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**COMMUNICATION FROM THE COMMISSION TO THE COUNCIL, THE  
EUROPEAN PARLIAMENT, THE ECONOMIC AND SOCIAL COMMITTEE AND  
THE COMMITTEE OF THE REGIONS**

**The future of the European Employment Strategy (EES)  
"A strategy for full employment and better jobs for all"**

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**INTRODUCTION**

When the Luxembourg Jobs Summit (November 1997) launched the European Employment Strategy (EES) on the basis of the new provisions in the Employment title of the Treaty, the ambition was to achieve decisive progress within five years.

The Communication of 17 July 2002<sup>1</sup> reviewed the experience of five years of the EES under the "Luxembourg" process and identified major issues for the debate on the future of the EES.

The Communication stimulated an active debate at the level of all institutions, leading in particular to a Resolution from the European Parliament<sup>2</sup>, and a joint position from the Employment Committee and the Economic Policy Committee that was submitted to the Council. The European social partners and other stakeholders have also made contributions to the debate. The debate confirmed the important contribution of the EES to the improved employment performance and the convergence of employment policies within the EU over the past five years. It also emphasised the need to revamp the EES with a view to aligning it more closely to the Lisbon Strategy and addressing new emerging challenges.

Following on and completing the Communication on evaluation, the Commission's Communication of 3 September 2002 on the streamlining of the annual economic and employment policy co-ordination cycles<sup>3</sup> received a broad support from EU institutions at the end of 2002. This was followed by the presentation in November of the draft Joint Employment Report<sup>4</sup> in which the Commission gave general orientations for the way forward.

With a view to the adoption of the Employment Guidelines in the light of the political orientations of the Spring European Council, according to the new streamlined procedure, the purpose of this Communication is to present an outline for the revised strategy complemented by examples of existing concrete objectives and targets and considerations and suggestions for possible new targets. This will offer the basis for an open discussion with all interested parties, especially the Member States, the European Parliament, representative organisations of the Social Partners and the civil society. In line with the new and streamlined approach for the overall Lisbon agenda follow-up, the Commission will make a formal proposal of Employment Guidelines

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<sup>1</sup> COM(2002)416 of 17 July 2002 "Taking stock of five years of the European Employment Strategy".

<sup>2</sup> PE 316.370 of 25.09.2002

<sup>3</sup> COM(2002)487

<sup>4</sup> COM(2002)621 of 13.11.2002

and Recommendations, in the light of this debate and of the general political guidance issued by the Spring European Council. This will lead to adoption by the Council at the end of the first semester 2003.

The present text is a document for discussion. The Commission will submit, in April 2003, in the light of the conclusions of the Spring European Council, its detailed proposals for the BEPGs and the Employment Guidelines in a manner which ensures consistency of approach across the two documents.

As part of the transition towards a streamlining of policy co-ordination processes, this Communication is presented together with the Commission Synthesis Report and the Implementation Report on the Broad Economic Policy Guidelines and on the Internal Market, as an input for the Spring European Council. While the Synthesis Report contains the key messages which the Commission addresses to the Spring European Council, this Communication presents in more detail the implications of such messages as regards employment policy.

## **1. THE EES: A KEY COMPONENT OF THE LISBON AGENDA**

At the Lisbon European Council, the European Union defined a comprehensive strategy aimed at long term economic growth, full employment, social cohesion, and sustainable development in a knowledge based society. There is now widespread agreement that the EES should be designed as a key tool to underpin the Lisbon strategy in the enlarged EU. In doing so, the EES will also contribute to economic and social cohesion.

### **1.1. Responding to medium and longer term challenges**

Past reforms have helped to increase resilience of employment to the economic slowdown, to boost employment by more than 10 million jobs and reduce unemployment from 10.1% to 7.4% (ie by 4 million people) and long-term unemployment from 5.2% to 3.3% over the lifetime of the Luxembourg process. This means that reforms must be sustained and extended to create another 15 million jobs needed to achieve the Lisbon employment target. While notable structural improvements have taken place in the EU labour markets, important structural weaknesses remain, and these need to be tackled with determination. The EU *employment and participation levels* remain insufficient. *Unemployment* remains high in a number of Member States, particularly amongst certain categories such as young people (3 million unemployed in 2001), older workers, women or people with specific disadvantages. Coinciding with this, *bottlenecks* are appearing in certain sectors and regions of the EU. The *gender gaps* remain important, be it in terms of employment, unemployment, pay or sectoral and occupational segregation. Effective gender mainstreaming is far from being implemented in all Member States. Wide *disparities within and between regions* persist. It is also essential to reverse the decline in *labour productivity* growth.

These structural weaknesses are shared by both existing and *future Member States*, although their scale may differ. Whilst the employment situation amongst Candidate countries varies substantially, major challenges include: the need to increase labour supply to contribute to sustained economic growth; the need for employment rates to catch up, especially for men and with particular attention for older workers; the need to ensure an orderly flow from agriculture and industry to services without generating

increasing regional disparities in the medium-term; and the need to upgrade and update skills to enable candidate countries to compete effectively in the enlarged Union and the global economy. Major reforms of the labour market have been undertaken in all candidate countries over the last decade and the EES will need to support them in managing their economic and social transformation.

While addressing the remaining structural deficiencies characterising the EU labour market, the EES should also reflect the new employment challenges ahead.

