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Delegations will find attached the text of the Joint Employment Report 2005/2006, as adopted at the Council (EPSCO) on 10 March 2006, to be forwarded to the European Council in view of its meeting on 23-24 March 2006.

Joint Employment Report 2005/2006

More and Better Jobs: Delivering the Priorities of the European Employment Strategy

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1. KEY MESSAGES

General conclusions

1. The renewed Lisbon strategy provides the framework for a European growth and jobs strategy where economic, employment and social policy mutually reinforce one another. The integrated strategy should **ensure that the EU makes parallel progress on employment creation, competitiveness, and social cohesion in compliance with European values**. For the European social model to be sustainable, Europe needs to step up its efforts to create more economic growth, a higher level of employment and productivity while strengthening social inclusion and social protection.
2. The Commission's Annual Progress Report shows that it is **essential to move up a gear in implementing the Lisbon Strategy**. Member States should be more ambitious in reaching the objectives of the European Employment Strategy: full employment, productivity and quality at work, and social and territorial cohesion. **Governance and social partnership are crucial** to implement effectively the employment and social policies.

Time to move up a gear in implementing the European Employment Strategy

3. **All actors should put their energies into effective implementation now**. More ambitious policies should result in an important increase in economic growth and in lifting the employment rate well above the current 63.3% towards the 70% employment rate target by 2010. With the reforms carried out by the Member States starting to bear fruit and by taking advantage of Europe's improved economic prospects, the European economy has the potential to make a substantial step forward in creating **more and better jobs**.
4. The European Employment Strategy and the three priorities for action are key to closing the delivery gaps in **improving Europe's employment performance**:
 - Attract and retain more people in employment, increase labour supply and modernise social protection systems
 - Improve adaptability of workers and enterprises
 - Increase investment in human capital through better education and skills
5. In order to better focus further implementation of the Lisbon strategy, the Member States should take account of the following strategic policy messages:
 - 5.1. Against the background of demographic change, **policies should include a life-cycle approach to work**, facilitating swift employment transitions throughout working life and also leading to an increase in the total number of hours worked in the economy.

- 5.2 Within this life-cycle approach, Member States are encouraged to pursue the shift towards active and preventative policies. It is crucial that these active policies operate in better synergy with social protection instruments to **encourage and help people to find paid employment**. Both incentives and sanctions should continue to play an important role. **A continued focus is needed on labour supply and target groups** such as:
- **The young:** it is urgent to improve the situation of young people on the labour market and to significantly reduce youth unemployment, also in line with the Youth Pact;
 - **Women:** the proposed Pact for Gender Equality highlights that it is vital to enhance women's participation in the labour market and to promote equality between women and men;
 - **Older workers:** active ageing strategies should be further implemented;
 - **People with disabilities:** whose employment opportunities should be enhanced;
 - **Immigrants and minorities:** comprehensive action with respect to anti-discrimination and labour market integration is necessary.
- 5.3. To address globalisation and to facilitate the transition to a knowledge based economy, the **measures for those with low skills and low pay, in particular those on the margins of the labour market, need more focus** to make a difference with respect to more and better jobs. Both demand and supply measures are crucial, including making work pay.
- 5.4. **Human capital development is crucial.** To achieve a breakthrough, more attention should be given to the provision of the right (financial) incentives for education and lifelong learning and to improving the efficiency of investment in human capital. EU funding should strongly support these enhanced efforts.
- 5.5. Comprehensive policy strategies to improve the adaptability of workers and enterprises, including labour mobility, have not yet been systematically developed in the National Reform Programmes. **Member States should address flexibility combined with employment security, and avoid labour market segmentation, in order to meet the needs of companies and workers.** In this context, the Commission, jointly with Member States and social partners, will explore the development of a set of common principles on flexicurity. These principles could be a useful reference in achieving more open and responsive labour markets and more attractive and productive workplaces.

Next steps in the European Employment Strategy

6. As it is time now for implementation, **the Integrated Guidelines including the agreed benchmarks and targets should remain unchanged.** All actors, including the social partners, should fully assume their responsibilities with respect to the Lisbon strategy. In this context, broader ownership and the active participation of social partners are key.

7. In accordance with these key messages, the policy areas outlined under Action 3 (Responding to globalisation and ageing) in the Annual Progress Report are crucial to step up labour market performance. However, the specific measures proposed should be the subject of further discussion.
8. In 2007, the assessment of the Member States' labour market performance will provide a sound basis for maintaining the momentum for reform and may lead, if necessary, to country specific recommendations. To that effect, bilateral contacts between the Commission and the Member States will be beneficial, thus improving governance of the strategy.

