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Delegations will find attached the Joint Employment Report, as adopted by the Council (EPSCO) at its session on 7 March 2011. The Council agreed to forward it to the European Council in view of its meeting on 24 March 2011.

According to Article 148(1) TFEU the European Council shall each year consider the employment situation in the Union on the basis of this joint report by the Council and the Commission.

## JOINT EMPLOYMENT REPORT

### Main Messages

Although labour markets in the EU are stabilising, the effects of the crisis continue to be felt and unemployment remains a top concern for EU citizens. The crisis has also revealed structural problems in European labour markets that require urgent action. In line with Europe 2020 objectives, structural reforms to stabilise the economy and re-boost economic growth are essential to create the conditions for increased employment, especially with new permanent jobs. A rapid return to growth and well designed employment and education policies are also crucial to reduce poverty and social exclusion. In this context, following the examination of the draft National Reform Programmes carried out by the Employment Committee and in line with the Employment Guidelines, it should be highlighted that:

- **Increasing labour market participation of women and men and reducing social exclusion remains a primary objective for the Council, and a challenge for all Member States.** The need for intensified activation policies is signalled by unemployment levels likely to remain high in 2011, with large numbers of unemployment benefit and social assistance recipients particularly among young people, temporary workers, low-skilled, legal migrants and people of ethnic minorities, e.g the Roma. Long-term unemployment is also increasing in all population groups. Personalised assistance to find a job, particularly for those most in need, or to progress in employment will be crucial for employment services having to work alongside with other institutions and with employers.

- **Measures to support job creation are necessary to avoid the risks of jobless growth.** Policies to create a more friendly business environment and to develop high value added and sustainable greening economies are paramount to generate new job opportunities. Targeted and limited reductions of non-wage labour costs should be considered as an instrument to stimulate hiring, particularly from amongst the most disadvantaged.
- **Making work attractive remains essential to avoid unemployment and inactivity traps.** Tax and benefit systems should be growth- and employment friendly, shifting where appropriate taxes away from labour to activities with negative externalities (e.g environmentally harmful activities), favouring employment of new hires and second earners, who are mainly women (combined with policies to combat the gender pay gap). Also the use of more effective in-work benefits should be extended, for instance through tax credits. However, an issue for Member States to explore will be the source of revenues to fund social benefits if or when taxes are shifted away from labour, so as to continue providing timely and effective social safety nets.
- **Reducing labour market segmentation is an increasingly pressing challenge that became even more urgent with the crisis and must be also duly addressed during the recovery period.** People with temporary contracts, and particularly the young, were the first ones to be exposed to economic contraction. Ensuring a better balance between security and flexibility will be essential to improving the functioning of labour markets and creating more and better jobs, including through flexible and reliable contractual arrangements, the design of unemployment benefits systems, active labour market policies and lifelong learning.

- **Education and training can enhance employment prospects** for young people who face exceptional difficulties in entering the labour market, for employees who need to update and acquire skills and for those out of work who need re-skilling so they can remain job ready. They should however become more relevant to labour market needs and include tailor-made pathways which combine general and practical training components, quality apprenticeships and work placements so as become outcome oriented and to ease transition from education to work. Incentives to raise skills levels must ensure better transparency of information, recognition of both formal and non formal training combined with efficient funding streams targeting in particular the low-skilled.
- **Labour market reforms should aim at increasing employment levels and contribute to the sustainability of social protection systems** by helping reduce the number of people in risk of poverty and social exclusion in the medium term. At the same time, efforts to restore sound public finances and reform of social protection systems should both aim at ensuring their sustainability and adequacy. In doing so, Member States should aim at combining effectiveness, efficiency and fairness. The most vulnerable should be protected from bearing the brunt of the consolidation measures.
- **Maximising employment years and minimising the effects of involuntary career breaks is also crucial in ensuring future pension adequacy and long-term financial sustainability of pensions systems.** This entails raising employment rates, effective retirement ages and pension coverage. It includes tightening early retirement pathways and finding ways to adapt pension rights to growth in life expectancy and, where appropriate, crediting involuntary career breaks.