*Demographic trends* constitute a specific challenge for the medium and longer term. They reveal an ageing workforce and a long term decline of the working age population. They will tend to constrain labour supply, economic growth potential, and the sustainability of social protection systems. Consequently, raising *labour force participation*<sup>5</sup> has become a priority, and the potential role of workers from third countries is receiving more attention.

*Globalisation and the move towards a knowledge-based society* are further accelerating the pace of economic restructuring, bearing the risk of skills erosion and social exclusion. A positive management of economic and social change is becoming a top priority for employment policy. *Investing in human capital* is a central requirement to attain the Lisbon objective of becoming the most competitive knowledge-based economy. The increasing share of services in the economy, the pace of technological change, the increase in the knowledge/information share of the value of production, and the scale of economic and social restructuring all strengthen the case for such investment. The EU suffers from under-investment in human capital and from insufficient investment in ICT tools that are necessary to raise productivity and quality at work.

*Working life is becoming more complex* as working patterns become more irregular. A number of *transitions now* need to be accounted for, including the transition between school and working life, between jobs, between different working status, between working life and retirement and between work and training, career breaks and care periods. This latter point raises the issue of an equal share of wage and non-wage work between women and men. The *balance between flexibility and security* is becoming a tangible concern for an increasing share of the labour force.

The EES must provide a policy response to the above challenges structured around the ambitious Lisbon goal of full employment, quality at work ("better jobs") and social inclusion.

The overall coherence between the EES and the Lisbon agenda will be supported by the alignment of the time frame of the EES to the medium term horizon of 2010, with a mid-term review in 2006<sup>6</sup>. This review will coincide with the review of the structural funds, ensuring proper coherence and mutual support between policy and financial instruments, in particular the European Social Fund.

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<sup>5</sup> See the Joint Report "Increasing labour force participation and promoting active ageing" submitted to the Barcelona European Council, adopted on the basis of COM(2002) 9 final of 24.01.2002.

<sup>6</sup> See Barcelona conclusions § 30.

## **1.2. Instruments focused on implementation and results**

The open method of coordination of the EES based on art. 128 of the Treaty has proved its value. Following the request of the Barcelona European Council calling for a strengthening of the EES and the conclusion of the Council debate on the "streamlining", consideration must be given to the optimal use of the instruments provided by the Treaty and developed by the practice so far.

### ***Stable and result-oriented Employment Guidelines***

It is now widely considered that, after the successive revisions introduced since 1997, the Guidelines have become complex and that they should be *simplified*. In an enlarged Union and considering the wider set of actors on which they will call, the Guidelines should provide more general guidance and approaches for employment policy reforms, with an identification of priority actions and clearly defined responsibilities.

The Council's agreement on streamlining supports the Commission's proposal for greater *stability* of the Guidelines. Experience has shown that important labour market measures often take time to design, adopt and implement, and even longer to demonstrate their impact in the labour market. While the Treaty provides for annual guidelines, and exceptions could be made on justified grounds, changes should be avoided until the mid-term review planned in 2006.

Effectiveness also calls for more *result-oriented* guidelines, leading to less emphasis on methods used, and better definition of results to be achieved. This should be based, where possible, on appropriate quantitative targets.

### ***Specific policy guidance through recommendations***

Since they were first used in 2000 employment recommendations have proven to be effective in maintaining the momentum of policy reforms. With increasing diversity within the EU, and with more result-oriented Guidelines, the issuing of recommendations will be all the more important. These recommendations allow for a justified differentiation in policy guidance between Member States according to their respective situation, and a way to focus on implementation in line with the streamlining approach. They will be reviewed annually and may be updated if required in the light of changes in the economic or social situation or policy of the country concerned.

### ***Focus on implementation through NAPs***

The NAPs have been provided for by the Treaty and will need to remain the basis for an effective reporting on implementation of the Employment Guidelines as a free-standing part of the national "Implementation package". They have proven to be a key tool for multilateral surveillance within the EES. The NAPs need to provide essential pieces of information covering: the main elements of a policy response to the guidelines; the impact of measures taken previously; the follow-up to recommendations; progress towards targets; new policy directions and initiatives; and the budgets involved, notably in relation to the ESF.

Stability of the Guidelines will facilitate the reporting process and reduce the corresponding burden on Member States.

### ***The Joint Employment Report***

The Treaty establishes the *Joint Employment Report* as the basis for the European Council's conclusions on the employment situation. In the streamlined approach, this report will constitute the specific contribution of the Employment, Social Affairs, Health and Consumer affairs (ESHC) Council to the Spring European Council, containing key policy messages on employment and labour market issues.

### ***Building on evaluation and mutual learning***

The added value of the EES is closely linked to its capacity to foster mutual learning and to develop a culture of evaluation to improve the quality of policies and measures. *The peer review programme*<sup>7</sup> has proven to be a valuable tool in this respect and will in future facilitate transfer of know how between existing and new Member States. It should be considered as a key component of the EES and wider dissemination of its results should be achieved.

Based on the experience of the major EES evaluation programme organised by the Commission and Member States in 2001/2002, *an ongoing evaluation programme* should be developed at EU as well as national level. The new Employment Incentive Measures Programme<sup>8</sup> should be exploited to support relevant projects.

*Indicators* play a major role in the evaluation of national employment policies and of the EU labour market performance. They need to be underpinned by solid statistics and harmonised data. Member States should make the necessary investment to collect the relevant data. The recently developed Labour Market Policy database<sup>9</sup> will provide a precious tool to monitor the future guidelines.