2. SUMMARY

Reform pays off. This is the lesson learnt from the structural changes Member States have pursued since the mid-1990s and their positive impact on a wide range of labour market characteristics. Reform has helped raise the employment content of growth, provide more employment-friendly wage developments, and lower structural rates of unemployment. However, for the EU as a whole, the scope and the depth of reform has lacked ambition and conviction. Structural progress remains insufficient to fuel more economic and employment growth and a more rapid movement towards the EU employment rate targets¹.

The refocused Lisbon strategy concentrates on this deficiency, in the knowledge that the challenges confronting the EU economy and society will magnify. Demographic ageing is altering the composition of the labour force and will reduce labour supply and ultimately employment. Accelerating economic change caused by globalisation will continue to upset existing balances. The EU and the Member States have the capacity to adjust to this changing environment. The Lisbon Strategy provides the EU with the framework for successfully making this adjustment.

The European Employment Strategy (EES), the employment pillar of the Lisbon Strategy, is based around three objectives: full employment, productivity and quality at work, and social and territorial cohesion. As part of the Guidelines for Growth and Jobs, the Employment Guidelines provide the policy framework to focus action. They highlight three priorities: attracting and retaining more people in employment, increasing labour supply and modernising social protection systems; improving the adaptability of workers and enterprises; and increasing investment in human capital through better education and skills. A comprehensive approach requires building upon the interaction of measures under these priorities. Improving the governance of employment policies is also an integral part of the guidelines.

Although well-designed employment policies are essential to boost employment and productivity growth, they cannot succeed alone. Sound macro-economic policies and efficient reforms to foster entrepreneurship, research and innovation, and the functioning of goods and services markets are critical for recovering from weak economic growth and raising employment and productivity. The integrated nature of the Lisbon strategy provides the basis for a policy mix that corresponds to the specific challenges of each Member State and for setting in motion a wide partnership for reform.

¹ The employment rate targets are outlined in table 2. For a review of the latest employment trends and structural changes in the EU labour markets, see European Commission, *Employment in Europe 2005*.

The analysis of the employment aspects of the National Reform Programmes (NRPs) leads to the conclusion that Member States give most prominence to attracting and retaining more people in employment. The determination to increase employment rates is welcome, as is the fact that a majority of Member States now plan measures with the help of national employment rate targets. However, the effectiveness and sustainability of the policies to deliver this goal is impeded by piecemeal actions, targeting a limited number of specific groups. This should be complemented by a lifecycle approach, including gender mainstreaming, with a view to facilitating employment and career transitions.

The theme of more investment in human capital to improve employment and productivity growth receives widespread attention, although efforts to improve the efficiency of investment receive less attention. To reach the breakthrough required to meet the economy's human capital needs, policies need to overcome the fragmented nature of the measures. Implementing lifelong learning, embracing education, training and adult learning, particularly for the low-skilled, demands a coherent policy linked to the economic and social situation of each Member State. The structure and sources of financial investments need to be reviewed, with a special focus on the incentives governing investment in lifelong learning.

The NRPs neglect the importance of further measures to increase the adaptability of workers and enterprises. The current balance between flexibility and security in many Member States has led to increasingly segmented labour markets, with the risk of augmenting the precariousness of jobs, damaging sustainable integration in employment and limiting human capital accumulation. This neglects the interaction with policies to raise productivity and ensure labour market inclusiveness. Greater attention should therefore be given to establishing efficient conditions of 'flexicurity'. Sufficiently flexible work contracts, coupled with effective active labour market policies to support labour market transitions, a reliable and responsive lifelong learning system, and modern social security systems combining the provision of adequate income support with the need to facilitate labour market mobility are necessary ingredients. More attention should be given to the active involvement of the social partners, who have a significant responsibility in this domain.

The NRPs provide evidence that Member States are committed to reform, notably since they have singled out key challenges and priorities. Whereas the overall direction is appropriate, there is reason for concern that the gap between ambition and realisation cannot be bridged with the actions announced. For instance, whereas there is evidence that government ownership of the strategy at national level is well articulated, there is less indication that the agenda is shared widely across society and is firmly built on social partnerships for reform. Combined with the vagueness about national local and regional administrative capacity and budgetary allocations, including the use of the European structural funds, this gives cause for vigilance. The country-specific challenges outlined in the country chapters of the Commission's communication focus on those areas where individual Member States need to step up efforts².

² See the country-specific chapters of the communication.

3. ACHIEVING THE OBJECTIVES

Member States' policies should foster full employment, quality and productivity at work and social and territorial cohesion. These objectives, together with good governance, frame the EES. In the NRPs, most attention is devoted to increasing employment. Few Member States pay attention to improved productivity and quality at work, or social and territorial cohesion, and in particular the synergies between these objectives and increasing employment rates.