- **Active inclusion strategies combining income support, access to the labour market and health and social services are needed to reach the most excluded, while increasing the efficiency of social spending.** This entails notably linking social assistance to activation measures and access to enabling services as well as improving the coverage and adequacy of social safety nets where needed. Ensuring the sustainable financing of high quality social services is also crucial.
- **The policy responses to the crisis are complex and, where relevant, social partners have an important role to play.** In particular and where relevant, cooperation with social partners is necessary to improve the responsiveness of wage setting processes to market developments so that wages properly reflect labour productivity in the medium term. The link between the national mechanisms of wage determination and the prevention and rectification of macro-economic imbalances should be examined.

The priorities identified in this report, particularly in Section 3 "*The Way forward: striving for more employment*", constitute guidance for Member States to consider in their National Reform Programmes and the Employment Committee will use it to inform priorities for their work programme following guidance from the Spring European Council 2011.

Taking into account the variety of unemployment levels and reform-necessities in Member States and after an in-depth examination of the employment situation in each Member State, the Council and the Commission will strengthen the country specific focus aiming at clear and precise country specific recommendations on the basis of Article 148 TFEU to be adopted in June 2011.

Furthermore, the Commission and Member States should consider strengthening their capacity to assess the social impacts of their major policy and spending decision as part of the overall impact assessment, in line with Article 9 TFEU.

This year's Joint Employment Report, mandated by Article 148 TFEU, is part of the Commission package to launch the European Semester. As key input to strengthened economic guidance, the JER is primarily a forward looking analysis, expanding on key employment messages contained in the Annual Growth Survey. The analysis and messages it contains are based on the employment situation in Europe, the implementation of the Employment Guidelines<sup>1</sup> as well as on the results of country examination of the draft National Reform Programmes carried out by the Employment Committee<sup>2</sup>.

## **1. Employment performance is affecting the macro-economic framework conditions**

### *An improved but still fragile labour market situation...*

The labour market in the EU has continued to stabilise and there are now signs of recovery in some Member States. Indeed, the deterioration in employment in the EU seems to have come to an end in the second quarter of 2010, as employment grew, by 0.2 %, for the first time in nearly two years. Nevertheless, at 221.3 million people<sup>3</sup>, employment was by then still down by 5.6 million people when compared to its peak in the second quarter of 2008, reflecting marked declines in manufacturing and construction. The employment of workers aged 20 to 64 also stood at 208.4 million people corresponding to an employment rate of 68.8%<sup>4</sup>.

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<sup>1</sup> OJ L 308, 24.11.2010, p. 46, “Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States (2010/707/EU)”.

<sup>2</sup> Brussels 23 and 24 November 2010.

<sup>3</sup> National Accounts Data.

<sup>4</sup> LFS data.

The unemployment rate, currently at 9.6 %, has remained unchanged since February 2010 and has broadly stabilised. Unemployment now stands at 23.1 million persons. Long-term unemployment is increasing across all the population groups, although to a different extent. Of these almost 5 million were unemployed for 6 to 11 months. The crisis has aggravated the risk for the low-skilled and non-EU migrants. At 5.4 million, youth unemployment is up by nearly 1.4 million people compared to the low of spring 2008 (an increase of almost 35%). The youth unemployment rate in November 2010 has reached its highest level since the beginning of the crisis at 21% in the EU and remained stable in December 2010, still up 0.5 percentage points on December 2009 and up 6.3 percentage points on March 2008.

Following the continued rise in unemployment, the number of unemployment benefit recipients continued to increase between June 2009 and June 2010 in most Member States. The number of recipients of (non contributory) social assistance schemes also increased significantly in a majority of Member States and in some countries these schemes cushioned most of the social impact of the crisis. No strong pressure on disability schemes was observed, while beneficiaries of early retirement schemes increased in a few countries.

*... with short-term mis-matches,...*

Recently demand for labour has continued to show a relative improvement, with job vacancies, online worker demand and workplace activity through temporary work agencies surpassing the levels observed a year ago.

