those trained will be simply augmenting a supply of skills which is already adequate to meet the needs of the labour market.

- **The importance of integrated labour market intelligence systems**

Having integrated labour market intelligence systems to conduct such analyses is essential. While good examples of labour market intelligence systems exist in some Member States, there is no integrated EU data strategy and as a consequence, there continues to be serious data gaps (e.g. transitions analyses) which undermine the capacity to design effective active labour market measures.

A related issue is the importance of disseminating information about employment opportunities in a clear and concise manner to all stakeholders. In particular, the importance of conveying this information to job-seekers, which means articulating information in very simple, easily understandable, formats.

The research highlights the importance of good governance structures: particularly systems which integrate in a formal structure, on one hand those who are responsible for economic policy with on the other hand those who are responsible for education and training provision.

- **Effective training for the long term unemployed**

The share of long term unemployment has increased significantly in recent years across Member States. One explanation of why long term unemployment is proving such an intractable problem to solve is because the focus of many labour market interventions for this group has been on getting them into employment, but the quality of the jobs have not been given sufficient emphasis.

Typically, at times of recession, those who are less well qualified - which is the situation of most long-term unemployed - get crowded out of the labour market and this phenomenon has occurred in the EU labour market throughout the crisis.

It is recommended that in order to find employment which is sustainable, the long-term unemployed should be trained in marketable skills just like any other job-seekers. While it is acknowledged that this will be a more costly and longer process, this is the only way to create sustainable employment for this group. There are examples of how such an approach can successfully create sustainable employment for disadvantaged job-seekers, such as the German pre-apprenticeship programme.

- **Conclusion and recommendation**

There are significant gaps in the labour market data available to EU labour market analysts and policy advisers. The absence of critical data, such as data on EU wide 'transitions' by occupation, limits the extent to which active labour market measures impact on unemployment. There would be considerable benefit to be derived from developing an EU data strategy because if the relevant data was available, it would enable a more focused and better targeted active EU labour market programme.

The excellent work done by the Commission in recent years is acknowledged, especially the Youth Guarantee and a range of innovative studies, which despite the lack of comprehensive data, succeed in providing very useful insights into the structure of the EU labour market and the nature of its behaviour.

Nevertheless, the fundamental importance of developing an EU data strategy, as a pre-requisite to effective labour market interventions, is a core recommendation.

3.4. Contribution by Solveigh HIERONIMUS: Skills mismatches and youth: Education-to-Employment transitions and hurdles with regard to employment relevant skills in Europe’.

KEY FINDINGS

- **Despite more people looking for work, employers in Europe cannot find the skills they need.** Employers from countries with the highest youth unemployment reported the greatest problems due to skill shortages.
- **European Youth face obstacles at every stage of the education-to-employment journey, when 1) enrolling in post-secondary education, 2) building the right skills, and 3) finding work.** The most important barrier to enrolling is cost, a particular shortage of skills are ‘soft skills’, and finding work is impeded by limited career services in many countries.
- **Young people and small businesses are most severely affected in Europe.** Almost 80 percent of **young people** are frustrated with the career support they receive and unsatisfied with the prospective job outcomes. **Small businesses** are disproportionately unsatisfied with their workforce and are more likely to report problems in their business due to lack of skills.

EDUCATION-TO-EMPLOYMENT: SUMMARY OF SURVEY RESULTS

Survey design

In our 2014 report *Education to Employment: Getting Europe’s Youth into Work*, we examined **how and why skills mismatches occur** and concentrated on **four broad questions**:

1. Is the scale of youth unemployment problem in Europe a **result of lack of jobs, lack of skills, or lack of coordination?**
2. What are the **obstacles** that youth face on their journey from education to employment?
3. Which **groups** of youth and employers in Europe are **struggling the most?**
4. What can be done to **address the problem?**

We surveyed more than 8,000 young people, employers, and education providers from **eight countries** that are home to three-quarters of Europe’s 5.6 million unemployed youth: **France, Germany, Greece, Italy, Portugal, Spain, Sweden, and the UK.**¹

Drivers of youth unemployment (Question 1)

Clearly, the lack of availability of jobs in Europe is part of the problem, but it is far from the whole story. In many countries, the number of people employed has actually remained steady while, in some countries, this has increased since 2005. More older people are working for longer and more women with children are joining or remaining in the workforce. **More competition particularly affects younger people**, who are disadvantaged by **lack of proven experience**. Meanwhile, **labour-market regulations** that discourage hiring and firing, which are common in Europe, make it even harder for youth to get started.

At the same time, employers everywhere report skills shortages. 27 percent of employers reported that a lack of skills was a major reason they did not fill vacancies. Employers from countries with the **highest youth unemployment** reported the **greatest problems due to skills shortages**.

A critical reason for youth not getting the skills employers need is that education providers, young people, and employers do not understand one another. While 74 percent of education providers were confident that their graduates were prepared for work, only 38 percent of youth and 35 percent of employers agreed.

Obstacles in the education-to-employment journey (Question 2)

European youth face obstacles while 1) enrolling in post-secondary education, 2) building the right skills, and 3) finding work.

1) Barriers to Enrolling: The most important barrier to enrolling in post-secondary education is cost. Although university tuition fees are generally highly subsidised in Europe, many students find the **cost of living while studying** still too high to sustain. Also, in a number of countries, **vocational courses are not subsidised** and can therefore be prohibitively expensive. **A second barrier is a lack of information.** Except in Germany, fewer than 25 percent of students in Europe said they received sufficient information on post-secondary courses and careers. **A third is stigma**, in form of a **social bias against vocational education.**

2) Barriers to building the right skills: Too many students are not mastering the basics, with businesses reporting a particular shortage of "soft" skills such as spoken communications and also problems with work ethic. Furthermore, too many young people are taking courses that lead to **qualifications for which there is reduced demand.** In Spain, for example, the number of people employed in construction has dropped 62 percent since 2008, but the number of students graduating in architecture and building increased 174 percent since 2005².

3) Barriers to finding work: The support systems that could help young people secure satisfying, stable jobs are inconsistently available. Fewer than half of Swedish youth considered the career services offered useful, compared with two thirds in the UK.

The barriers from education to employment combine to make young people doubt the benefit of continuing education after secondary school. **Only 42 percent of young people surveyed in Europe believed that post-secondary education improved their employment opportunities.**

Groups which are struggling the most (Question 3)

E2E systems fail particularly for young people and small businesses.

Segmentation of young people: We identified seven distinct segments of young people, based on how much **support** they received (in the form of financial assistance and career guidance), their **commitment** to developing skills, and whether they attained a **satisfactory job.**

- **Only one segment, representing 10 percent of the young people surveyed, were extremely satisfied with their employment outcome at the end of their education.** This group succeeded because they received both a strong education and good information; they also focused on finding opportunities to build job skills.
- **A further two segments, accounting for 11 percent of the surveyed youth, received strong support, but were less motivated, and were moderately satisfied with their job outcomes.**
- **The remaining four segments (79 percent) were frustrated that they did not get enough support and unhappy with their prospects.**

Segmentation of employers: We divided employers into four groups based on the ease with which they were able to find new hires and the degree to which they were prepared to invest in training.

- **Two segments were satisfied with their workforce but start from very different places.** One (18 percent) was able to attract strong candidates and invested substantially in training new hires. The other (26 percent) found it difficult to attract candidates but developed a strong workforce through training and partnerships with other employers and education providers.

The least satisfied group (21 percent), was disproportionately made up of small businesses (up to 50 employees). Small firms were more likely than large ones to report problems in their businesses due to lack of skills. They also have the greatest problems in identifying and recruiting high-quality new hires, and are less likely to work with education providers or other employers to tackle their skills problems.

Ways to improve the e2e journey (question 4)

Innovate with design, course delivery, and financing to make education more affordable and accessible: To reduce the cost of courses, one solution is to **break up degree programmes into individual, shorter modules** that focus on a particular set of skills. This model also enables young people to take a break in their studies to work for a period, and then return and pick up where they left off. Another option is to explore **different ways of delivering learning for specific skill sets**, such as on-line learning for teaching theoretical content and face-to-face for applied skills.

To improve financing, governments and private financial institutions can **offer low-interest loans for students pursuing courses that have a strong employment record**, or explore initiatives allowing to pay for parts of education **in the form of services**.

Focus young people, employers, and education providers on improving employment readiness: Students need **more and better information about different career paths**, and they need to be motivated to use it.

Education providers should track what happens to their graduates, both in terms of employment and job satisfaction. To improve student prospects, education providers could work more closely with employers to make sure that they are **offering courses that really help young people prepare for the workplace**.

In the most effective programmes, employers and providers work together to design curricula that fit business needs; employers may even provide their own staff as instructors. Employers might also consider increasing the availability of **work-placements** and **opportunities for practical learning**. Larger enterprises may be able to go further and set up **training academies** for their own workforce and also their network of suppliers.

Build the supporting structures that allow the best interventions to scale up: At a national level in Europe, responsibility and oversight of the E2E highway is split across multiple government departments, resulting in a fragmented and confusing picture. One way to improve this is to **create a "system integrator" to gather and share information on the most salient metrics:** job forecasts by profession, youth job placement rates, and employer satisfaction with the graduates of different programmes.

Technological solutions can also help to compensate for shortages of apprenticeships and other forms of short-term work placements. "Serious games" that mimic the workplace

context, for example, are low-cost, low-risk ways for students to receive a personalised learning experience through repeated "play" of the game. While not a full substitute for a physical apprenticeship, this approach offers a substantial step forward in terms of **providing the applied skills** that employers say young people lack.

Involve the European Union: To help the most successful interventions reach the greatest number of young people, the European Union plays a critical role **in three areas:**

- 1. Information:** The European Union could develop and share a more **comprehensive labour-market platform** incorporating the most relevant data to capture employment trends in each sector and region.
- 2. Mobility:** The European Union can improve educational and labour mobility by working to make **vocational qualifications transferable across borders**, as has already largely been achieved in the Bologna process for university education.

Sharing relevant practices on matching labour market demand and supply: The European Union is in the best position to take a lead on **helping national public employment services (PES)** to compare their successful interventions, and to disseminate and promote those that are relevant to similar context countries.