Full employment

Sluggish economic growth has held back labour market performance over recent years, and explains much of the slow progress towards the Lisbon and Stockholm employment objectives. Employment growth was limited in 2004 at 0.6%, slightly up from the last year's level (0.3%). As a result, the employment rate for the EU increased to 63.3%. Unemployment remained unchanged compared to 2003 (9.0% - provisional figure 2005 8.7%), although long-term unemployment increased to 4.1%. The rise in the employment rate was again driven by women (0.7 of a percentage point) and older people (0.8 of a pp).

Table 1: Overall employment rates

Pace of progress since 1997	Low	Close to average	High
Rates in 2004 (%)			
> 70		DK, SE, UK, NL	
65-70	AT ³	CY, DE, PT, FI, SI	IE
< 65	CZ, EE, LT, MT, PL, SK	BE, EL, HU, FR, LU, LV	ES, IT

Explanation: Pace of progress is defined as the percentage point change in the employment rate between 1997 and 2004:

- a) Low progress: the employment rate increased below the EU25 average minus half of the (un-weighted) standard deviation
- b) Close to average: the employment rate increased inside a band of one standard deviation centred on the EU25 average
- c) High progress: the employment rate increased above the EU25 average plus half of the (un-weighted) standard deviation

The employment rate of women continued to rise, reaching 55.7% in 2004. The employment gender gap further narrowed to 15.2 percentage points in 2004 (down from 17.6 in 2000). However, the progress has been slower in full-time equivalents (21.7 pp in 2004 compared to 23.3pp in 2001).

³ AT had a break in the employment rate time series due to a change in Labour Force Survey Methodology during this period.

Older people have seen employment rates rise markedly since 2000, with an accumulated increase of 4.4 pp to a rate of 41.0%, accounting for the majority of the increase in employment. In contrast, half of the Member States have seen the labour market situation for the young deteriorate. At 18.7%, youth unemployment is about twice the overall rate. This needs to be addressed through policies to ensure that young people receive a good start to their labour market participation, and throughout the lifecycle.

Despite some progress over the years, the overall employment rate remains 7 pp or some 20 million jobs below the 2010 target, and whilst female and older people's employment rates have risen more rapidly, they still remain 4 and 9 pp below their respective 2010 targets. An increasing number of Member States have set out their ambition through employment rate targets. 18 Member States have set national targets on employment rate, 15 for women and 11 for older workers⁴.

Quality and productivity at work

Since the mid-1990s, there has been a relative decline in productivity growth compared with the US. Average labour productivity growth (in terms of GDP per person employed) was 1.9% in 2004, an improvement on the previous three years, but not a significant improvement on the sluggish performance since the mid-90s. This still compares unfavourably with the US (3.3%) and Japan (2.5%). The disparity is less marked looking at productivity growth in terms of GDP per hour worked, with EU growth at 2.5% in 2004, similar to growth in Japan, although the gap with respect to the US has been growing.

Progress in terms of increased quality at work remains mixed⁵. Participation in lifelong learning has risen, as have youth education levels. Nevertheless, further progress is essential in other elements of quality at work, especially both the transitions from temporary to permanent jobs and out of low-paid jobs and labour market segmentation. Few Member States pay attention to the synergies between improved quality and productivity at work and to developing increasing employment.

Social and territorial cohesion

After several years of decline, long-term unemployment again increased slightly in 2004 and the job prospects of vulnerable groups have deteriorated. The NRPs place emphasis on the provision of employment opportunities as the best solution for developing inclusive labour markets. Although such an approach is essential, this should be complemented by policies promoting access to quality employment, training, health care and housing, and an income enabling full participation in society.

Regional employment and unemployment disparities remain widespread, with very high rates of unemployment in many regions. Regions with low levels of employment also tend to be the ones with lower productivity levels. Rises in labour productivity in regions with low overall levels of productivity have not yet been followed by substantial increases in employment.

Governance of employment policies

⁴ See tables 2 and 3 for a complete list of employment targets set by Member States.

⁵ For details of the 10 dimensions of quality at work see: Improving quality in work: a review of recent progress, COM (2003) 728 of 26.11.2003.

The drafting of the NRPs marks a new departure for employment policies, building on the experience of the EES since its launch in 1997. The NRPs take over previous national action plans for employment, which helped structure and develop national employment policies. In the majority of cases, the priorities outlined by the Member States are in line with the EU country-specific Employment Recommendations adopted in 2004.

The timing and novelty of the process partly constrained the consultation process in 2005. The involvement of national parliaments was very limited. Few played a role in the approval procedure. This should improve with fewer timing constraints. Social partners were consulted to a varying degree by almost all Member States, but the NRPs generally remain government documents. In Member States where tripartite bodies exist, these have not always been closely involved and the preparation of the NRPs did not sufficiently include social partnership commitments. Again, this should improve in the next phases.

Implementation structures are referred to by Member States in their NRPs, but there is much less detail on the precise delivery and monitoring mechanisms that need to be put in place at national, regional and local level.