There are, however, some rising concerns of a mismatch between supply and demand. Over the last year we have seen an increase in both unemployment rates and job vacancy rates. This could point out a mismatch between the skills of jobseekers and those skills required for the available jobs. This needs to be carefully monitored in the next quarters to check if the upward trend observed over the last year is simply temporary or risks becoming structural. In fact, the sectors that are recovering quicker are not the ones that shed most jobs at the onset of the crisis, probably reflecting a shift in skill and sectoral needs during the crisis.

*...a concern about competitiveness...*

In response to the economic crisis a majority of Member States used short time working arrangements (STWA) to allow firms to absorb the drop in production without the immediate need to lay off staff accordingly. The downside of using STWA is the labour hoarding and the subsequent decline in the productivity per worker. Previous downturns, in which labour hoarding occurred, tended to be followed by periods of jobless growth, as the increased production was met by a recovery in productivity and working time, rather than by additional jobs. Labour productivity growth was negative throughout the period between mid 2008 and the first quarter of 2009 but has been positive thereafter at around 2% per annum.

With the economic crisis, maintaining competitiveness and supporting labour demand through lowering total labour costs gained additional relevance across the Member States. Data suggest that wages have adjusted quite well to the low demand conjuncture in the euro area as a whole – although with a lag as a result of longer lasting collective agreements –, as negotiated wages saw an increase 3.5% per annum in third quarter 2008 but an increase of only of 2.1% in second quarter 2010 in the euro area.

Growth in real unit costs in the EU rose steeply from third quarter of 2008 until mid 2009, but have fallen equally fast thereafter and in second quarter 2010 were at -2% per annum suggesting that they should not pose a threat to competitiveness for the EU as a whole. However for some countries a further reduction of total labour costs per worker may well be required to restore outside EU-competitiveness to pre-crisis levels.



*... and a need for action on labour taxation and social security contributions*

Efforts have also been made by Member States to reduce non wage labour costs, as captured by the tax wedge<sup>1</sup>. Rebates on social security contributions (SSC) to boost labour demand were typically made conditional upon net job creation - i.e. largely limited to new hires – in several Member States during the crisis. Some countries also decided on general cuts in employer's SSC, most often with a permanent nature. The non-wage labour cost cuts were largely targeted to the most difficult to employ, such as low skilled, young unemployed, long-term unemployed and older workers.

## **2. Identifying priority areas for growth enhancing reforms**

The achievement of the agreed headline targets in the areas of employment, education and social inclusion requires the implementation of a broad spectrum of integrated actions with a view to create more flexible, secure and inclusive labour markets. **Flexicurity** policies are the best instrument to this end; nevertheless, the four components of flexicurity (flexible and reliable contractual arrangements, active labour market policies, life-long learning, and modern social security systems) must be strengthened to ensure enhanced **focus on the most cost-effective reforms** while providing better flexibility and security<sup>2</sup>.

This means first and foremost removing institutional obstacles that prevent proper functioning of Member States' labour markets. These bottlenecks can have severe negative effects on employment growth and labour market performance and to some extent can also prevent social inclusion and the reduction of poverty. The following analysis stems from the policy areas identified by EMCO and SPC as essential to monitor the implementation of the guidelines.

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<sup>1</sup> Tax wedge = (employer SSc + employee SSc + payroll taxes + income tax) / Total Labour Cost.

<sup>2</sup> COM (2010) 682, “An agenda for new skills and jobs”.

## 2.1. Reaching full employment

The achievement of full employment requires the implementation of integrated actions as set out in **employment guideline 7**.

### *Labour market participation*

The low employment rate of older workers (55 to 64 years old) reaches a mere 46.4%. This is a function of practices of age management in labour markets and workplaces but also partly the result of various forms of early and/or disability retirement schemes. The improper functioning of labour markets for elderly people (low demand from employers, low levels of up-skilling, the lack of assistance for job search, the referral to early retirement benefits, insufficient reintegration and re-training provision after redundancy) can cause an **early exit from the labour market**. Also, in some countries the links between contributions, duration of employment and value of pension rights is limited or not visible enough.