ANNEX 1: SHORT BIOGRAPHIES OF EXPERTS

Paul de Beer

Paul de Beer (1957) is Henri Polak professor for industrial relations at the University of Amsterdam and co-director of the Amsterdam Institute for Advanced Labour Studies (AIAS). He has a PhD in economics and is a specialist in the field of labour market analysis, industrial relations and social policy. Recent research projects focused on social solidarity, reform of the welfare state, free choice in occupational pensions and flexibilization of the labour market.

Maarten Gerard

Maarten Gerard (1985) is senior researcher on Labour Market and Social Policy at IDEA Consult. He has a Master in Political and Social sciences and in Economic Policy. He is mainly active in labour market research on labour market reform, activation and social policy, conducting evaluations and impact assessments for EU-institutions and the different Regions and federal government in Belgium. Recent European project focus on more strongly on social policy and social protection.

Anja Meierkord

Anja Meierkord (1986) is a Senior Research Manager at Ecorys UK, a research consultancy. As a quantitative social scientist, she conducts cross-country and within country research in the area of employment, skills and education policy for the European Institutions, as well as UK and international public and third sector clients, such as the UK Department for Work and Pensions and the ILO. Previously, she worked for the EU agency Eurofound in Dublin, where she conducted research on restructuring and industrial change in Europe, school to work transitions and NEETs.

Konstantinos Pouliakas

Konstantinos Pouliakas is an Expert on Skills and Labour Markets at the European Centre for the Development of Vocational Training (Cedefop). He is the agency's main researcher on skill mismatch. Konstantinos has designed and analysed the first European Skills and Jobs Survey, which Cedefop undertook in 2014. Before joining Cedefop he held posts at the University of Aberdeen (UK) and the University of Cyprus and has worked at the Bank of Greece and HM Treasury. He is an Honorary Lecturer at the University of Aberdeen Business School and an IZA Research Fellow.

John McGrath

John McGrath is an economics and politics graduate from UCD. He also holds a Masters degree in economic science (Trinity College), a Masters degree in Politics (UCD) and a Post-Graduate Diploma in Statistics (Trinity). John is a former holder of the National University of Ireland scholarship. He has over 20 years experience of research on the Irish labour market. During that time, he produced numerous studies covering a variety of issues regarding the labour market at national, regional, sector and occupational level. In the last 15 years, he has worked extensively as an international labour market consultant in Central and Eastern Europe and Central Asia for the EU and IMF. John McGrath is the manager of the Research Department of SOLAS – the Institute for Further Education and Training in Ireland. The Department provides skills analyses to SOLAS, the Expert Group on Future Skills Needs and key Government Departments and Agencies in Ireland.

Solveigh Hieronimus

Solveigh Hieronimus is a Partner at McKinsey & Company, based in Germany. She serves clients in the Public and Social Sector (e.g. Governments, Foundations, NGOs) on a range of topics covering among others Education, Employment, Public Health and Sustainability. She leads McKinsey's Employment Service Line in Europe and has special expertise in youth and long-term unemployment as well as integrated labor market strategies. Her main professional interests are at the cross-roads between the worlds of education and employment. She publishes widely on the topic and has recently co-led a Pan-European research effort "Education to Employment - Getting Europe's Youth into Work", launched in Brussels in 2014. Prior to joining McKinsey in fall 2005, she held various positions at the United Nations Development Program, JPMorgan and Goldman Sachs. Solveigh has a M.Sc. in Economics and a Diplôme de Grande Ecole from ESCP-EAP European School of Management in Oxford, Madrid and Paris. In addition, she holds a Masters in Public Administration (MPA) from Columbia University in New York.

ANNEX 2: PRESENTATIONS

Presentation by IDEA Consult



Labour market shortages in the European Union

At the request of:

European Parliament, Directorate-General for Internal Policies of the Union Directorate A - Economic and Scientific Policies Policy Department A: Economic and Scientific Policy

Workshop: 'The Impact of the crisis on skills shortages'

March 23th, 2015

IDEA Consult, AIAS, Ecorys UK

Agenda



1. What are labour shortages?
2. What shortages do we experience in the EU?
3. How can we counter labour shortages?
4. Recommendations



1. What are labour shortages?

Types and causes



Quantitative labour shortages

"an absolute lack of workers in the labour market"

Caused by an increase in the demand for workers

- ▶ Due to **economic growth**
- ▶ Due to an **increase in the demand for specific goods**

Or by a decrease in the supply of workers

- ▶ Due to a **decline in the working-age population** (emigration, ageing)
- ▶ Due to a **decrease in the participation rate** (early retirement, disadvantaged groups)



Qualitative labour shortages

"a large share of unfilled vacancies and a high unemployment rate, signalling a mismatch between supply and demand"

Caused by a **skill** mismatch or shortage

- ▶ Due to students **educational choices**
- ▶ Due to the **availability of the required education**
- ▶ Due to a **change in the required skills**
- ▶ Due to **replacement demand**

Or by a **preference** mismatch

- ▶ Due to other **preferences** of jobseekers (expectations)
- ▶ Due to the **quality or image** of sectors and jobs (wage conditions)

Or by an **information** mismatch

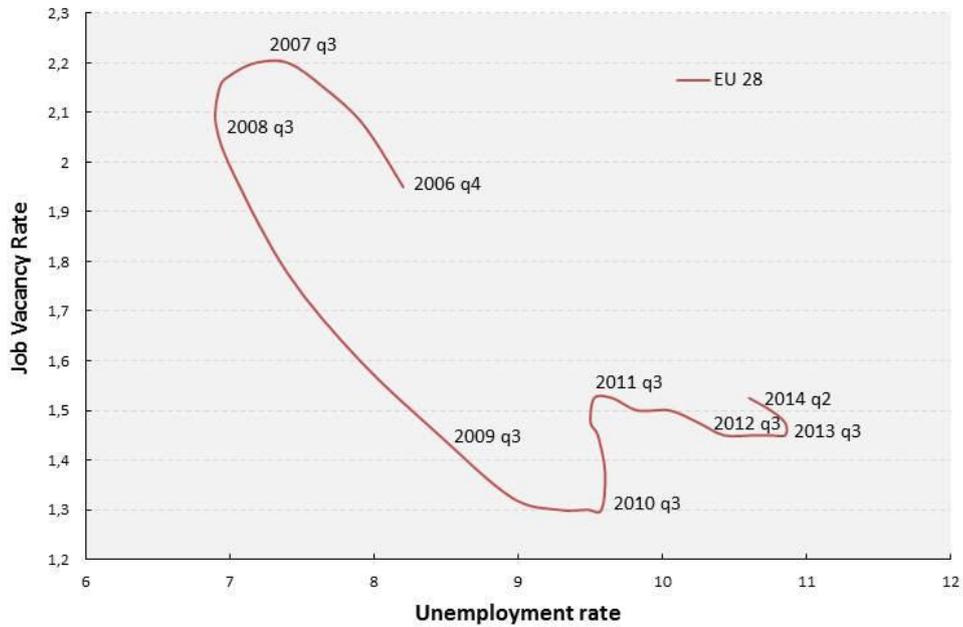
- ▶ Due a lack of **sufficient information**
- ▶ Due to a **poor matching process**



2. What shortages do we experience in the EU?

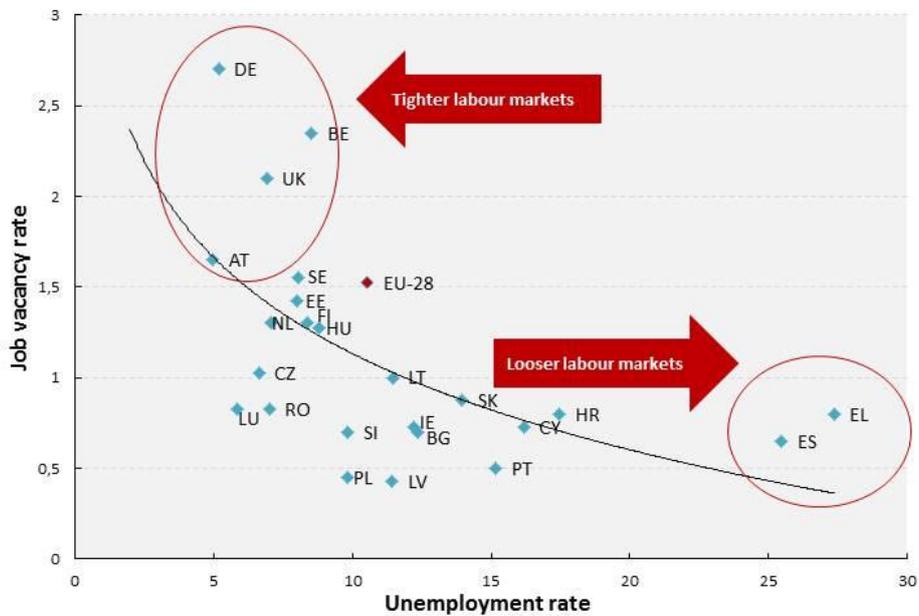
Impact of the crisis

There are currently no quantitative labour shortages at EU level... 



Source: Eurostat, ([jvs_q_nace2](#)) and ([lfsq_organ](#)), own illustration, based on Eurostat methodology, http://ec.europa.eu/eurostat/statistics-explained/index.php/Job_vacancy_and_unemployment_rates_-_Beveridge_curve (accessed 10.03.2015)

...but there are large differences between Member States... 



Source: Eurostat, ([jvs_q_nace2](#)) and ([lfsq_organ](#)), own illustration, based on Eurostat methodology, http://ec.europa.eu/eurostat/statistics-explained/index.php/Job_vacancy_and_unemployment_rates_-_Beveridge_curve (accessed 10.03.2015)



...and qualitative shortages remain.