### **1.3. Ensuring consistency with other processes**

A better articulation with related policy co-ordination processes - either well established and Treaty based in the case of the Broad Economic Policy Guidelines (BEPGs) - or more recent such as in the area of education and training, entrepreneurship, social inclusion, pensions and immigration- will be a priority for the future of the EES.

The recent agreement on streamlining<sup>10</sup> provides a good basis for a stronger complementarity and consistency between the EES and the BEPGs. It confirms the role of the BEPGs as an overarching economic policy co-ordination instrument and the leading role of the EES in giving direction to and ensuring co-ordination of the employment policy priorities to which Member States should subscribe.

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<sup>7</sup> [Http://peerreview.almp.org](http://peerreview.almp.org)

<sup>8</sup> Decision N° 1145/2002/EC, 10.06.2002

<sup>9</sup> Office for official publications of the European Communities, 2001.  
Cat. N° KS-36-01-920-EN-N

<sup>10</sup> Report adopted by EPSCO and ECO/FIN Council on 03.12.2002 on "Streamlining of the policy co-ordination processes"

On 3 December 2002 the Council confirmed that "facilitating participation in employment for those wanting and able to work" was a major objective for the Social Inclusion Strategy, to be pursued in the context of the EES. While the scope of the open method of co-ordination in the field of inclusion largely exceeds the employment and labour market sphere, both strategies share a common purpose in this area and should therefore be closely co-ordinated.

Similarly, there are important interactions between the EES and the open method of co-ordination for pensions, under which Member States have agreed a set of common objectives and a framework for policy exchange regarding the provision of adequate and sustainable pensions in the face of demographic ageing. Important aspects of Member States' strategies for the future of pensions fall to be pursued within the EES.

In June 2002 the European Council expressed its determination to speed up the development of a common EU policy on immigration. The growing importance of immigration in helping the EU to cope with the impact of demographic ageing on employment and economic growth highlights the need to ensure greater coordination with the EES.

#### **1.4. Better governance**

From the very beginning the EES was an open process. The Luxembourg Jobs Summit in November 1997 appealed *"for the combined efforts of all concerned: Member States, regions, social partners and Community institutions, in order to take the unique chance now available to change the course of events by involving themselves in the new coherent, determined approach set out by the European Council ..."* Since then the message has been confirmed by many European Councils. The White Paper on Governance acknowledged the positive innovation given by the "open method of co-ordination", illustrating that it can contribute to a new system of more effective, efficient and democratic government in the EU.

A forceful and sustainable implementation of the EES requires a raising of awareness amongst the population and an increased visibility. Participation of all interested stakeholders should be fostered, in line with the Commission principles on minimum standards for consultation, in order not only to increase effectiveness of policy development and implementation, but also to enhance an improved governance of the process, thereby also contributing to a better integration of the EES objectives in the overall framework of national policies. This requires a further development of the territorial dimension of the EES both at regional and local level, through a partnership-based strategic policy-mix, the activation of civil society organisations to enrich policy development, and a stronger involvement of parliamentary bodies in the process. Furthermore, the Commission intends to intensify the tripartite social dialogue on employment.

## **2. A NEW GENERATION OF EMPLOYMENT GUIDELINES**

The new generation of Employment Guidelines will reflect the above mentioned principles. A restructuring – moving away from the present "horizontal objectives" and specific guidelines clustered under four "pillars" – appears necessary in view of the need to reflect new challenges for the EU as well as the need for simplification.



Without prejudging at this stage the precise architecture of future guidelines it would seem necessary for them to reflect the following elements:

- three overarching objectives reflecting the Lisbon balance
- a stronger emphasis on the delivery and governance of the EES
- the identification of a limited number of priorities
- specific messages addressed to the social partners
- the definition of appropriate targets.

The fixing of targets has been a major "acquis" and success of the European Employment Strategy. The revision of the strategy in the direction of more result-oriented guidelines calls for an adaptation of targets. The targets should underpin the three overarching objectives and the specific priorities for action identified below. Examples of areas and indicators for possible targets, many of which are already agreed at EU level, are included in the annex for consideration prior to the Commission's formal proposal for the Guidelines after the Spring European Council.

## **2.1. Three overarching objectives**

The future guidelines should aim at maintaining the momentum for structural reforms in the labour market as part of a strategy to promote and manage change in both current and future Member States. Reflecting the political balance of the Lisbon agenda, the proposed Guidelines should foster three complementary and mutually supportive objectives

### *2.1.1. Full employment*

Achieving the *full employment* goal by raising *employment rates* towards the Lisbon and Stockholm targets is crucial for EU economic growth and for the sustainability of social protection systems. The Joint Employment Report 2002 demonstrated that, although Member States are adopting a more strategic approach towards these objectives (by identifying better the potential labour reserves and looking at comprehensive policy responses), progress towards full employment requires continued efforts especially in view of the uncertain economic conditions.

The Lisbon and Stockholm targets for the *employment rate overall* (67% in 2005 and 70% in 2010 on average for the EU), for *women* (respectively 57% and 60%) and for *older workers* (50% in 2010) are, therefore, central to the Guidelines. Member States have been encouraged to set their own national targets in this respect. Moreover, higher employment and economic growth must be underpinned by growth in the *labour supply*.

Raising employment and participation rates calls for a broad policy mix incorporating both demand and supply side measures. Other EU and national policies are relevant in this respect, especially those influencing the macro-economic climate and the general environment for job creation.