There is a clear need to foster women's greater involvement in the labour market. The overall employment rate of women in Europe is still only 62.4% (20-64). **Inadequate fiscal treatment of 2nd earners** (higher effective taxes for married women than for single earners) is seen in some countries as an obstacle impeding continued female participation in or returning to the labour market. **High marginal effective tax rates** resulting from the family based taxation elements, the phasing out of means-tested or income-based benefits (such as child benefits or housing benefits) together with the lack of use of in-work benefits, are potential obstacles for the re-entry of women to the labour market for some Member States.

Too few young people are making it onto the labour market. The lack of tailor made pathways combining career orientation services, opportunities for up-skilling, quality apprenticeships and pre-work placements are hampering the positive **transition to work for young people**<sup>1</sup>. Lack of clear information on new labour market entrants are thus leading employers to hesitate to fill vacancies as it may be unclear from the outset what their skills and productivity levels will be and whether they will fit the job requirements. Ensuring young people are properly equipped for the labour market needs to be stepped up in many Member States.

### ***Labour market functioning and segmentation***

In many labour markets the large differences in relative **levels of employment protection legislation** contributes to a division between well-protected workers with permanent contracts and less-protected workers with atypical, mostly temporary, contracts. The impact of the crisis has highlighted this issue: job losses for workers in temporary work were almost four times higher than for those in permanent employment. Temporary work may be a form of employment helping to facilitate the transition from unemployment to employment but further attention must be paid to the issue of stimulating upward transitions in employment. In many cases, temporary work is involuntary and has proven to hinder more permanent employment relationships and productivity overall and better career and earnings prospects for the individual– in particular for the young people.

At the same time, many Member States are faced with insufficient or weak labour market transitions where the labour market is characterised by rigidity and relatively low turnover to meet changing demand patterns. In addition to inappropriate EPL, this is also caused by the **rigidity of working (time) arrangements**, i.e. insufficient internal flexibility. These factors have a negative direct impact on economic activity through hampering the efficient allocation of labour resources.

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<sup>1</sup> COM(2010) 477, “Youth on the Move”.

Barriers to **labour geographical mobility** may also prevent the proper labour market functioning. Limited portability of pensions and other social security rights reduces the possibility of effective (re)allocation of labour, as do housing and transport impediments by hindering people from moving or commuting to where jobs are available.

Different Member States also see a significant level of **undeclared work** with an important part of the workforce not being registered due to lack of enforcement of existing rules and dis-incentivising tax benefit systems. The result is artificially low official employment rates or hours worked and a dual or parallel labour market with one part subject to very poor standards and conditions which reduces productivity and tax revenue as well as increasing the risks of exclusion.

High quality industrial relations based on dialogue and trust between strong social partners contribute to solutions towards reducing segmentation and proper labour market functioning. **Social dialogue** has proved to be effective during the crisis. Establishing consensus is important when austerity measures must be decided, as only a repartition of efforts that is regarded as fair will guarantee socially acceptable and successful reforms. However, the operational capacity of social partner organisations and the quality of industrial relations differs; thus the full potential of autonomous, negotiated solutions based on joint analyses and negotiations between social partners is still to be developed in several Member States.

### ***Job creation***

Many Member States have lowered **non-wage labour costs** on a temporary basis in response to the crisis. Further permanent cuts will promote more employment especially when targeted at low skilled individuals and in those countries where the latter represent high labour potential. Fiscal neutrality can be achieved by shifting taxation from labour to energy and/or property. In many Member States the debate over the current taxation of labour and of other resources is already taking place.

The labour markets that are emerging from the crisis are changing and many Member States are looking at creating high value added and sustainable **greener economies**. These are essential for the creation of more jobs and for meeting the climate/energy targets. At the same time it is necessary to support workforce adaptability. Synergies between policies to ensure their mutual reinforcement and to secure a win-win solution for the economy, the environment and employment are not yet fully established. The sectors which are suffering most from job losses are strongly male-dominated (gas, electricity, coal, oil). While some jobs in those sectors will become obsolete, others will demand new skills, causing a redistribution of jobs within the same sector or to other sectors. New skills are also needed in the so called 'white jobs' sectors such as healthcare where demand is growing and shortages are acute and growing in the face of an ageing society.