Skills

- ▶ Two in five companies claim to have difficulties recruiting people with the required skills
- ▶ Many employees do not find a job which matches their qualification level – e.g. 51% in IE, 48% in ES, 44% in BE

Sectors

- ▶ Fewer labour shortages in industry, services and construction than there were before the crisis

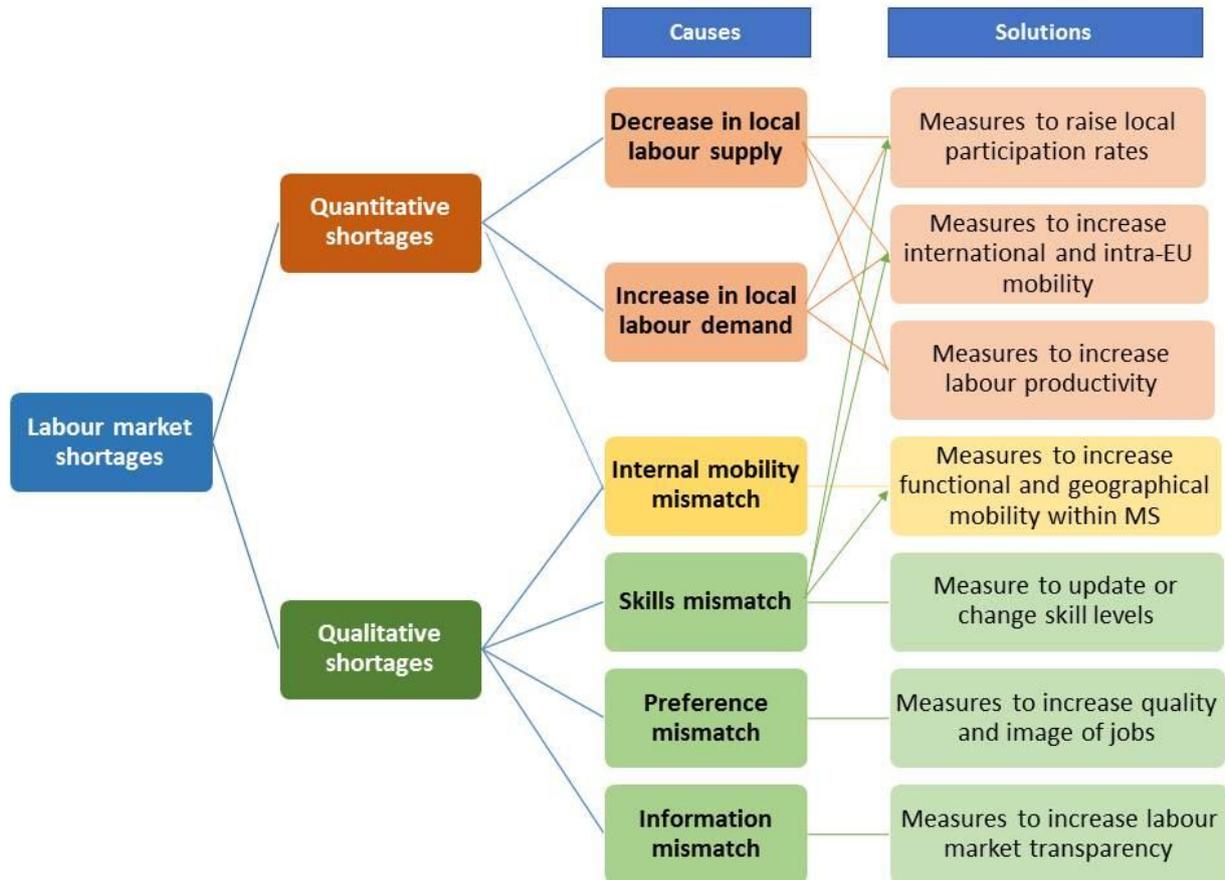
Occupations

- ▶ Bottlenecks in some occupations/occupational groups remain
- ▶ Top-3 shortage groups in Europe are
 - ▶ metal, machinery and trade related workers,
 - ▶ science and engineering professionals,
 - ▶ ICT professionals



3. How can we counter labour shortages?

Approaches by employers, Member States and the EU



Member States and employers can counter shortages by...

...bringing more people into the labour market

- ▶ Encouraging participation and retaining (skilled) workers on the labour market
- ▶ Facilitating the school-work transition

...using international mobility

- ▶ Attracting workers from the EU and beyond
- ▶ But risks imbalances in the EU through brain-drain

...increasing internal and functional mobility

- ▶ Stimulate mobility financially and avoid lock-in
- ▶ Changing jobdesign and labour regulation

Member States and employers can counter shortages by...



...bringing the skills of the labour force in line with labour market needs

- ▶ Through training and retraining programmes of employees and the unemployed
- ▶ Attracting more students to specific training and educational programmes

...making sectors and occupations more attractive

- ▶ Improving overall working conditions

...making the labour market more transparent

- ▶ Setting up clear qualification and skill frameworks
- ▶ Providing high quality guidance for both employers and jobseekers

The EU-level can play an important supportive role by...



Supporting the activation of (skilled) workers

- ▶ Through the structural funds and especially the ESF
- ▶ Through measures as the Youth Guarantee, ensuring the potential supply of (skilled) labour for the future

Further enabling intra-EU mobility

- ▶ Removing barriers to mobility in social security and labour law
- ▶ Expanding mobility schemes such as EURES, Your First EURES JOB

The EU-level can play an important supportive role by...



Putting skills on the agenda

- ▶ Encourage attention for the development of skills
- ▶ Provide a framework for local training initiatives through ESF

Increasing the transparency on the EU labour market

- ▶ Providing more labour market information, both current and forecast
- ▶ Setting up classification frameworks (ESCO, EQF, ECVET)



4. Recommendations

What actions should be taken?



Recommendations

Invest in monitoring and forecasting tools

- ▶ Strengthen the development of these tools at EU and MS level
- ▶ Incorporate the received information into the design of labour market policies

Increase the adaptability of the labour market

- ▶ Increase the adaptability of the workforce through training, upskilling and especially through the acquisition of basic skills
- ▶ Use the structural funds, especially the ESF, as a support

Mainstream shortages in labour market policies

- ▶ Design ALMP with regards to their effect on shortages including a special focus on skills



Recommendations

Strengthen intra-EU mobility

- ▶ Continue removing barriers to mobility
- ▶ Expand on good practices such as Your First EURES job

Ensure the cooperation of all stakeholders for effective policies

- ▶ Include local stakeholders when designing policies and measures
- ▶ Further develop the EU Sector Skill councils

Call on all actors to take up their role



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Presentation by Konstantinos Pouliakas



Skills and the crisis

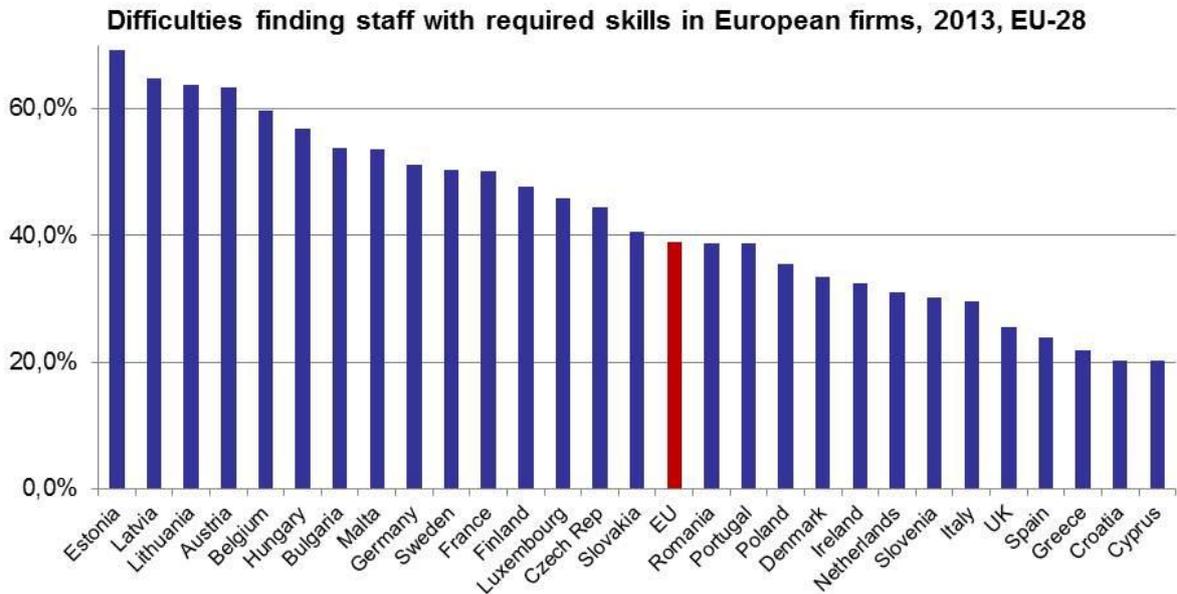
Evidence and implications for policy

Konstantinos Pouliakas
 Expert, Department for Skills and Labour Markets
 CEDEFOP