### *2.1.2. Quality and productivity at work*

The Lisbon agenda calls for more *and better* jobs and the EES should reflect this balanced approach. Quality is at the heart of the European social model and covers a number of dimensions, as established by the European Council in Laeken at the end of 2001. This includes in particular satisfaction with pay and working conditions, health

and safety at the work place, the availability of flexible work organisation, working time arrangements and the balance between flexibility and security.

As underlined by the Joint Council/Commission report on "Increasing labour force participation and promoting active ageing" presented to the Barcelona European Council, the quality of the jobs on offer has an influence on the decision to enter the labour market but also to stay in a job or on the labour market. The move towards jobs of a higher quality is also closely correlated to the move towards *a knowledge based economy*; evidence shows that the bulk of recent job creation has taken place in skilled and knowledge intensive sectors. Quality is also strongly correlated with *productivity* and can thus make a key contribution towards increasing the EU competitiveness.

It is essential that full attention is given to increasing productivity, in particular through continued investment in human capital, technology and work organisation.

### 2.1.3. *Cohesion and an inclusive labour market*

The reduction of unemployment and of the remaining *disparities* in access to the labour market, both in socio-economic and regional terms, is a matter both of equity and of efficiency of the EES.

Access to a job, ensuring opportunities to acquire the skills necessary to enter and remain in the labour market (reflecting in particular the wide use of ICT and the move to a knowledge based society), and the possibility to progress in terms of pay and qualifications are major factors promoting social inclusion. A comprehensive approach towards disadvantaged persons needs to address the problems faced not only by the unemployed, but also by all inactive persons wanting to work. The long-term unemployed (about 5.5 million in 2001) represent a group with a high risk of social exclusion. Taking into account all unemployed and inactive persons wanting to work, the EU had an unused labour supply potential of well over 23 million in 2001. Disabled persons alone represent a population of 38 million in the EU; only 46% of those reporting a moderate disability and 24% of those reporting a severe disability are in work. As the EU launches the European Year of the Disabled in 2003, it is crucial to recognise the difficulties faced by the persons concerned in accessing or remaining on the labour market and to take decisive steps to better exploit the employment potential of the disabled.

There is often a strong regional or local dimension to labour market exclusion. Many current and future Member States display wide regional disparities in terms of employment and unemployment. Certain rural or urban areas suffer from particularly strong unemployment or inactivity. The EES should address such inequalities and support economic and social cohesion.

## 2.2. Focus on priorities

Reflecting the evaluation of the first five years of the EES as well as the debates over the past months on the future of the EES, the Commission considers that the following priorities, which support the above mentioned three overarching objectives, would be most relevant for the future guidelines. Some specific suggestions, based on experience with the EES, are explored below under each of the priorities for debate and consideration before the Commission's formal proposal for Employment Guidelines.

### 2.2.1. *Active and preventive measures for the unemployed and the inactive*

One of the most significant impacts of the EES so far has been the introduction or the strengthening in all Member States of a preventive and a more active approach to the unemployed. Such an approach is of particular relevance in a context of economic slowdown and wide-scale restructuring.

This approach should be consolidated with the objective of minimising entry into long-term unemployment. *Making the right offer to the right person at the right time* could be a guiding principle in this respect. Such an approach would rely upon an *early identification* of the needs of each jobseeker and the design, at an early stage, of a *personalised action plan*, with a view to a sustainable integration in the labour market.

More ambition could be pursued regarding the offer of active measures to jobseekers. Given that the existing activation target of 20% has been exceeded by most Member States and in view of the need to still improve performance in terms of effective integration of the unemployed on the labour market, it would seem appropriate to raise the target substantially. This should be accompanied by a stronger focus on the quality of programmes, the *effective integration* of beneficiaries into the labour market and on *cost-effectiveness* drawing on the lessons from evaluations so far. Opening active measures to all non-employed persons wishing to reintegrate the labour market – whether or not registered unemployed – should become a higher priority in view of the need to raise labour force participation. More attention could also be given to people currently employed and at risk of unemployment.

Major outcomes expected from the preventive and active approach included reductions in *youth unemployment* and in *long-term unemployment*.

### 2.2.2. *Making work pay*

The system of financial incentives is one of the main determinants of participation in the labour market and has been an important consideration both for the Employment Guidelines and the BEPGs. The balance between income from work - resulting both from level of pay and level of taxation - against income in unemployment or inactivity determines the decision to enter and to remain on the labour market. The objective of "Making work pay" should be pursued both from the point of view of the jobseeker and from that of the employer. In line with the recommendations of the Joint Report on increasing labour force participation, there is a need for a systematic review of tax/benefit systems with a particular focus on eliminating unemployment and poverty traps, encouraging women to enter, remain in or reintegrate into the labour market

after an interruption, and on retaining older workers longer in employment. In addition taxation on labour particularly for the low-skilled workers should be such as to reduce the attractiveness of undeclared work and to encourage job creation.

### 2.2.3. *Fostering entrepreneurship to create more and better jobs*

Innovation and entrepreneurial activity are key drivers for increased competitiveness, growth and the creation of sustainable jobs of higher productivity and better quality. Fostering entrepreneurship depends on a broad policy mix, encompassing in particular: better regulatory and administrative framework, access to skilled labour force, fostering more positive attitudes towards entrepreneurship and managerial skills, a supportive financial environment, well functioning product and labour markets and favourable conditions for research and innovation.