The take up of **self employment and entrepreneurship** remains low amongst Member States and less than half of such ventures survive beyond three years. The net benefits of self employment are not perceived as sufficiently greater than other alternatives so as to make it an attractive career option for the best and brightest individuals. Measures continue to discourage self-employment and combining economic and labour market policy initiatives to create an environment in which entrepreneurship can prosper are still too limited.

### ***Active Labour Market Policies (ALMPs)***

In a number of Member States there is a lack of well **targeted** ALMP measures aimed at the long-term unemployed, vulnerable and disadvantaged groups. In some Member States the effects of ALMP activities are low as relatively many vacancies still co-exist with high long term unemployment. Part of this is caused by poor cooperation between the different levels of government involved in the management of the ALMPs with the responsibilities divided on several regional levels. For others, the reason is linked to **the limitations of Public Employment Services** in coping with increased caseloads resulting from a higher inflow of clients.

PES have to simultaneously confront i) budgetary restrictions and downsizing, ii) deficits on several fronts such as shortages of skilled employment advisers and staff training, iii) inadequate design of ALMP expenditure when it comes to priorities and targeting. Modernisation of the PES business and service model so to ensure that individualised support is available to all those that need is still insufficient.

### ***Gender Equality and work life balance***

**Involuntary part-time work** among women is still an issue in some Member States, as a result of inadequate childcare facilities during working hours or after-school, and is also due to the lack of services for children and other dependent persons. Moreover, care for the elderly and disabled is becoming a significant challenge with the ageing of the population, both for society and for women. In some Member States the **reintegration of women into the labour market** is further impeded due to unfriendly career break labour markets and unbalanced take-up of parental responsibilities. In some countries lengthy (financed) parental leave could, in the relevant context, risk being a hindrance for career development and imposes severe fiscal burdens on the public budget and on productivity due to skill depreciation.

### ***Social security systems***

In the aftermath of the crisis, **long term and structural unemployment** is now an urgent problem for many Member States. Unemployment benefit systems and other benefit schemes should provide the right incentives to work, to avoid benefit dependency, but at the same time ensure the much needed income support and, where relevant, adaptability to the business cycle. Appropriate compliance criteria with temporary and partial sanctions for non-compliance by benefit recipients ready for work are not in place in many Member States. Also, practices for identifying those who are not job-ready are missing in some Member States, just as are adequate policies for targeting them.

## *Wage setting and labour costs*

Wages need to adjust in such a way to balance labour demand and supply, ensure an efficient use of labour, and provide rewards commensurate with the contribution to value added. In this respect, it is key that over the medium term **real wages grow in line with labour productivity** across occupations and economic activities.

From a macroeconomic perspective, wage dynamics are also important for the correction of internal and external imbalances. In particular, in some Euro-zone countries, a durable correction of large accumulated current account deficits and the absorption of large unemployment pools require dynamics of nominal labour costs inducing over the medium term an adequate **adjustment in price competitiveness**. In this respect, nominal labour cost dynamics in other Euro-zone countries are a relevant benchmark.

Against this background, it is proving challenging for several Member States to find the right balance in collective wage agreements between the flexibility needed for adjusting labour markets to changing conditions and contracts specifying wage levels to protect and stimulate the investments needed in order to increase the value of jobs.

### **2.2. A highly skilled and educated workforce**

A strong human capital base is the key to sustainable growth, employment and international competitiveness. By 2020 85% of jobs will require high or medium level skills and the proportion of jobs for the low-qualified will reduce to 15%. It is therefore essential that Member States continue, in line with integrated guidelines 8 and 9 and with the Strategic framework for European cooperation in education and training (ET2020)<sup>1</sup>, in reforming their education and training systems and equipping people with higher and more relevant skills and key competences.

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<sup>1</sup> Council conclusions of 12 May 2009 (2009/C 119/02).