The guidelines call for reforms to be backed by adequate financial means and effective use of public funds, with transparent information about the expected outputs and timetables of the main measures. There is too little information in the programmes to illustrate whether this is the case. The role of the European Social Fund (ESF) is often highlighted but reporting is uneven.

4. IMPLEMENTING THE PRIORITIES FOR ACTION

In order to achieve EU employment objectives and targets, the Employment Guidelines are built around three priorities for action. The NRPs give prominence to attracting and retaining more people in employment and more and better investment in human capital. They tend to neglect the importance of further measures to increase the adaptability of workers and enterprises. Employment policy often appears fragmented and unbalanced in this area. More attention should be given to establishing conditions of 'flexicurity', by combining sufficiently flexible work contracts with effective policies to support labour market transitions, lifelong learning for all, and adequate social insurance.

4.1. Attract and retain more people in employment, increase labour supply and modernise social protection systems

Promote a lifecycle approach to work

Member States generally do not explicitly develop an integrated lifecycle approach (LV, NL and the UK do). Many pay attention to most of its components but not in a systematic manner. The emphasis is on young jobseekers and on closing down exit routes for older workers. Policies to support female employment and bring about gender equality are somewhat underdeveloped.

Most Member States pay considerable attention to young people, although the approach tends to be piecemeal. A majority include measures for building employment pathways combining work/apprenticeship with education and training. Many aim to increase apprenticeships, but with little emphasis on increasing offers of employment. Greater integration of policies on education, training, mobility, employment and social inclusion, with specific targets and objectives, would lead to effective strategies for young people. Member States respond to the ambition to offer a new start to every young jobseeker within 6 months by presenting measures to offer individual action plans containing support such as career consultancy, vocational (re)training, job search assistance and apprenticeships.

The European Youth Pact

The Heads of State and Government at the European Council of March 2005 adopted the European Youth Pact as one of the instruments to achieve the Lisbon objectives of growth and jobs. The Youth Pact aims to improve the education, training, mobility, employment and social inclusion of young people, and to facilitate the reconciliation of working life and family life. The response to the Youth Pact in most Member States has been encouraging, although its full potential remains to be realised. A number refer explicitly to it (AT, BE, DE, ES, FI, FR, IE, IT, NL, PT, SI, SE, UK), although not always in depth, and several have integrated measures consistent with the Pact without giving it visibility. As foreseen by the European Council, involvement of youth organisations should be strengthened – only SE has consulted young people in preparing the NRP.

Most Member States recognise the need to raise the employment rates of older workers but measures are often ad hoc. Wide-ranging initiatives aim at reviewing incentives to discourage early retirement, creating more flexible pathways to retirement, and increasing retirement age. The EU objective to raise the effective average exit age by five years by 2010 (now 61.0 compared to 59.9 in 2001), will not be met unless policies are implemented with greater urgency. Only eight Member States set explicit targets in this area. Pension reform continues in many Member States, in an effort to lengthen working lives, but this should be better accompanied by measures to ensure job opportunities for older workers. Measures to fight unemployment of older workers and improve their position within companies are not widespread.

The potential contribution of women to raising employment rates is not strongly emphasised. Measures concentrate on improving the availability and affordability of care for children and other dependants. Seven Member States set targets for extra care places. However, the Barcelona childcare targets are far from being reached. Reconciliation of work and private life are often considered to be a women's issue, and the need to strengthen the role of men in care and parental leave is not stressed. Commitments to closing employment and unemployment gender gaps are rare. The issue of gender pay gaps is discussed more widely, but only a few propose concrete actions (DK, FR, NL, and SE). Others are in the stage of drafting possible steps or general commitments to reinforce equal pay legislation and reduce labour market segmentation.

Most Member States are putting efforts into modernising social protection systems, reinforcing the incentives to take up a job and remain in work longer, as well as offering personalised support to those furthest away from the labour market. Many Member States are faced with the substitution effect between benefit schemes used as exit routes, placing emphasis on reducing the particularly high numbers of people who are inactive for reasons of ill-health or disability, where often eligibility criteria are less stringent for older workers (FI, NL, PL, SE, and UK are facing particular sustainability challenges concerning ill-health). A small number of Member States (DE, NL, PT, UK) undertake a systematic reassessment of several branches of social protection systems to tackle this substitution effect.

Synergies with EU Social inclusion and protection objectives

There is broad consistency between the NRPs and Member State commitments at EU level in terms of social policies through the open method of coordination for social inclusion, pensions and health. The NRPs recognise that the exclusion of people and groups from participation in society and the labour market is a waste of resources which should be addressed for economic and social justice reasons. Pension reforms aimed at strengthening sustainability are improving the incentives for working longer. The adequacy of pensions now depends on opening labour markets for older people and fighting segmentation. Some NRPs (especially in new Member States) stress the importance of health issues as a precondition for raising the quantity and quality of labour.