European Parliament
 Brussels, 23 March 2015



4 in 10 EU firms have difficulty finding talent

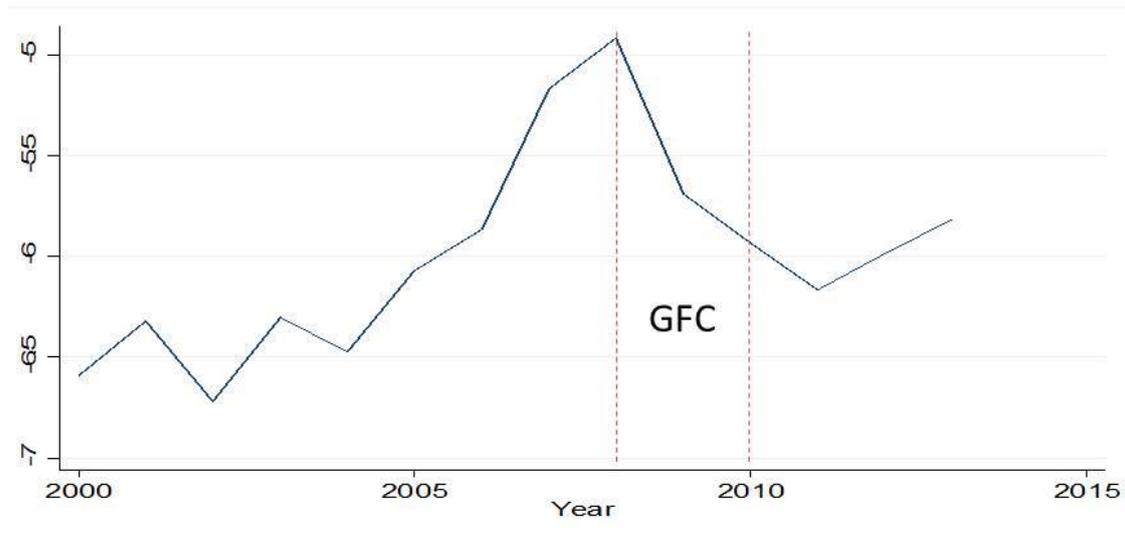


Source: 3rd European Company survey



Lower but rising shortages after the crisis

Shortage of skilled labour, 2000-2014, EU



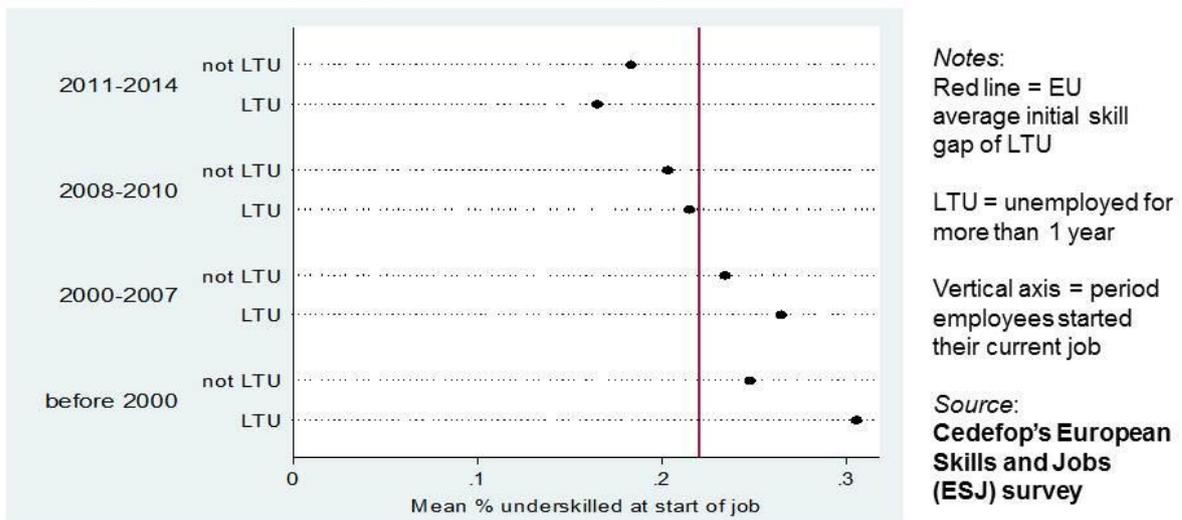
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Source: IMD WCY; Cedefop (2015a)



Skill gaps of unemployed moving back to work have narrowed post-crisis

Skill gaps at start of job by prior LTU status and period of job entry, EU28, 2014



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Not all vacancy bottlenecks are skill shortages

Difficulties in filling vacancies by reason, firms with recently recruited higher education graduates, 2010, EU

| Type of recruitment bottleneck | % of firms with difficulty filling vacancies |
|---|--|
| GENUINE SKILL SHORTAGES - Shortage of applicants with the right skills and ability to offer a competitive starting salary | 34% |
| UNCOMPETITIVE WAGE OFFER - Inability to offer a competitive starting salary | 29% |
| WEAK SKILL SHORTAGES - Shortages of applicants with the right skills & inability to offer a competitive starting salary | 24% |
| HRM INEFFICIENCIES - Lack of competitive graduate training and development program and slow hiring process | 13% |

23/03/2015

5

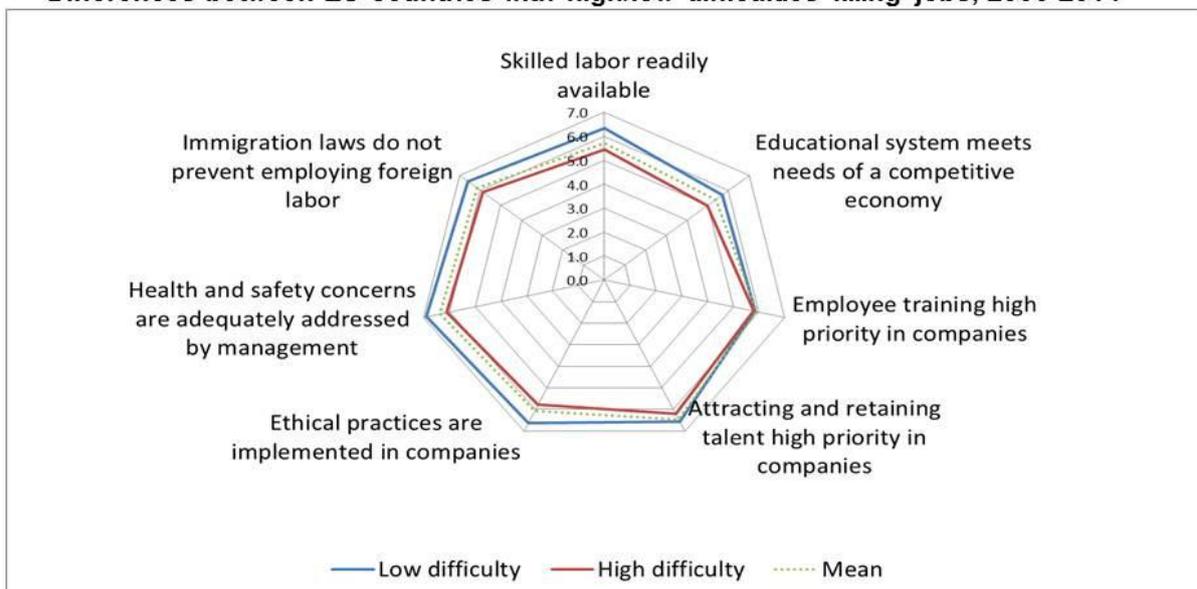
Konstantinos Pouliakas

Source: Flash Eurobarometer 304; Cedefop (2015a)



Countries with multifaceted policies had lower shortages during the crisis

Differences between EU countries with high/low difficulties filling jobs, 2006-2014

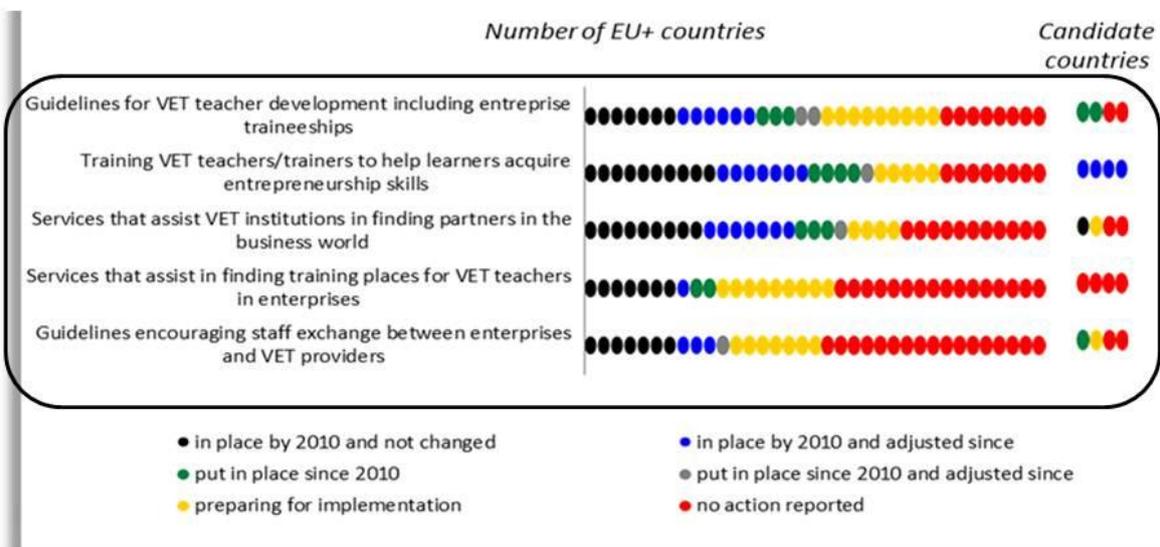


Source: IMD WCY; Manpower Talent surveys; Cedefop (2015a)



Involving enterprises in VET is still a challenge

STD5b: Cooperation between VET institutions & enterprises



Source: Cedefop (2015b)



Mitigating mismatch with targeted policies

| Policy priorities | Need for further efforts |
|--|--|
| Stronger institutions governing link between VET and labour markets | <ul style="list-style-type: none"> - Greater involvement of enterprises in VET - Strengthen efforts to promote creativity, innovation and entrepreneurship in VET - Extend reforms on validation of non-formal and informal skills - Extend European tools to the design of ALMPs and company-based training |
| Better skills intelligence used in governance of VET & ALMPs | <ul style="list-style-type: none"> - Establish partnerships for analysis and action based on LM intelligence at local / sectoral level - Customise training and guidance in alignment with areas of genuine skill shortages - Scope for better use of digital tools for matching |
| Combat product & labour market failures | <ul style="list-style-type: none"> - Promote competition (↓ in monopsonistic power) - Establish job quality - Facilitate job mobility/migration - Minimum wages/collective wage bargaining |



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Cedefop (2015a), Skill shortages and skill gaps in European enterprises: More than meets the eye

Cedefop (2015b), Stronger VET for better lives



Presentation by John MCGrath

Unemployment: Tackling Skills Mismatches Through Active Labour Market Policies

JOHN MCGRATH
LABOUR MARKET ECONOMIST
IRELAND

23 MARCH 2015, BRUSSELS

Outline

- Perceived causes of skills mismatches
- What does the data tell us?
- Implications for effective response
- Conclusions