Insufficient quality of training and education is hindering transitions on the labour market as a large number of people of all ages and qualification levels do not possess **the right mix of skills** and competences. The **responsiveness of training systems** remains insufficient to respond to the challenge to equip workers and job seekers with basic skills and transversal key competences. This points to limited co-operation on the development of curricula involving social partners and Public Employment Services.

There is potential to develop further measures and tools to anticipate and prepare projections of future skills gaps and needs at Member State, regional, and sectoral levels (skills forecasts, employer surveys, sectoral studies, enhance quality statistical data) This concerns both the way in which these efforts are undertaken, as well as how their results are disseminated between key actors such as career guidance services, statistical offices, NGOs, sectoral bodies, and made use of in the design of curricula.

The participation of adults in **lifelong learning** is also often too low. This is mainly due to lack of incentives for companies to train workers, insufficient support to workers to engage in training and inadequate offer responding to the needs of particular groups.

Moreover complex structure of financing and a vast array of providers make it difficult to implement coherent strategies to coordinate and stipulate public, companies and individuals training activities. Multiple spheres of responsibility, overlapping funding and the absence of a genuine lead weaken the governance of the system. Inequitable access to lifelong training in particular remains a key issue: since a large proportion of continuing training is provided by employers, employees on permanent contracts have better access to lifelong learning than people on temporary contracts or the unemployed. Low skilled people participate five times less in adult learning than adults with high qualifications levels. More flexible learning pathways, including through validation of non-formal and informal learning, and **targeted measures** such as work place training and partnerships with enterprises and social sector organisations aiming at low skilled people, unemployed adults, migrants, ethnic minorities and people with disabilities, are not sufficiently developed to attract learners. Specific accompanying measures would also be helpful for workers in declining sectors.



### ***Improving the level of basic skills and key competences by tackling early school leaving***

Early school leaving is a complex phenomenon caused by multiple socio-economic, educational and individual factors. Many Member States tackle it through focussing on improving the quality of education and training provision, including through **innovative learning and teaching methods**, and more targeted support for pupils at risk. Some countries plan also structural changes to enhance flexibility of learning pathways and to offer programmes that combine learning and working.

However, the impact of such measures often remains low as they are not always complemented with early intervention policies, in particular better access to pre-primary education, and compensatory measures facilitating return to education for drop-outs. **Holistic approaches** closely coordinated with other relevant policy sectors are often lacking to address all multi-related factors.

### ***More people need to acquire the highest qualifications levels***

In many Member States investment in higher education is too low or has even suffered severe cutbacks due to the economic crisis.. The **modernisation of higher education systems**, with tailored curricula, practice and output oriented forms of learning, better governance and funding needs to be accelerated. Incentives for tertiary institutions to enter into cooperation with business and the wider world and **opening up higher education institutions** to the needs of society, in particular to underrepresented groups remain a challenge.

Similarly, in relation to the **vocational education and training** the quality and attractiveness at all levels is an important shortcoming.

### **2.3. Inclusive growth: combating poverty and exclusion**

Exclusion from the labour market, poor working conditions and the lack of opportunities to remain and progress on a segmented labour market are major determinants of poverty. The following covers policy priorities as set out in **employment guideline 10**.

### ***Preventing and fighting poverty through inclusive labour markets***

A job is the best safeguard against poverty. The unemployed and the inactive (non retired adults) represent respectively 10% and 21% of the population at-risk-of-poverty or exclusion (with the unemployed facing the highest risk: 58% against 13.5% for the employed). However, the working poor represent 24% of the people at risk-of poverty or exclusion in the EU. It is therefore important that labour market policies aim at ensuring adequate wages for those in work, by addressing labour market segmentation, low skills, where relevant low pay and under-employment (including involuntary part-time working) and at facilitating access to the labour market for lone parents and second earners.

### ***Preventing poverty through adequate and sustainable social protection systems and access to high quality services***

Most Member States report that fiscal consolidation measures will impact on social protection systems. Measures such as tightening conditionality, shortening duration, or reducing the level, changing indexation rules of benefit schemes may affect adequacy. On the financing side, exemptions from social insurance and other social security contributions may weaken the sustainability of the schemes, while measures to widen the social insurance base could help. Under these conditions, the efficiency of social spending can be improved through better implementation (e.g. simplification of rules, reduction of administration costs, performance indicators, or addressing fraud and error), but broader strategies to improve efficiency and effectiveness in all areas of social protection are needed, including through a greater emphasis on prevention, the integrated provision of services and enhanced quality of intervention.