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

The effectiveness of Member States' efforts to increase work incentives in social protection systems will depend on their ability to help people find employment through active labour market policies. Policies to strengthen work incentives in tax-benefit systems include reductions in taxes or social contributions for (low-paid) work, in-work benefits, benefit levels, and eligibility criteria and their enforcement. Most Member States adopt the EU target that every unemployed person is offered a new start in the form of e.g. training, work practice, or a job before reaching 6 months (young people) or 12 months (adults) of unemployment. However, only eight Member States are close to meeting it. The target that 25% of long-term unemployed should participate in active measures is met by eleven Member States, although the NRPs generally do not set targets.

Member States' plans to improve efforts to support the inclusion of those furthest away from the labour market focus on the young and jobseekers with disabilities. Other groups such as non-EU nationals or minorities often receive insufficient attention. Combating inactivity, encouraging active participation, and greater promotion of policies to increase job retention rates are essential, in view of the number of working-age people who become disabled and do not return to work.

Improve the matching of labour market needs

Several countries are making important organisational changes in their public employment services (PES) to meet demands for labour market integration. Closer cooperation or a merger between the PES, social security authorities, and unemployment benefit organisations is ongoing in several countries (BE, CZ, DE, DK, EE, FI, FR, NL, UK), aiming to improve work with people furthest away from the labour market. Cooperation between public and private employment services is developing (CZ, ES, FR, IT, NL). Early identification of jobseekers' labour market opportunities is an established practice in a number of countries (DK, FI, MT, NL, SE, SK, UK) and being developed in others (EE, HU). Most Member States have already joined the EURES vacancies platform to ensure that job seekers are able to consult PES job vacancies throughout the EU.

Member States rarely address the contribution occupational and geographic mobility, better management of economic migration and better anticipation of skill needs can make to the functioning of the labour market.

4.2. Improve the adaptability of workers and enterprises

The policy components of this priority received less attention in the response from Member States, despite being a major issue for a number. This is worrying given the increasingly segmented nature of labour markets. Measures to improve the functioning of the labour market, better anticipate restructuring and deliver employment-friendly labour costs are often vague. The core of adaptability lies in finding the right combination of flexibility and security to reduce labour market segmentation. Many Member States approach this priority by emphasising flexibility for the employer.

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

Many Member States, including some large ones, give little attention to steps to address labour market segmentation. Although essential for employment, as well as productivity and quality at work, the modernisation of labour law and improvements in work organisation, including working time issues and working conditions, are rarely mentioned. The promotion of non-standard forms of employment is rarely elaborated upon despite varied use of flexible forms of contracts across Member States. A number illustrate specific measures to amend employment legislation (making labour contracts more flexible in DE, EE, FR, IT, NL). Self-employment is also seen as a way to cope with restructuring needs (AT, SK, LV). Sweden and the Netherlands undertake efforts to increase total hours worked.

Health and safety at work is an important aspect of this priority (with DK, EE, ES, FR setting targets to reduce accidents at work). However, it is insufficiently covered in many Member States. Only a few pay attention to tackling undeclared work (AT, DE, EE, HU, IT, MT, LV, LT SE, SK). The extent of the problems is not recognised by most Member States.

Although the issue of relocation is often highlighted, creating the right conditions for positive anticipation and management of economic restructuring is not sufficiently seen as a priority (it is discussed by BE, IT, LT, PT and SI). Portugal and Slovakia tackle the issue with incentives for self-employment and reform of labour relations. This issue is highlighted as a priority in Portugal. Slovakia is also targeting measures at those at risk of large-scale layoffs by introducing a special guarantee fund. . Beyond managing sectoral and/or company-level restructuring, a more favourable business environment is obviously crucial to sustain economic development in the longer run.

A Globalisation Adjustment Fund: The success of the Lisbon strategy depends on confidence in Europe's ability to achieve prosperity and solidarity. A European shock absorber, taking the form of a Globalisation Adjustment Fund, responding to sudden redundancies shall offer an additional EU level mechanism to help affected workers adjust to the consequences of restructuring through one-off, time-limited individualised support, covering training, relocation and outplacement services.

The concept of 'flexicurity' is a response to the needs of both employers and workers in a rapidly changing labour market aimed at providing adequate bridges during periods of labour market transition. In some countries, conditions for a good combination of flexibility and security exist, for example in Denmark and the Netherlands. The Danish approach provides actors with a maximum of freedom to shape their employment relationship in combination with good access to unemployment benefits and measures supporting employability. The Dutch approach relies on the availability of different contractual forms, balancing rights and obligations for each individual contract form, while providing for active measures for the unemployed.