Perceived causes of mismatches

Job ready
unemployed don't
have required
technical skills

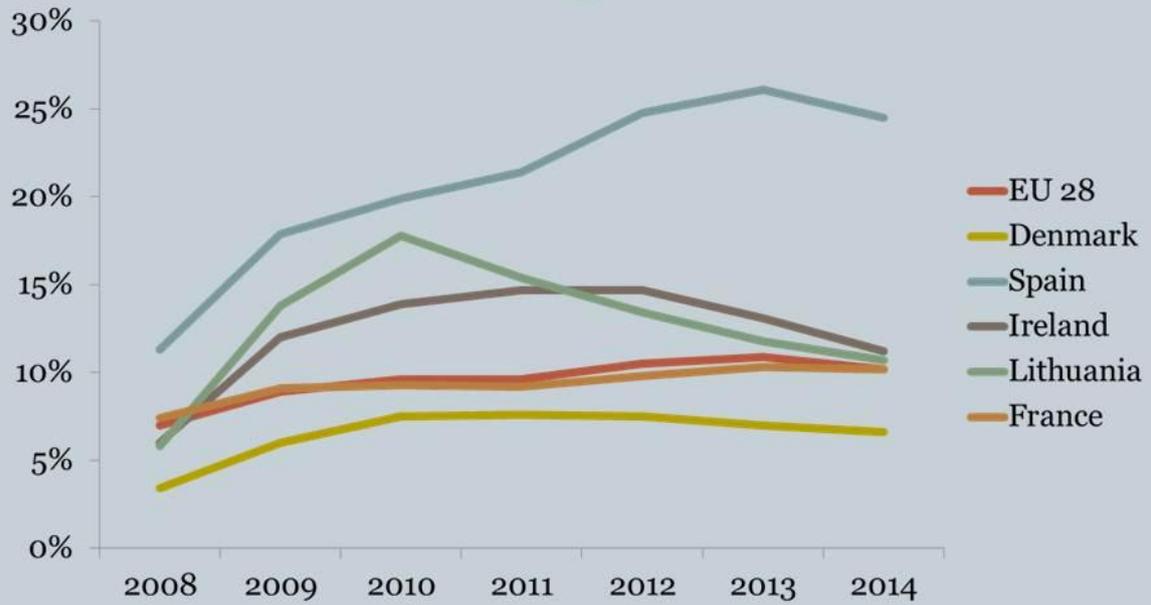
Unemployed are not
job ready (lack
technical skills and
personal attributes)

Job ready but lacking technical skills: general perception

- Millions of vacancies advertised in EU every year
- Unemployment remains high
- Skills mismatch?



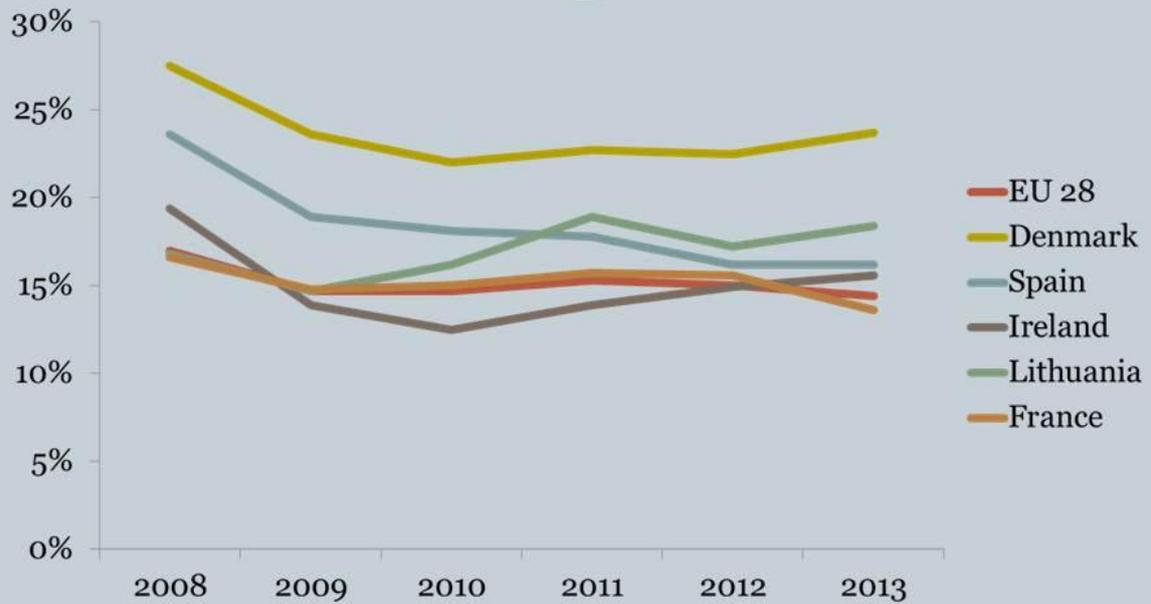
Unemployment rate (selected EU countries)



Source: Eurostat

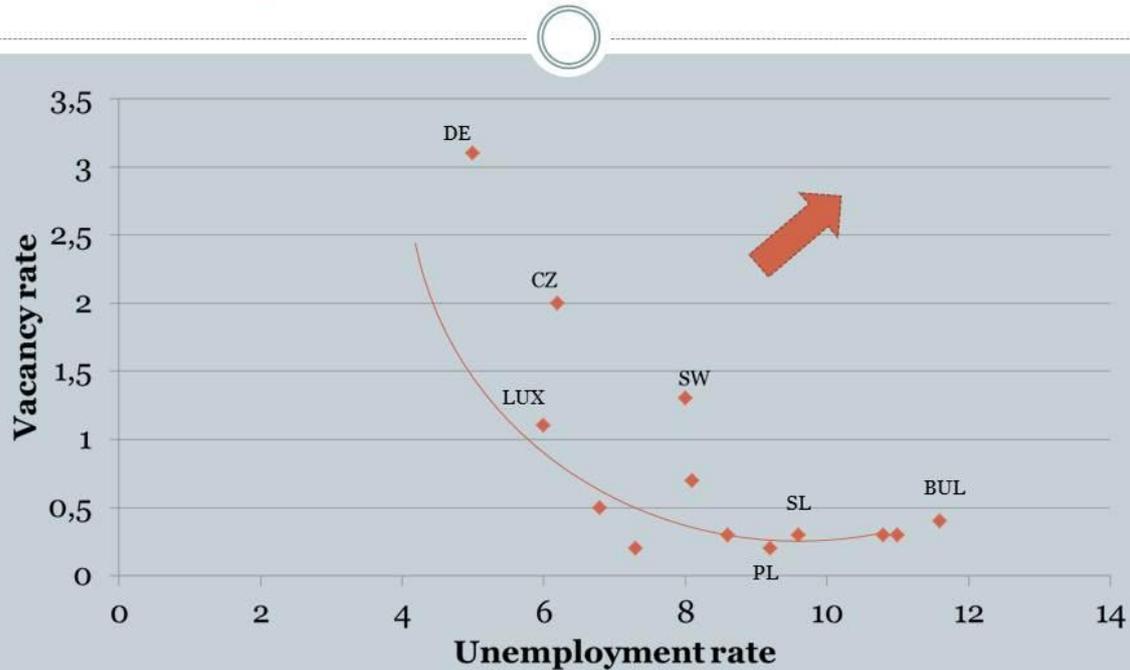
Annual hirings

(% of employees who are in the current job for less than a year)



Source: Eurostat

Beveridge curve (selected EU countries)



Source: Eurostat

Year to year transition probabilities (Q2 2011 - Q2 2012), EU 25, 15-74

| | Employed | Unemployed | Inactive | Total |
|------------|----------|------------|----------|-------|
| Employed | 93% | 3% | 4% | 100% |
| Unemployed | 30% | 51% | 19% | 100% |
| Inactive | 7% | 4% | 89% | 100% |
| Total | 58% | 6% | 36% | 100% |

Source: Eurostat 2012

| Ireland: replacement and turnover demand | | | | | |
|--|------------|-------------|--|--------------------|---|
| | Employment | Replacement | | Turnover | |
| | | Retirement | Exits to inactivity (including retirements) and net exits due to inter-occupational movement | Intra-occupational | Intra occupational and neutral inter-occupational movements |
| Managers | 150,200 | 1.1% | 3.6% | 4.4% | 6.0% |
| Professionals | 354,700 | 1.3% | 4.1% | 6.7% | 7.5% |
| Assoc. prof. | 216,600 | 0.6% | 3.7% | 7.2% | 8.7% |
| Admin. | 208,500 | 1.1% | 6.4% | 6.0% | 7.9% |
| Trades | 285,400 | 1.6% | 5.5% | 5.9% | 6.7% |
| Personal serv. | 144,600 | 1.7% | 11.3% | 8.0% | 9.8% |
| Sales | 166,100 | 0.4% | 11.4% | 11.4% | 14.4% |
| Operatives | 144,900 | 1.2% | 6.6% | 7.7% | 9.7% |
| Elementary | 210,100 | 1.0% | 14.3% | 10.5% | 12.9% |
| Total | 1,881,200 | 1.1% | 7.1% | 7.4% | 9.0% |