### *Investing in active inclusion strategies*

Poor economic conditions and high unemployment create risks of long-term exclusion, affecting the employability and skills of the work force and undermining the mental and physical health of populations. Weak **safety nets** and the lack of activation measures for the most vulnerable risk aggravating persistent social and labour market exclusion. These need to be reinforced where needed by improving their coverage and adequacy.

Active inclusion strategies combining adequate income support, access to the labour market and social services are needed to prevent long-term exclusion and to increase the efficiency of social spending. For instance, this can be done by linking social assistance to activation measures and access to enabling and personalised services.

Fiscal consolidation and lack of public funding risks affecting the financing and quality of social services that are needed to support the employability of the work force and the sustainable reintegration of the most excluded in society and on the labour markets. In many Member States, ensuring the sustainable financing of **social services** and the **quality of intervention** remains a challenge.

In many Member States, more targeted efforts are needed to support specific groups (youth, the disabled, migrants) or to prevent and tackle over-indebtedness, homelessness and housing exclusion. A number of countries intend to promote **social innovation** and foster public-private partnerships and tap into the potential of the social economy.

### *Improving labour market prospects for parents will help break the inter-generational transmission of poverty*

Twenty five million children are at risk of poverty or exclusion. Policies to fight child poverty are still at very different stages of implementation and considerable differences in outcomes remain.

Experiencing poverty and deprivation in young age affects children's well-being and can have long term detrimental impacts on their educational achievements and future life chances.

Supporting the labour market participation of parents, including of lone parents and second earners is crucial to fight child poverty. However, such efforts need to be part of broader strategies to support children and families, which include investments in the quality of child care (quality standards, professionalization of staff, etc), early childhood intervention in areas such as health and education, and maintaining or improving income support to families through better targeting and design and a combination of targeted and universal benefits. However, some countries report that fiscal consolidation measures will also negatively affect child and family benefits and other benefits that are important for families (housing).

To make progress on lifting 20 Million of people out of poverty in a period of fiscal consolidation, social welfare systems need to set priorities combining efficiency and fairness. With the prospect of recovery, active inclusion strategies can help to ensure that the benefits of growth and employment are widely shared. Breaking the inter-generational transmission of poverty, starting with children, and ensuring fair chances for everyone is a top priority.

### **The Way forward: striving for more employment**

#### ***Most Member States start move from crisis management to structural reforms....***

Looking ahead, according to the Commission's autumn economic forecast, the EU economy, while still fragile, is recovering at a faster pace than previously envisaged, and it seems that the labour market may perform somewhat better this year than previously expected. Against this background, a majority of Member States are likely to move their focus from cyclical demand management to structural reforms.

As highlighted in the Annual Growth Survey, the following proposed priorities and policy approaches in the realm of structural labour market reforms deserve attention and constitute guidance for Member States to consider in their National Reform Programmes and when designing structural reforms, according to their specific national starting positions and to national practices related to the responsibilities of social partners:

- **Targeted temporary reductions in employer social security contributions**, for disadvantaged groups and particularly in the cases of newly hired youngsters, women or parents returning to work, older unemployed workers or low income earners, can facilitate transitions into employment. Nonetheless, these reductions should not jeopardise the financial sustainability of social security systems.
- While ensuring decent pay and respecting the role of social partners in the national decision making process, **flexibility in setting entry wages should be enhanced**. It should also be accompanied by better use of in-work benefits and access to training as well as to other activation measures provided by employment services to help tackle the current high levels of youth unemployment.
- Improving the **responsiveness of wage setting processes** to market developments in conjunction with the social partners is also necessary, so that wages properly reflect labour productivity in the medium term and ensure the EU's competitiveness position vis-à-vis the rest of the world and inside the EU and Member States.
- **Tax reforms combined with greater access to services and a wider use of in-work benefits** can have important impact in reducing unemployment and inactivity traps. In particular, more effective in-work benefits and tax credits combined with quicker referrals of unemployed young people to appropriate training programmes or apprenticeship schemes can make work more attractive to them.