The streamlining of the Employment Strategy with other relevant processes, and the movement towards simpler and more result oriented guidelines, would suggest a more focussed approach concentrating on aspects with more direct relation to human capital and the job creation potential of new enterprises. Items for attention could include: improving awareness of entrepreneurship as a career option and building *managerial skills* of present or potential entrepreneurs throughout the education system in order to support the creation and development of businesses; *women entrepreneurship* and the setting-up of business by unemployed or inactive persons and young people; the reduction of administrative, tax or financial barriers to the *hiring of staff*, especially in innovative and small firms; awareness raising of the *social responsibility* of enterprises (Corporate Social Responsibility); assistance to enterprises in order to facilitate *improvements in work organisation and working conditions*, including in relation to the introduction of new technologies, for example through appropriate information and counselling.

### 2.2.4. *Transforming undeclared work into regular employment*

Undeclared work affects all Member States in variable degrees and is usually connected with low quality jobs with little or almost no security to the job holders, sometimes involving illegal immigrants. *Undeclared work* undermines the financing and delivery of social protection and public services. Tackling undeclared work requires a *policy-mix combining both preventive actions and the application of sanctions*. Policy initiatives to be promoted could include simplification of procedures and legislation; increased public awareness of the possible negative effects of undeclared work and the shadow economy; exchange of information and increased communication; co-operation between authorities; lowering the tax burden on labour; effective surveillance and sanctions; and the full implementation of the Action Plan to combat illegal migration<sup>11</sup>.

It is vital that Member States improve data collection and monitor progress in this field, including impact evaluation of policy initiatives.

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<sup>11</sup> Adopted by the Council on 28 February 2002 (OJ/C142 of 14th June 2002)

### 2.2.5. *Promoting active ageing*

Reaching the Stockholm target of an employment rate of 50% for older workers (55-64) by 2010 and the Barcelona objective of raising by five years the average age at which people stop working in the EU by 2010 constitute major challenges for the EU and the Member States. As provided in the joint report on "increasing labour force participation and promoting active ageing"<sup>12</sup>, this calls for a dynamic preventative approach structured around major objectives such as: creating more jobs and better quality in work; making work pay; promoting higher and adaptable skills at work and making work a real option for all. Building on this framework, the report calls for priority to be given to the formulation of comprehensive strategies and to joint government /social partners initiatives to retain workers longer in employment, a targeted review of tax/benefit systems, more comprehensive across the board approaches to tackling gender gaps in pay and labour market access, providing better support for persons with care responsibilities, and reviewing efforts to effectively reduce school drop outs.

### 2.2.6. *Immigration*

Given ageing and related skills gaps, fulfilling the Lisbon objectives by 2010 and beyond will notably depend on the shape and dynamics of immigration in the EU. Economic immigration could be relevant for overcoming short run labour shortages in several sectors. In the long run, immigration may have an impact on the way in which the EU copes with ageing and demographic imbalances and their impact on employment and economic growth. The EU must primarily mobilise its current human resources, including migrant workers currently residing legally in the EU. However immigration policies can also play a role in tackling labour market imbalances. Such policies must be designed in a manner supporting the long-term development objectives of the countries of origin.

The contribution of immigrants to employment and economic growth will depend on their integration in the labour market and their successful inclusion into society. The unemployment gap between EU nationals and non-EU nationals must be reduced. Employment oriented measures should be related to comprehensive integration strategies, with due consideration given to the impact of migration on countries of origin. A number of key challenges need to be addressed in such strategies. Examples include promoting full participation and employment for 2<sup>nd</sup> generation migrants (who often experience serious social and employment problems); addressing the specific needs of immigrant women; and fighting illegal immigration and undeclared work (bearing in mind that both phenomena feed on one another). Other policies should also be developed aimed at granting immigrants rights and responsibilities comparable to those of EU citizens in order to ensure their full participation in social, cultural and civil life.

The further development of EU immigration policy including the establishment of a transparent, common framework for the admission and conditions of residence of migrant workers and their mobility in the EU is a priority.

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<sup>12</sup> See the Joint Report "Increasing labour force participation and promoting active ageing" submitted to the Barcelona European Council, adopted on the basis of COM(2002) 9 final of 24.01.2002.

### 2.2.7. *Promoting adaptability in the labour market*

The capacity of firms and their workers to manage change in a positive way will be a key to the success of future employment policies. This depends on a good balance between flexibility and security in the labour market. In addition to the regulatory framework to be defined by governments, negotiation between the social partners has a key role to play under this priority.

Flexibility should continue to be encouraged, in particular in terms of the availability of different contractual or working time arrangements. At the same time, steps should be taken to prevent a segmentation of the labour market between different types of workers and to facilitate transitions between different forms of work. A better dissemination of initiatives to modernise work organisation and improve internal flexibility within firms should be encouraged.

A dynamic approach to security should also be fostered, reflecting the major contribution of *access to training*. While *investment by enterprises* in the training of adult workers represents 2.3% of total labour costs, according to most recent available data, an increase is imperative in order to promote the adaptability of the workforce, raise productivity and encourage active ageing. Improved working conditions – including *health and safety at work* – are also part of the necessary balance between flexibility and security and are particularly needed to achieve an increase in labour force participation, notably for older workers and the disabled. The reduction of the numbers of *accidents at work and occupational diseases* in a high priority could thus be contemplated both at EU and at national level.

### 2.2.8. *Investment in human capital and strategies for lifelong learning*

Significant progress has been achieved with respect to the development of lifelong learning strategies in the past few years. However much remains to be done. This is a key requirement for improved quality at work and productivity, and as a factor promoting labour force participation and social inclusion.