Source: National Skills Bulletin 2014, Ireland

Skills mismatches

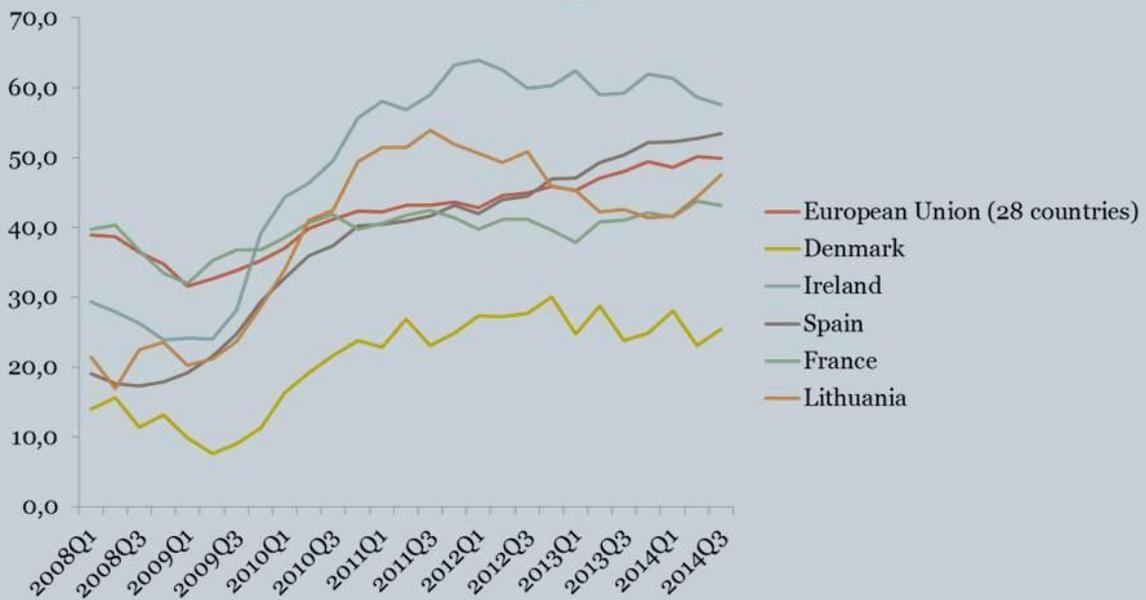
- It's not just the magnitude of vacancies (quantitative)
- It's not just the components of demand (quantitative)
- It's not just about occupations (qualitative)
- It's also the job specification (qualitative)
 - Job specifications changing continuously
 - Same occupation - new competences
 - Recruitment channels changing (social media)

Job seekers not job ready: general perception

- Too disadvantaged to be offered or find employment
- Needs education and training to be able to compete
- Any employment will do

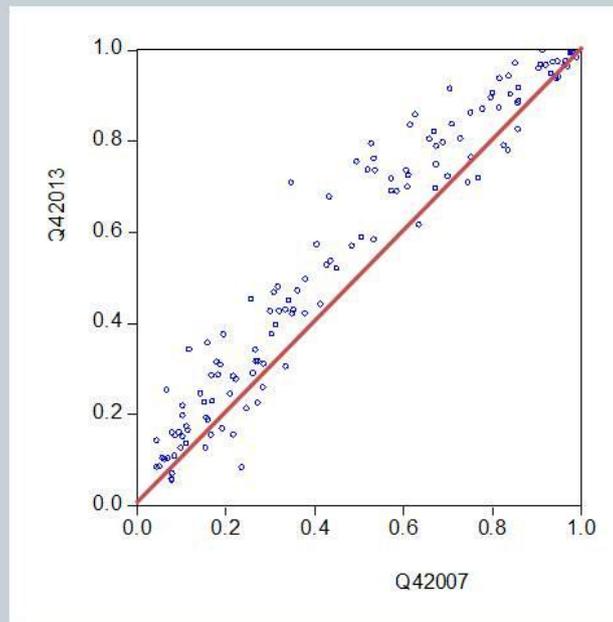


Long-term unemployment (12 months +) as % of unemployment



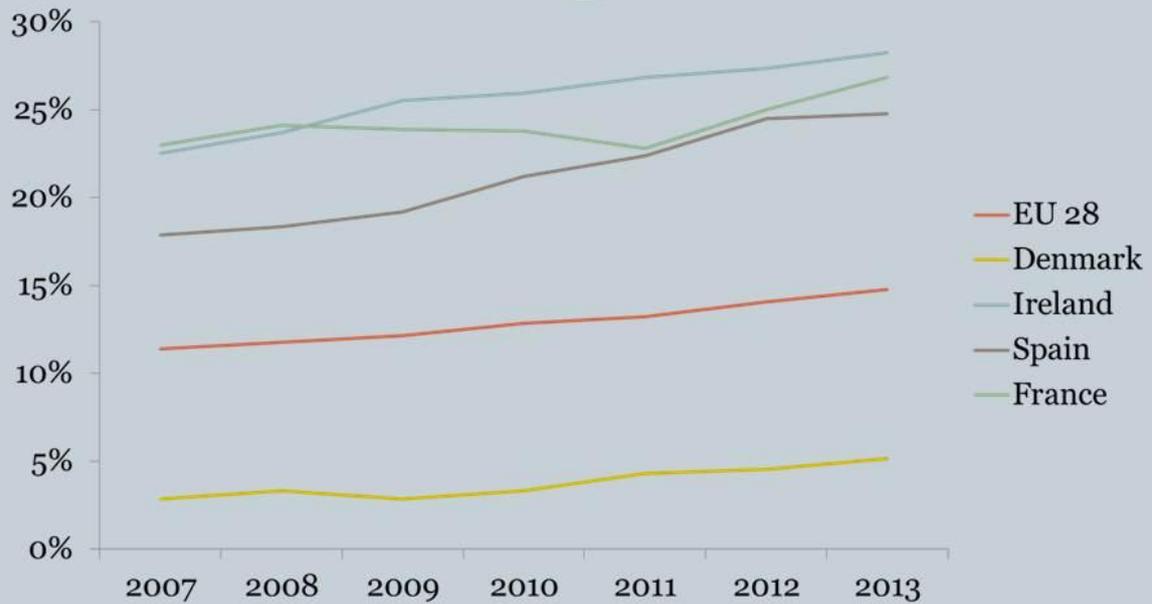
Source: Eurostat

Who is crowded out? Share of employment at tertiary level across occupations: Ireland



Source: National Skills Bulletin 2014, Ireland

Share of employment at tertiary level, 15-24



Source: Eurostat

Summary



- Most vacancies not additional jobs from job seekers' perspective
- Additional jobs are created in two ways which should be the focus of ALMPs
 - Employment growth (expansion demand)
 - Exits from employment (replacement demand – retirements etc.)
- Treat socially excluded as any other job seeker – any job will not do
- Costs more and longer distance travelled, but creates sustainable employment and reduces crowding out
- Important role of self-employment
- Align education and training provision with labour market needs

Conclusions



- Data infrastructure to allow for in depth insight into skills-mismatches
 - Employers views - important, but only one perspective
 - Need more data to contextualise employers' views (transitions, etc.)
 - × Components of demand (expansion, replacement, turnover)
 - × Skills vs. labour shortage
 - × Skills deficiencies – fine tuning
 - New data sets and new data mining techniques
- Impact evaluation
 - Education and training provision
 - ALMPs
 - Immigration
 - Career guidance
 - Enterprise supports

Presentation by Solveigh Hieronimus



» Youth employment crisis is still in the headlines all over Europe

"The euro area cannot enjoy real prosperity until ... its young people are brought back to the labour market." - The Economist, 2014

"At stake is the future of an entire generation"
- French President François Hollande

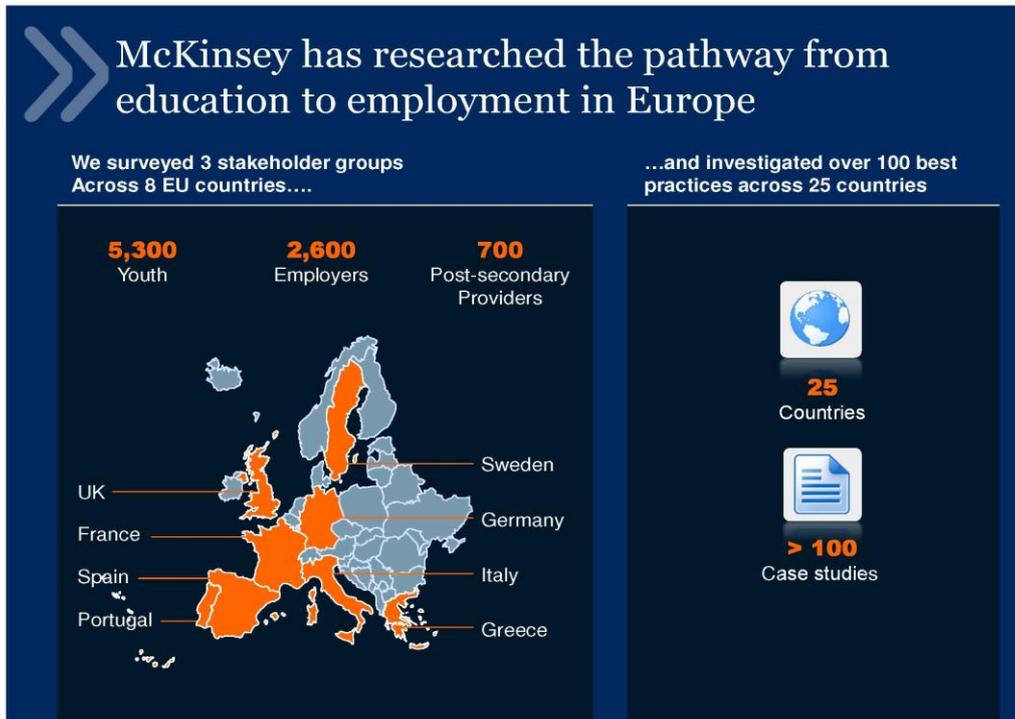
[youth joblessness] is the "true nightmare" [of Italy]
- Former Italian Prime Minister Enrico Letta

"It is unacceptable that today more than every fifth young person on the labour market cannot find a job. Despite being the generation with the highest education attainment ever, today's young have paid the highest price for the crisis."
- Commissioner for Employment Marianne Thyssen, January 2015

"Europe's greatest challenge is its young people given the extent of youth unemployment across the continent"
- President of Ireland Michael D. Higgins, February 2015