Each Member State starts from a different position. Four ingredients are essential in achieving a good balance between flexibility and security without increasing the risk of labour market segmentation.

Firstly, the availability of contractual arrangements, providing adequate flexibility for both workers and employers to shape the relationship according to their needs. A proliferation of different forms of contracts should be avoided and sufficient homogeneity between these forms of contracts preserved to facilitate transitions between them.

Secondly, active labour market policies should effectively support transitions between jobs, as well as from unemployment and inactivity to jobs (e.g. AT's *Arbeitstiftungen* serve as transition agencies to support job-to-job placement in cases of threatened mass dismissal; in Sweden social partners actively negotiate job-to-job placement). This highlights the importance of achieving the activation targets of the Employment Guidelines (see 3.1 above).

Thirdly, credible lifelong learning systems should enable workers to remain employable throughout their career (see 3.3 below).

Fourthly, modern social security systems should be in place to ensure that all workers are adequately supported during absences from the labour market and to facilitate labour market mobility and transition.

Moving from any initial situation towards such a balanced framework requires broad partnerships and consensus.

Ensure employment-friendly labour cost developments and wage setting mechanisms

The importance of labour costs for job creation is given little attention in the NRPs. The EU has witnessed moderate wage developments, with real unit labour costs declining in most Member States as well as for the EU25 and the euro area. Wage moderation is seen as a priority for some (e.g. NL). In line with social partner agreements (BE, NL), the commitment to wage moderation is often combined with changes in social protection arrangements. It is to be noted that the contribution of wage developments to job creation is seldom addressed as such, rather being dealt with in the macro sections (BE, EE, DE) or under the 'wage moderation' theme (AT, ES, NL). The need to review wage-bargaining systems is hardly addressed.

More emphasis is given to reducing the (high) tax burden on low-wage earners by focusing on income taxation or employers' social contributions in order to achieve an overall reduction in the tax wedge (BE, CZ, EE, FI, IT, LT, LV, PL and SK). Measures to reduce non-wage labour costs would support the recent trend of wage moderation. A declining trend is noticeable in some Member States with a high tax wedge (AT, BE, DE, DK, FR), but not in some other Member States where an increase is observed in 2004 (IT, PL, LV, SE). The idea of targeting reductions of non-wage labour-costs at specific labour market groups (e.g. subsidies for the employment of older workers in FI) is gaining prominence, but evaluation of the impact of past measures is often lacking. A coherent approach to reducing labour costs should take account of the need to consolidate public finances and include the wider considerations of minimum wage provisions and a review of the impact of the tax system on employment. For a number of countries, reforms to reduce the tax burden on labour imply substantial modification to the tax base, including the creation of alternative sources of public revenues.

4.3. Increase investment in human capital through better education and skills

This priority receives widespread attention, with Member States acknowledging the crucial importance of developing the skills needed in knowledge-based economies. The policy response to the objective of investing more in education and training concentrates on qualitative reforms in education systems. Reforms to stimulate adult learning, particularly for the low-skilled, and to improve the governance of the systems to ensure comprehensive lifelong learning strategies are less visible. Replies to the call for better investment responsive to changing needs are also less ambitious. The focus here is placed on improving quality standards in education and training, better access and improving the definition and transparency of qualifications. The majority of NRPs are shown to be consistent with the implementation of the Education and Training 2010 work programme. Clear objective-setting with respect to the EU targets and reference to the use of European instruments in national policies can be found in few NRPs.

Expand and improve investment in human capital

The three EU human capital targets set out in the Employment Guidelines have been addressed by the majority of countries but with varying degrees of ambition. Despite a decreasing trend in the average proportion of early school leavers over recent years (2000: 17.7%, 2005: 14.9%) a major policy effort is still essential to reduce early school leaving to 10% in line with the EU target (especially in CY, ES, FR, IT, LU, MT, PT, and UK).

The EU average rate for completing upper secondary education has stagnated at around 77% since 2000. Half of the Member States achieve the benchmark, a further six are nestled around the EU average, while in seven countries (DE, ES, IT, LU, MT, NL, PT) greater efforts are necessary to catch up.

The performance divide across countries in lifelong learning participation is wider, illustrating the lack of a comprehensive approach in a number of countries. The good performance of a few Member States (DK, FI, NL, SE, SK, SI, UK) significantly contributes to the average EU level of 10.8% in 2005 (2004: 10.3%). A slight upward trend can be noted in a majority of countries. However, the culture of learning needs to be improved and the systems modernised in the majority of countries if the EU is to achieve the 12.5% benchmark.