An effective policy response requires action from all concerned, including public authorities, individuals, enterprises, social partners, NGOs and learning providers. Governments should take the lead in establishing the building blocks for lifelong learning strategies<sup>13</sup>. They should review public expenditure with a view to redirect it towards human capital accumulation and to increase the efficiency of investment in education and training. Reducing school failure and drop outs and raising the level of education, laying the ground for future access to lifelong learning, remain important challenges for many current and future Member States. In addition, public authorities should provide for quality standards and design incentives for employers and individuals to enhance the volume and quality of private investment in human capital.

Firms need to invest more in the training of adults to increase productivity, to update the skills of those in employment, and to retain workers longer at work. The growing

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<sup>13</sup> Such building blocks were defined in the Commission's Communication on "Making a European area of Lifelong Learning a Reality", COM (2001) 678 and consist of: partnership working, insight into demand for learning, adequate resourcing, facilitating access, creating a learning culture and striving for excellence.

inequality in access to training, to the disadvantage of less skilled and older workers, is a matter for serious concern. The current trend whereby firms' investment in training declines with the age of workers should be reversed.

The recent Commission Communication on "European benchmarks in education and training"<sup>14</sup> provides relevant benchmarks to be used in the context of the EES.

#### 2.2.9. *Gender equality*

A continued increase of participation of women in the labour market is crucial for achieving the Lisbon targets on employment, particularly by encouraging older women to stay longer in the labour market and facilitating participation for mothers with small children.

Strengthening *gender mainstreaming* in other employment policy areas would appear necessary for example by adopting a comprehensive approach, by conducting systematic gender impact assessment for new policy proposals, by developing institutional mechanisms and monitoring systems, and by increasing training and awareness-raising.

In order to increase employment growth and improve quality in work employment policies would need to *focus on the structural inequalities* of the labour market. These inequalities include gender gaps in employment, unemployment and non standard forms of employment; gender segregation in sectors and occupations; the gender pay gap; and the advancement of women into decision-making positions. The under-representation of women in the key areas shaping the future knowledge based society, namely higher education and research has to be reduced significantly.

In addition it is important to *promote more favourable conditions* for women and men to enter, re-enter and remain in the labour market. Examples of these reconciliation policies include: adequate provision; access and quality of care services for children and other dependants; equal share of care and household responsibilities; an encouraged take-up of parental and other leave schemes by men, and possibilities for flexible work arrangements for both women and men.

In this respect, the Barcelona target in terms of provision of *childcare facilities* is essential<sup>15</sup>.

#### 2.2.10. *Supporting integration and combating discrimination in the labour market for people at a disadvantage*

The integration of persons at a disadvantage in the labour market is important to prevent social exclusion, to raise the employment rates, and to provide for the sustainability of social protection systems.

It would seem necessary for Member States to identify those persons or groups with particularly low involvement in the labour market (for example in relation to

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<sup>14</sup> COM(2002)629 dated 20.11.2002

<sup>15</sup> The conclusions of the Barcelona European Council set the aim "to provide childcare by 2010 to at least 90% of children between 3 years old and the mandatory school age and at least 33% of children under 3 years of age"

disability, ethnic origin, family situation, age, place of residence etc) and to develop appropriate policy responses, based if possible on quantified targets. This would require a greater effort to improve data and monitoring on the respective position of people considered to be at a disadvantage, while respecting the right to protection of personal data. Based on existing evaluations, policy responses should use a combination of well-targeted active and preventive labour market measures; measures to promote the creation of adequate job opportunities; recruitment incentives for employers and measure to raise awareness; opportunities for job creation in the social economy or in sectors responding to new demands should be further exploited. Support should also come from a wider set of accompanying measures, policies making work a real option for those concerned, and measures to eliminate discrimination in the labour market, based in particular on the relevant EU directives<sup>16</sup>.

#### *2.2.11. Addressing regional employment disparities*

Regional employment and unemployment disparities remain a persistent problem. Addressing these disparities would be of particular importance for employment policy as low performing regions make it more difficult to achieve the Lisbon employment targets. Efforts to bridge regional disparities are also essential in order to strengthen cohesion across the European Union.

Raising the quality of the human capital through significant investment in skills and lifelong learning is key to achieving this. The skills composition of the workforce differs considerably across regions, with a concentration of the low skilled in the under performing regions. These regions also have low levels of labour market participation of women.

Partnership at the local and regional level is essential to fully exploit the potential of job creation and to develop strategies to address skill gaps more effectively. The role of the Public Employment Service is also important both to identify regional and local opportunities and to improve the functioning of the labour market by addressing skill gaps and bottlenecks. Finally more could be done to enhance the capacity of the Social Economy to create more jobs and enhance their quality.

In many Member States, wage agreements need to take better account of regional differences in productivity and in labour market conditions.

### **2.3. Delivery and governance**

The evaluation of the first five years of EES revealed the added value of the policy co-ordination method applied in the field of employment but also highlighted better governance as a key issue for the future. In its Resolution of September 2002 the European Parliament emphasised the need to better integrate the EES with national, regional and local labour market policy in the Member States and with the ESF policies. In particular it called for a closer involvement of national parliaments, local actors, NGOs and the civil society in the European employment process, and for a stronger commitment by the social partners.

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<sup>16</sup> Council Directives 2000/43/EC of 29 June 2000 and 2000/78/EC of 27 November 2000.



Improving the delivery of the EES should therefore be a major priority for the next generation of guidelines.

### *2.3.1. Effective and efficient delivery services*

Success in the implementation of employment policies depends on a number of operational services. This was clearly recognised in the recent accession negotiations where "institution building" received much attention as part of the "Community acquis".