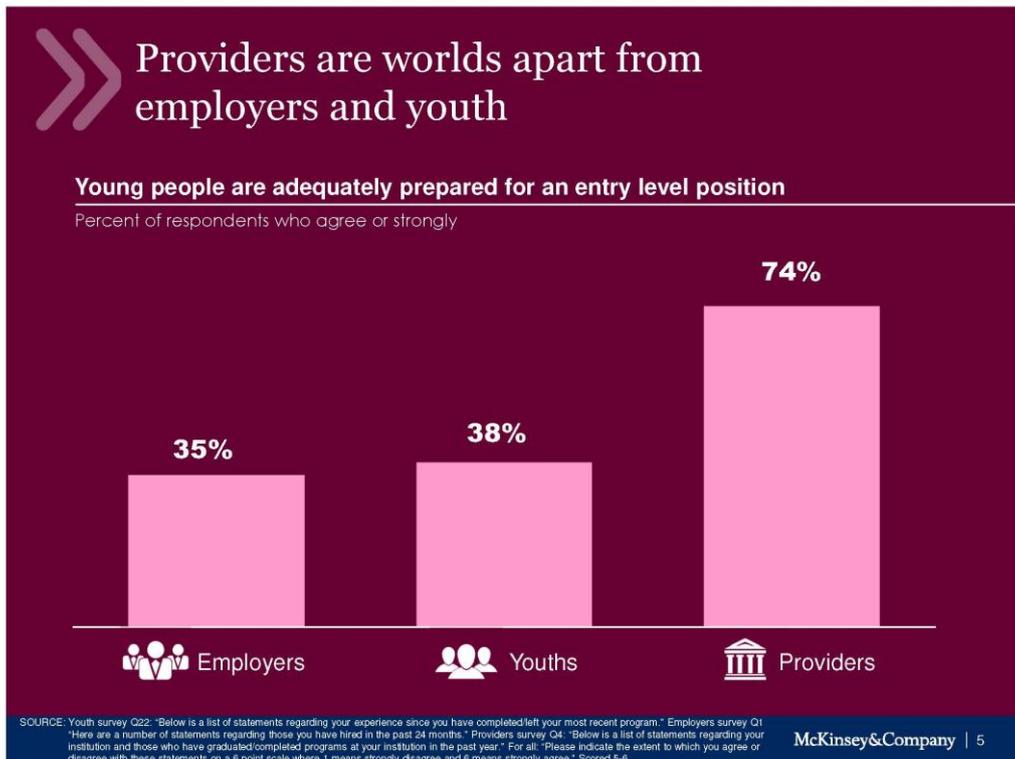
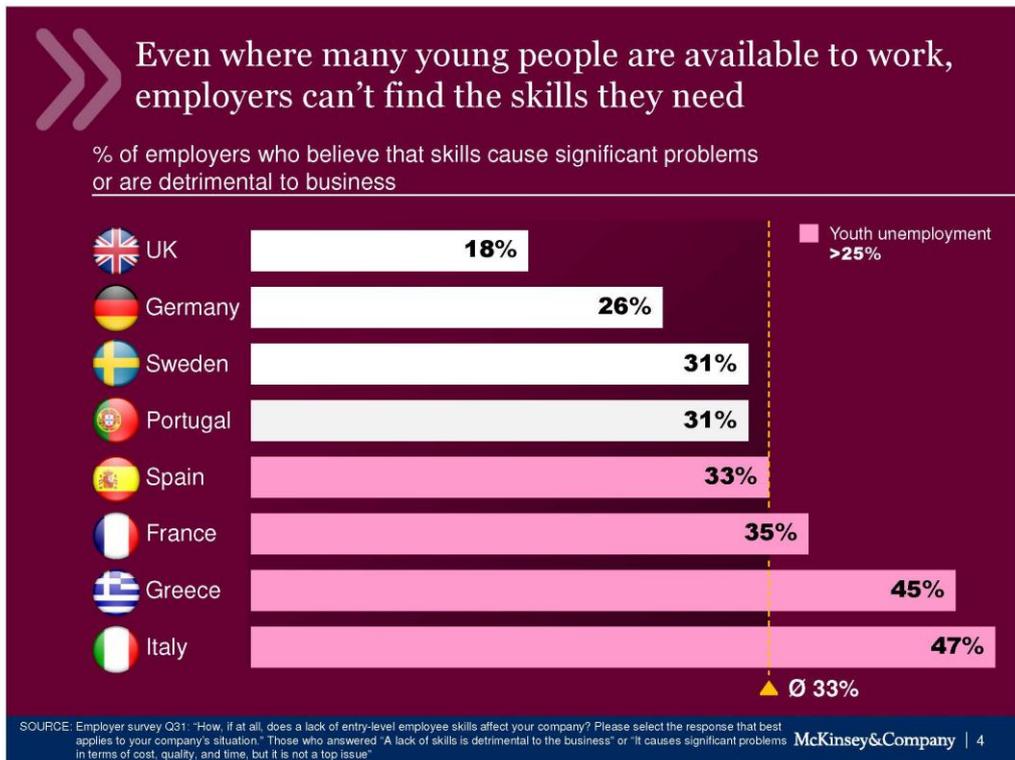
SOURCE: Press search

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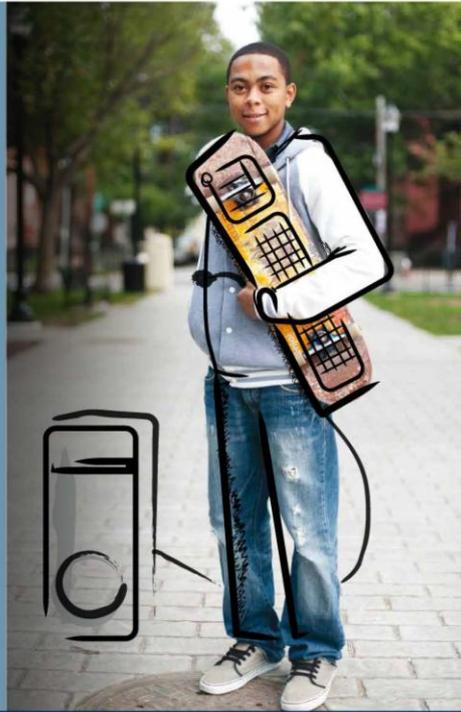
1 | Despite high youth unemployment, employers in Europe cannot find the skills they need

McKinsey&Company | 3



2 Young people face hurdles at 3 stages: enrolling in post-secondary education, building the right skills and finding a job

Where Should I Go?

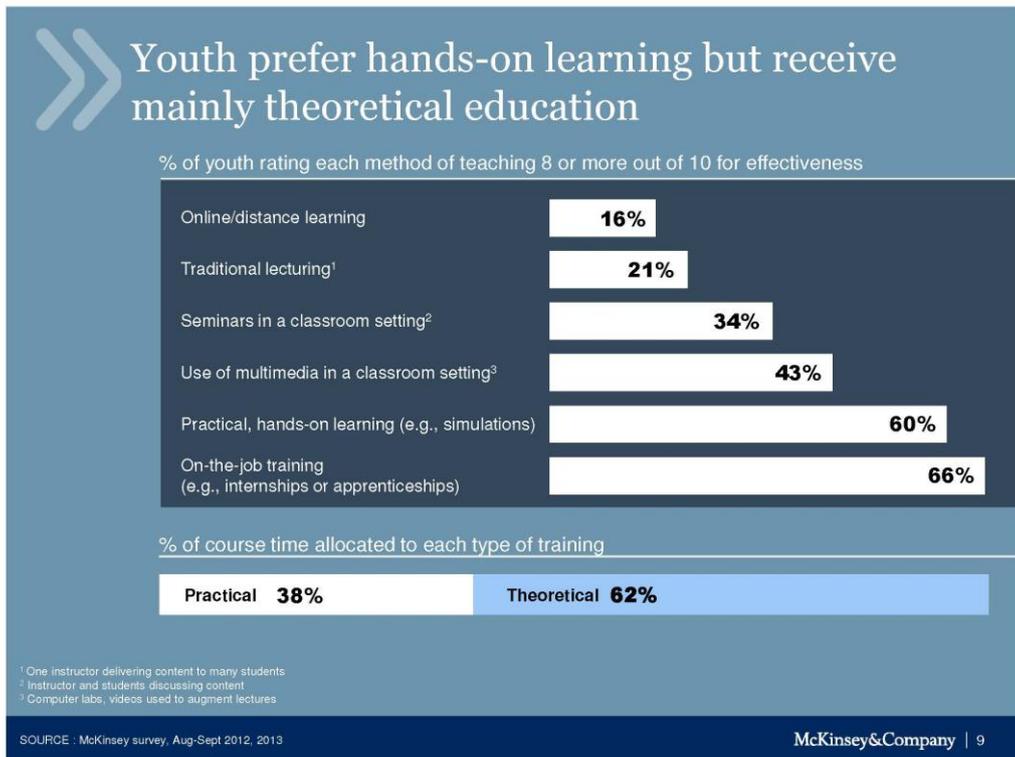
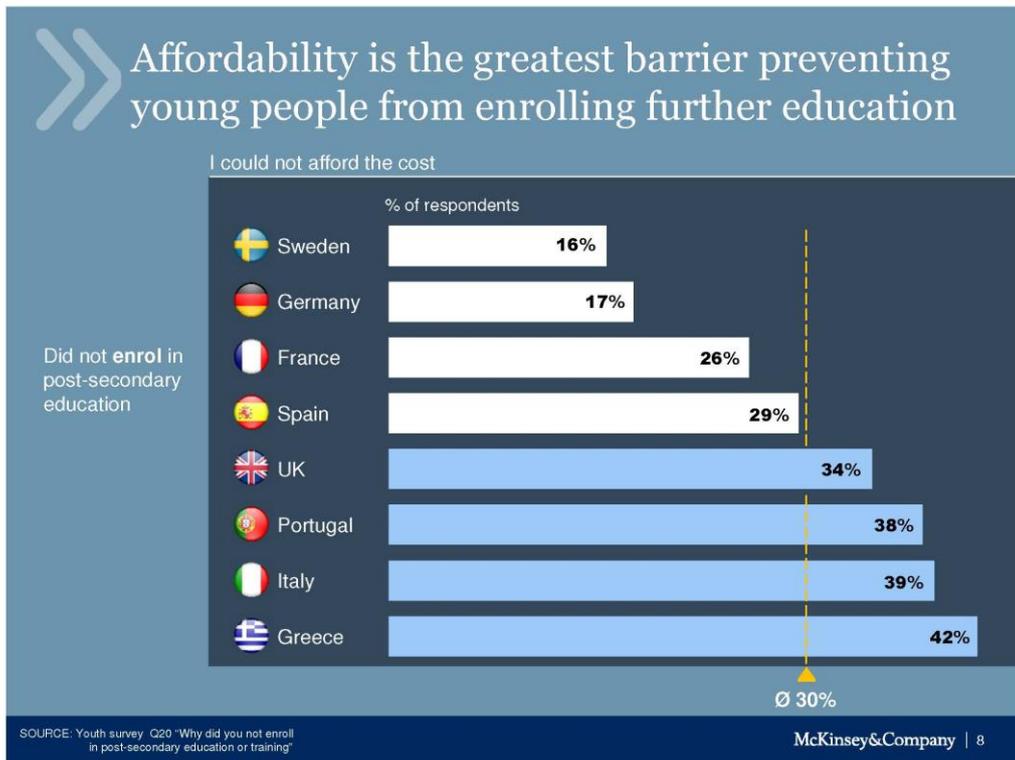