Some Member States have adopted targets and benchmarks linked to those at EU level. However, more needs to be done to raise participation in lifelong learning and the skill and competence levels of the population, especially among the less-advantaged. Legislative measures have been introduced in some countries, while others follow a strategy with legislative and non-legislative components. Progress in establishing lifelong learning systems is noted in countries which previously had little experience of lifelong learning. Ensuring a truly comprehensive approach embracing education, training, adult learning (particularly for the low-skilled) and the involvement of all stakeholders remains a considerable challenge for many.

Education & Training 2010 work programme

The EU Education & Training 2010 Work Programme is a comprehensive agenda for Member States' cooperation in improving education and training systems in Europe. It therefore supports the economic and social objectives of the Lisbon Strategy, making a key contribution towards implementing the integrated guidelines for jobs and growth, in particular those on human capital development. There is a good deal of coherence between Member States approaches reported under this work programme and in the NRPs. Member States are making a range of in-depth reforms to support more effective lifelong learning. However, the development of truly coherent and comprehensive lifelong learning strategies by 2006 remains a challenge for many countries.

Despite a commitment by Member States to improve investment in human capital, there is little evidence of actual or planned increases in public and private investment. Few provide information on levels of public spending or touch upon increasing private investment. Budgetary information on specific measures is rare. However, since 2000, an encouraging upward trend in public expenditure on education (as a % of GDP) in the EU is notable. There is little evidence of an increase in the contribution from the private sector or in employer investment in continuing training. The role of the Structural Funds in supporting national policy is highlighted in a number of NRPs, but specific details are lacking. The financing of learning in terms of fair and transparent sharing of costs and responsibilities between actors is addressed in few NRPs. A number of countries focus on the quality and efficiency of investment in education and training, which tends to be a major theme for reform.

The European Social Fund (ESF) and the European Employment Strategy

The Structural Funds have a crucial role to play in supporting the delivery of NRP priorities. It is fundamental to ensure that ESF support underpins the implementation of reforms needed in the context of the EES. In defining the national Strategic Reference Frameworks for the period 2007-13, Member States and the Commission must give particular attention to the commitment to increase EU support for investment in human capital, increasing labour market adaptability, and support for improved administrative capacity, especially under the convergence objective.

To increase investment in human capital, to achieve a significant breakthrough in establishing a lifelong learning culture, and thus help deliver the EU economic and social needs, it is necessary to review the incentives for households, enterprises and public authorities to invest in people. More emphasis needs to be placed on the importance of improving the efficiency of investment in human capital in the public sector, particularly in the cohesion countries.

This investment can significantly influence overall economic performance via a direct impact on overall output and productivity as a result of its size and efficiency.

Adapt education and training systems in response to new competence requirements

Many of the reforms outlined in the previous guideline also have implications for this guideline. The responsiveness of training to changing economic and labour market needs is acknowledged as an important aspect of modernising education and training systems. It is reflected in curricula reforms and the extension of vocational training opportunities. Progress is also noted in the development of systems for the validation of non-formal and informal learning. A stronger response would clearly go hand in hand with further development of comprehensive lifelong learning strategies, including a strengthening of the quality and attractiveness of vocational training and the modernisation of higher education. Regarding the updating of skills of the workforce, policies focus mainly on specific groups of the population (young people, women) and in particular on active labour market measures for unemployed people and groups underrepresented in the labour market.

Table 2: Employment rate targets set by Member States for 2010^{6*}

Country	Employment rates: Total	Female workers	Older workers
EU targets	70%	At least 60%	50%
BE	70% as soon as possible	60% as soon as possible	50% as soon as possible. Activity rate ↑ 1.5 times faster than EU15
CY	71 %	63 %	53 %
CZ	66.4% (2008)	57.6% (2008)	47.5% (2008)
DK	50,000-60,000 extra jobs	-	-
DE	-	-	-
EE	65.8% (2008); 67.2% (2010)**	63.3% (2008)65% (2010)**	54.8% (2008)**
EL	64.1 % **	51%**	-
ES	66%	57%	-
FI	70% (2007); 75% (2011)	-	-
FR	-	-	-
HU	63%	57%	37%
IE	-	-	-
IT	59.9% **	-	-
LT	68.8 %	61 %	50 %
LU	-	-	-
LV	65% (2008); 67% (2010)	62%	50%
MT	57%	41%	35%
NL	-	65% working ≥ 12 hrs a week	40% working ≥ 12 hrs a week 2007
AT	-	Align with overall employment rate	-
PL	-	-	-
PT	69% (2008); 70% (2010)	63% (2008)	50%
SE	80% (aged 20-64)	-	-
SI	67% (2008)	2008 - At least 2 pp above EU15 average	35% (2008)
SK	Annual ↑ of 1-2 pp.	-	-
UK	80 % (aspiration, national definition, no date)	-	-

*Targets are for 2010 unless mentioned otherwise**Presented as projections

⁶ For a full list of targets under the European Employment Strategy, see: Council Decision of 12 July 2005 on Guidelines for the employment policies of the Member States (2005/600/EC).