Delivery services which play a particularly important role in the context of the EES would deserve attention. These include notably:

- Employment services: modern employment services are necessary for an effective and efficient implementation of active and preventive strategies, involving individual case management. They are also responsible for an effective matching of demand and supply in the labour market. This involves notably promoting the transparency of labour markets at local, regional, national, as well as EU level to facilitate workers' mobility. Employment services also often have a responsibility in managing immigration flows.
- Social re-integration services relating to their labour market integration role. Experience shows the need for a close co-operation between employment and social services to avoid the development of two-tier systems depending on the status of jobseekers, and in promoting pathways for integration.
- Training services which – relying on a mixed public/private market-need to deliver quality training adapted to personal needs as well as matching the demand for skills in the labour market
- Labour inspectorates which can help firms improve the working conditions and sanction serious offences, including undeclared work.

### *2.3.2. A strong involvement of the Social Partners*

The European Council in Barcelona urged "the Social Partners to place their strategies in the various territorial (European, national, regional and local) and sectoral spheres at the service of the Lisbon Strategy and Objectives. To that end they should produce an annual report on their efforts both at national level, in the Employment Plans, and at European level. This should be submitted directly to the Social Summit". Barcelona also underlined that the reformed EES must "reinforce the role and responsibility of social partners in implementation and monitoring of the guidelines"<sup>17</sup>.

As announced in their joint declaration to the European Council in Laeken, the Social Partners adopted a multi-annual work programme on 28 November 2002 to address a number of important issues which support the Lisbon strategy for the years 2003-2005. It will cover reporting on social partners' actions in Member States to implement the employment guidelines as well as other relevant initiatives in the fields of gender equality, stress and harassment, active ageing and mobility, telework, undeclared work and managing the social consequences of economic change. At Laeken social partners also expressed their wish to replace the Standing Committee on Employment and set up a tripartite concertation body for growth and employment.

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<sup>17</sup> Barcelona Conclusions, § 29 and 30.

This suggestion was taken up by the Commission, which proposed a tripartite Social Summit for Growth and Employment to be held each year on the eve of the Spring European Council.

While fully respecting the autonomy of the Social Partners, there would be a case for:

- inviting Member States to build their employment policies on a strong partnership with social partners at all levels, from the stage of designing policies to the implementation, reporting and evaluation;
- inviting the social partners at national level to contribute to the successful implementation of the guidelines in all areas where they have responsibility; in this context, some of the guidelines' priorities may be drawn to the attention of social partners, such as economic restructuring, active ageing, human capital and lifelong learning<sup>18</sup>, work organisation and the balance between flexibility and security, reducing the gender pay gap or combating discrimination;
- inviting the social partners at EU level to contribute to the success of the strategy, especially through their joint work programme and their contribution to the Tripartite Social Summit for Growth and Employment.

### *2.3.3. Mobilisation of all relevant actors*

The first generation of Employment Guidelines tried to foster the involvement of stakeholders in the EES, particularly of the Social Partners and territorial authorities. Much progress was made concerning the development of a true territorial dimension, but civil society is still absent from the process. Furthermore, the NAPs are too often perceived as "owned" by ministerial departments and are not fully or coherently integrated in the overarching national policy framework, partly as a result of lack of parliamentary involvement.

Member States could be encouraged to disseminate more targeted information about the objectives and the procedures of the EES, thereby increasing its profile and the will and capacity of potential stakeholders to become involved. They should actively involve all stakeholders (including the civil society) and appropriate levels of policy or administration in the development and implementation of national strategies should be encouraged and supported. Partnership-based local and regional employment strategies should be encouraged and supported. NAPs should be fully integrated in the national decision making framework, thereby ensuring improved coherence and consistency. Good practices in some Member States, notably in terms of parliamentary involvement, should be spread.

### *2.3.4. Adequate financial allocations*

The effectiveness of the EES requires that the implementation of the employment guidelines is also reflected in financial provision. A closer involvement of parliamentary bodies in the NAP process should in itself facilitate a better integration of employment strategies in the national policy framework and the proposed changes

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<sup>18</sup> Inviting the social partners to implement the agreed joint " Framework of Actions for the lifelong Development of Competencies and Qualifications"

of the timetable under the streamlining agreement should allow for a better integration in the national budgetary cycle, as the NAPs will be finalised in the Autumn.

The Berlin European Council of 1999 established the European Social Fund (ESF) as a key financial instrument to support the European Employment Strategy. However ESF and the other Structural Funds still need to be more focused on delivering the EES. The challenge is to ensure that the Structural Fund programmes are more responsive to the changing needs in regional and national labour markets, and that they continue to get appropriate match funding to impact on these specific problems. The Mid-term review of the programmes, due in 2003, provides a first opportunity to review and, where appropriate, redirect, programmes to better deliver the priorities of the National Action Plans for Employment, and to better address country specific labour markets weaknesses.

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The present Communication is intended to support and complement the Commission's Spring Report, which is the Commission's contribution to the Spring European Council. It should provide the basis for wide consultations of the EU institutions as well as all stakeholders in the period preceding it. On the basis of these consultations as well as the conclusions of the Spring European Council, the Commission will present a formal proposal for Employment Guidelines and Recommendations in April 2003.