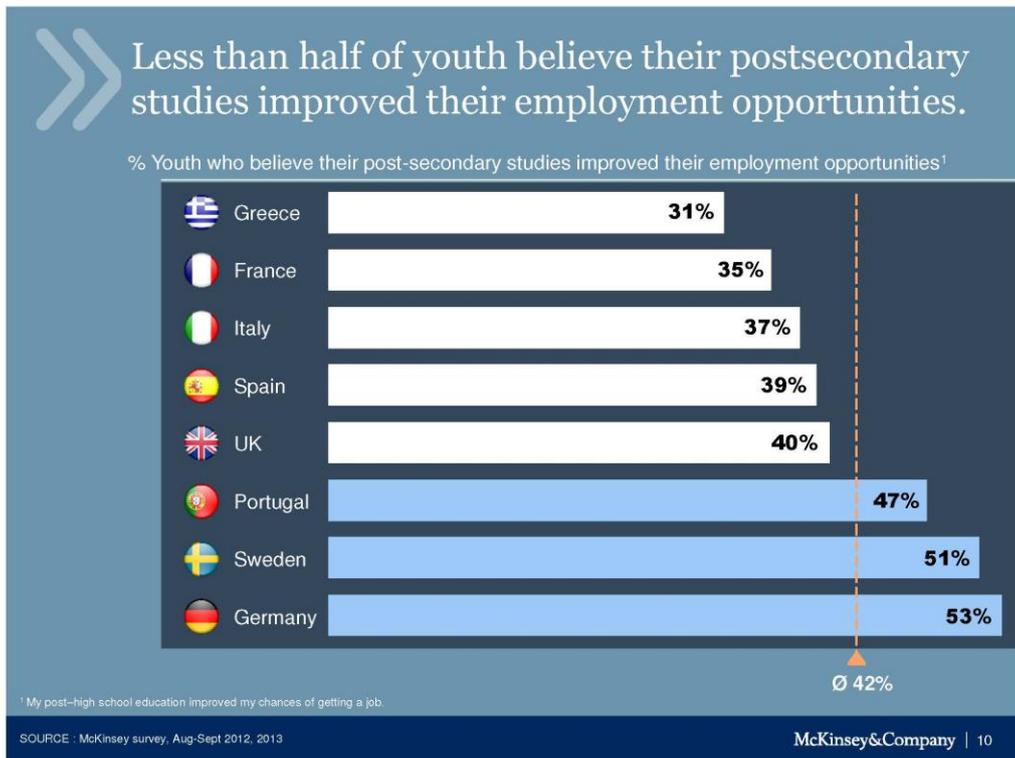
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» We have framed youth's journey from education to employment in three "intersections"



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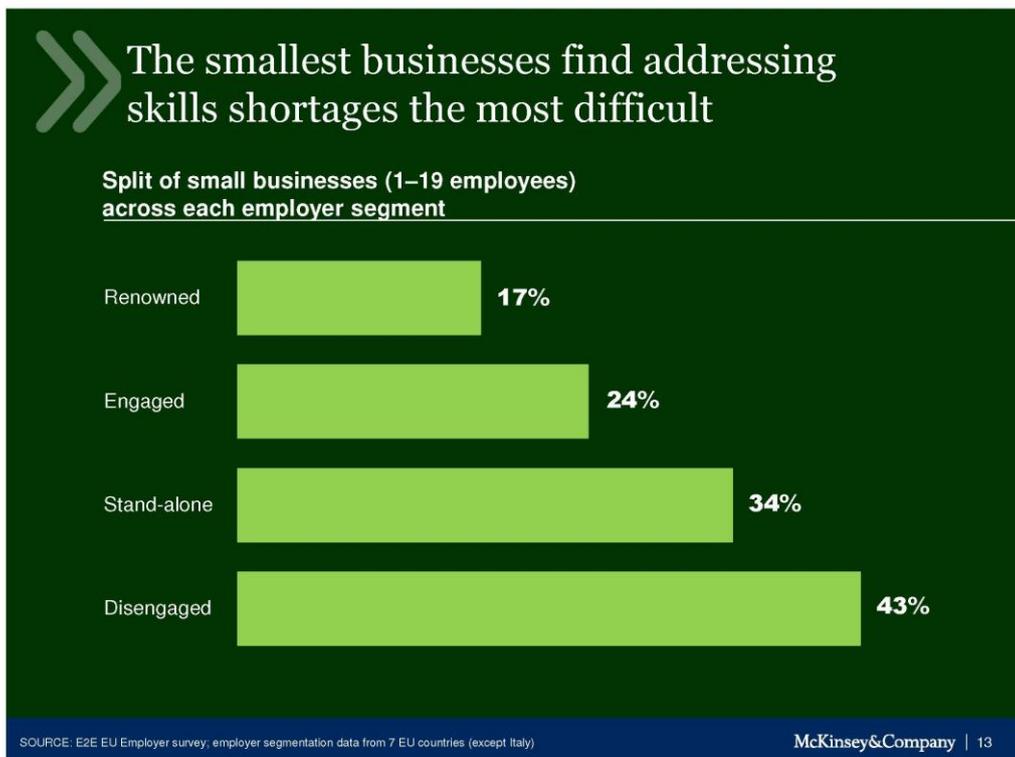
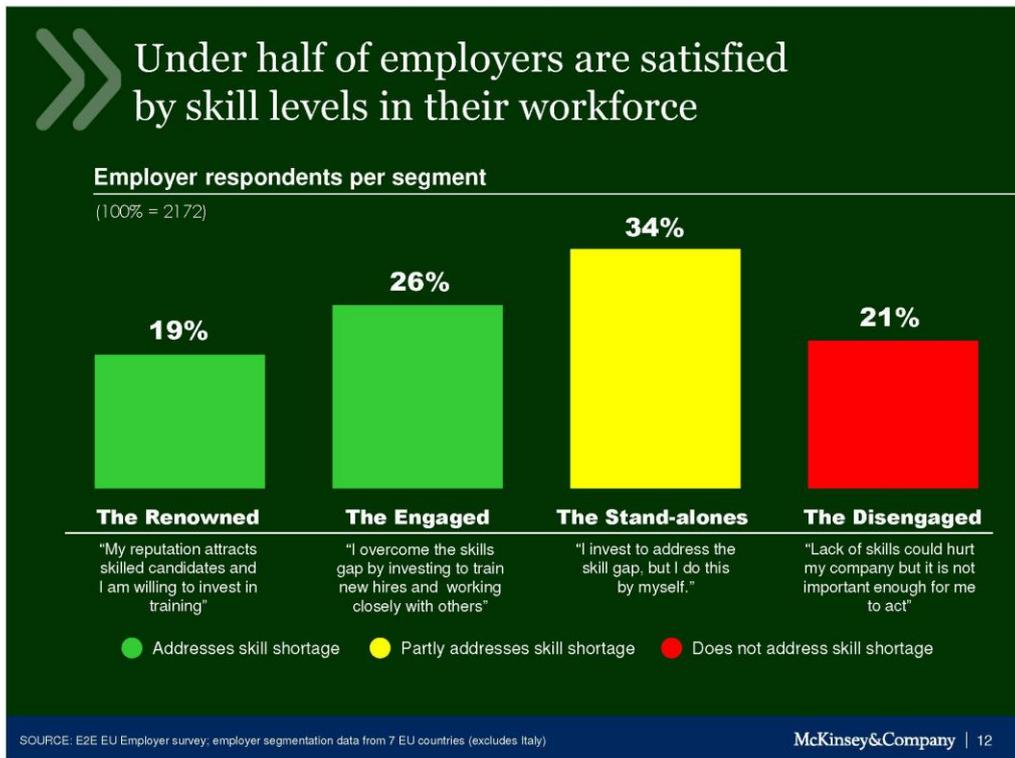




3 | The education to employment system is not working for half of employers – in particular SMEs struggle the most

What Should I Learn?

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4 Solutions to clear the Education to Employment pathway

How do I find a job?



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Mechanisms to improve the E2E journey



Affordability

- Innovate with design, course delivery, and financing to make education more affordable and accessible

Focus

- Focus young people, employers and education providers on improving employment readiness
- Engage young people in career planning before upper secondary schooling
- Focus education providers on students' exit point from education rather than the entry point
- Encourage employers to invest in training young people by helping them see the value in training

Scale

- Build the supporting structures that allow the best interventions to scale up

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» Additionally, the EU can support programmes that disseminate success across countries 



-  **Create greater transparency on EU Labour market**
with transnational labour market information on qualifications, job perspectives and salaries
-  **Develop European qualification and skill map**
by accrediting tertiary and vocational qualifications across European countries and developing comparable approach for skills
-  **Create incentives and institutions**
to actively involve employers in vocational education and national skill building efforts, in particular SMEs (e.g. group training associations)
-  **Align Public Employment Services**
to disseminate relevant practice by identifying most powerful measures and their success drivers

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» Education to Employment: Getting Europe's Youth into Work 



McKinsey&Company

NOTES

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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