Table 3: Other employment targets set by Member States for 2010*

	Raising effective exit age	Childcare provision	New start	Long term unemployed in active measures	Early school leavers	Upper secondary education	Participation in life-long learning	Other targets
EU	+5 yrs (from 59.9** in 2001)	Coverage: 33% (children <3 yrs old) and 90% (children 3 years -school age)	Offer active support after 6 months (young) and 12 months (adults)	25% participating in an active measure	No more than 10%	At least 85% of 22 yr olds to complete	Participation rate of 12.5% of working age population	
BE	Min age for pre-pension systems 58 to 60 in 2008	33% of < 3yr olds; 13.000 extra places in 2009	Personalised pathway for all within 6 months	-	Under 10%	85%	12.5% of employees per month and 50 % of employees/year	--
CY	↑ retirement age to 63	-	-	-				
CZ	-	-	-	-	-	-	-	50% of university students to end studies with bachelor degree; 2006 50% adults basic IT literacy
DK	↑ by 6 months	-	-	-		95% by 2015		25,000 more jobs for refugees and immigrants
DE	-	230,000 extra places for < 3 yr olds.	Offer new start for <25 yrs old within 3 months	-	-	-	-	40% of an age group to start tertiary education; 2004-2007 per yr 30.000 new apprenticeship and 25.000 new traineeship places
EE	-	-	-	35% in 2007	< 10% in 2014	85%	10% by 2008	Disabled ↑ to 30% in 2008 ↑ until 2008 by 8% participation rate in vocational training
EL	-	-	-	-	-	-	-	Unemployment rate ↓7.3% ↑ public expend on education to 5% GDP
ES	-	-	-	-	Halve the rate	80%	12.5%	↓ youth unemployment to 18.6%; ↓ work accidents by 15%
FI	↑ by 3 years in the long run	-	-	↑ by 50% in 2008	-	-	60 % by 2008	96% of those completing basic education to move on to further education by 2008
FR	-	-	-	-	-	-	-	500,000 apprenticeship places by 2010
HU	-	-	-	-	-	-	-	employment rate for men: 69%
IE	-	13,000extra places	-	-	-	-	-	--
IT	-↑ to 60 by 2008 (+3 years) and to 61 by 2010 – further increase to be decided by 2014	-	-	-	-	-	-	--
LT	↑ to 64.5	30% for < 3 yr.ols.; 90% for 3 - school age	Meet EU target	25%	9 %	No	10%	50,000 new jobs by 2008; ↓ youth unemployment by 15%; LTU by 3.5%; unemployment down to 8%; Unemployment rate in all regions below 135% of national average. 45% of pupils to study under technological profile and VET programmes (ISCED level 3)
LU	-	X2 the number of places by end of 2007	-	-	-	-	-	--

LV	-	-	-	-	-	-	-	Labour productivity 53% of EU average; LTU 3.8%
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	Raising effective exit age	Childcare provision	New start	LTU in active measures	Early school leavers	Upper secondary education	Participation in life-long learning	Other targets
MT	-	-	-	-	35%	65%	7%	--
NL	-	-	-	-	8%	85%	20%	--
AT	-	-	-	-	-	-	-	Further ↓ school drop-out rates; 4.200 new study places at universities
PL	-	-	-	-	-	-	-	Unemployment 14.6% in 2008
PT	-	100% for 5 y.o.; 90% for 3-5 y.o.; 35% < 3y.o.	Meet EU target. For unemployed <23 yrs and not completed yr 12 of schooling this is brought forward to 3months.	25%	Halve the rate	65%	12.5%	qualify 1 million through training & recognition of qualifications; 25.000 young people in VET per year by 2009; To raise n° of new graduates in scientific and technological areas, to attain 12 per 1000 in the population with ages between 20 and 29; to raise n° of new doctorates in scientific and technological areas, to attain 0,45 per 1000 in the population with ages between 25 and 34 years.
SE	-	-	-	-	-	-	-	Unemployment ↓ to 4%; Halve sick leave 50% of 25yr olds to have started Higher Education
SI	Gradual rise from 58 to 65	-	young graduates to be offered a first job within 6 months	-	-	-	-	Unemployment 5.5% in 2008
SK	Raise by 9 months a year to 62	-	-	-	-	-	-	--
UK	-	sufficient childcare for 3-14 y.o.	-	-	↑ proportion of 19yr olds with upper secondary by 5% 2004-2008	90% by 2015	-	50% participation rate of 18-30yr old in Higher Educ by 2010; improve basic skills of 2.25 Mio. Adults in 2001-2010; reduce by 40% number of workers with only basic skills by 2010

*If no target year mentioned: 2010. ** subsequently revised upwards to 60.3 year.