**ANNEX: EXAMPLES OF POSSIBLE INDICATORS AND TARGETS FOR THE EES**

| INDICATOR   | Existing targets at EU level (2010)   | Current situation in the EU  | Targets for new EES (2010) <sup>19</sup> |
|---|---|--|--|
| <b>Full employment</b>  |   |  |  |
| <ul style="list-style-type: none"> <li>➤ Employment rate               <ul style="list-style-type: none"> <li>-Overall</li> <li>-Women</li> <li>-Older workers</li> </ul> </li> </ul> | Lisbon and Stockholm targets<br>67% (2005), 70%<br>57% (2005), 60%<br>50%   | 64.5% (2001)<br>55% (2001)<br>38.8% (2001)                                   |  |
| <ul style="list-style-type: none"> <li>➤ Annual increase of EU labour supply</li> </ul>   |   | 0.7% (annual average 1995 - 2001)  |  |
| <b>Active and preventive measures for the unemployed and the inactive</b>   |   |  |  |
| <ul style="list-style-type: none"> <li>➤ LTU prevention</li> </ul>  | Every young and adult unemployed to be offered a new start before 6 or 12 months respectively (Employment Guidelines) | 5 Members States fully complying (Draft JER2002, COM(2002) 621)              |  |
| <ul style="list-style-type: none"> <li>➤ Proportion of unemployed participating in active measures</li> </ul>   | 20%<br>(Employment Guidelines)  | Average 33% (2001)<br>Three best 51% (2001)                                  |  |
| <ul style="list-style-type: none"> <li>➤ Reduction in youth unemployment ratio</li> </ul>   |   | 7.1% average EU 2001<br><br>Average of 3 best Member States 3% (1997 - 2001) |  |
| <ul style="list-style-type: none"> <li>➤ Reduction in long term unemployment</li> </ul>   |   | 3.1% average EU 2001<br><br>Average of 3 best Member States 1% (1997 - 2001) |  |

<sup>19</sup> Appropriate targets could be defined after the Spring European Council on relevant issues identified amongst the areas indicated in this table.

|   |   |   |  |
|---|---|---|--|
| <b>Making work pay</b>  |   |   |  |
| ➤ Reduction of tax burden on low wage earners   | Member States to set national targets (Employment Guidelines) | 37.8%                                     |  |
| ➤ Reduction in the numbers of working poor <sup>20</sup> as % of working population (employed and self-employed)    |   | Employed: 6%<br>Self-employed: 17% (1997) |  |
| <b>Fostering entrepreneurship to create more and better jobs</b>  |   |   |  |
| ➤ Birth rate of enterprises   |   |   |  |
| ➤ Survival rate of new enterprises  |   |   |  |
| <b>Transforming undeclared work into regular employment</b>   |   |   |  |
| ➤ Reduce undeclared work  |   | Wide variations between Member States     |  |
| <b>Promoting active ageing</b>  |   |   |  |
| ➤ Increase of effective average exit age  | Raise by 5 years, i.e to 65 years                             | 59.9 years                                |  |
| <b>Immigration</b>  |   |   |  |
| ➤ Reduction of unemployment gap between non EU nationals and EU national  |   | 8.3 p.p.                                  |  |
| <b>Promoting adaptability in the labour market</b>  |   |   |  |
| ➤ Reduce gap in access to training of workers on part-time and fixed-term compared to full-time/permanent contracts |   |   |  |
| ➤ Investment by enterprises in training of adult workers  |   | 2.3% (1999) of total labour cost          |  |

<sup>20</sup> Working poor defined as people who are in employment and who have an equivalised disposable income below 60% of national median equivalised disposable income. Equivalised disposable income is defined as the household's total disposable income divided by its "equivalent size".

|   |   |                                       |  |
|---|---|---------------------------------------|--|
| ➤ Number of accidents at work and occupational diseases per 100.000 employees                                   |   | Index figures (1994 = 100, 1999 = 90) |  |
| <b>Investment in human capital and strategies for lifelong learning<sup>21</sup></b>                            |   |                                       |  |
| ➤ Reduction of school drop out rate   | 10% at EU-level and half 2000 percentage in each Member State     | 19.4%                                 |  |
| ➤ Raising educational attainment of 25-64 year olds (upper secondary)   | 80%   | 63.8%                                 |  |
| ➤ Participation of adults in education and training   | 15% at EU-level and no Member State below 10%                     | 8.4%                                  |  |
| ➤ Per capita investments in human resources   | Substantial annual increases; targets to be set at national level |                                       |  |
| <b>Gender equality</b>  |   |                                       |  |
| ➤ Gender gaps<br>-Employment<br>-Unemployment   |   | 18 p.p.<br>2.3 p.p.                   |  |
| ➤ Gender gaps in pay  |   | 16% (1998)                            |  |
| ➤ Gender gaps in supervisory role   |   | 7 p.p. (1998)                         |  |
| ➤ Coverage of childcare services for 0-3  | 33%   | 7-70%                                 |  |
| ➤ Coverage of childcare services for 3 years old to mandatory school age  | 90%   | 50-90%                                |  |
| <b>Supporting integration and combating discrimination in the labour market for people at a disadvantage</b>    |   |                                       |  |
| ➤ Reduction of unemployment gap for people at a disadvantage (e.g. ethnic minorities, people with disabilities) | Member States to set national target (Employment Guidelines)      |                                       |  |

<sup>21</sup> The Commission has proposed these targets in the framework of its Communication on "European benchmarks in education and training", COM(2002) 629.

|   |  |                                 |  |
|---|--|---------------------------------|--|
| <b>Addressing regional employment disparities</b> |  |                                 |  |
| ➤ Dispersion of regional employment rates         |  | For data see Spring Report 2003 |  |