Female employment could also be stimulated by providing more in-kind assistance combined with reducing the marginal effective tax rate of second earners. More generally, interlinking tax and benefits so that those eligible for non-employment benefits get for instance an earned income tax credit for income stemming from work can attract the inactive to employment.

- Enhancing **greater internal flexibility**, including the adjustment of work organisation or working time such as working time accounts. The success of short time working arrangements as operated in the past 18 months proves that this form of internal flexibility, when well designed and timely implemented, can be supported effectively by public authorities, saving jobs and protecting valuable human capital in times of economic contraction.
- Supporting **flexible and secure working arrangements** (e.g flexitime, teleworking) for those returning from parental leave could also ease the reconciliation of work and private life and contribute particularly to women's employment. **Extending full-time day-care facilities**, especially for children under 3 years old, is essential to ensure that the negative impact of parenthood on employment, mainly affecting women, is strongly reduced. In addition, a more equal take up of parental leave between both parents is necessary to compensate the possible review of relatively long parental leave schemes where they have a negative impact on labour market performance of women.
- Further efforts to reduce early retirement schemes and increase the retirement age need to be pursued to **increase the participation of older workers** in employment. Longer working careers could also be encouraged by a more direct link between paid contributions and pension entitlements and by measures that foster active and healthy ageing.

- Further **reforms to unemployment benefits systems and other benefit schemes** should aim at combining efficiency gains and fairness. Unemployment and other employment-related benefits systems should continue to ensure adequate level of protection at any phase of the economic cycle. Nonetheless, where relevant, they may need to be sufficiently flexible to enable benefits to be easily adjusted to fluctuations of the cycle. Temporary extensions of benefits and duration of unemployment insurance introduced in the context of the economic crisis should be reviewed as the economic recovery becomes more stable and when more jobs become available.
- Unemployment benefits should be reviewed to ensure that they provide incentives to work. Benefits should be designed to reward return to work for the unemployed and some inactive people through time-limited support, and **conditionality linking training and/or job search** more closely to benefits: the mutual responsibilities approach should be the norm, that is, facilitate the access to unemployment benefits combined with increasing the frequency of contacts, strengthened follow-up and monitored job-search efforts.
- The reduction of segmentation in the labour market could be facilitated by integrated flexicurity strategies which include, among others things, **a combination of flexible and reliable contractual arrangements and, if necessary adapting the employment protection legislation.**
- Despite the current tight fiscal framework, immediate attention needs to be given to maintain and where possible, **increase the level and effectiveness of targeted investments and reforms in the education and training sector.** Focusing on providing right incentives for the learners and employers to raise skills is essential. Improved educational outcomes require stronger co-operation with employers to develop learning contents and investments to improve the quality of teaching. It is important to avoid the risk that job opportunities are missed by a large proportion of the young and the low skilled population in a restructured post-crisis labour market with changed job-requirements.

- **Integrated active inclusion strategies** are needed to sustain the employability of the most vulnerable and ensure that the benefits of recovery are widely shared. These strategies need to combine income support, access to the labour market, and support services. Efficiency of social spending entails linking social benefits to activation measures; a good collaboration of social services with employment services, as well as improving the coverage and adequacy of social benefits where needed. Ensuring the sustainable financing of high quality social services is also crucial.

*.... while the available fiscal room will influence the prioritization of measures*

Stepping-up reform measures at times of ambitious fiscal consolidation calls for a careful selection of reforms. The pace of recovery, as well as the available fiscal room to finance policy measures, is **very divergent across the Member States**.

Social expenditure is likely to reach 30.7% of GDP in 2011, against 27.5% in 2007. This overall figure hides a wide variety of national shares and a great diversity in the capacity of Member States to meet the rising demand for social protection, with large gaps in the safety nets that will need to be reinforced in some countries. Fiscal consolidation will also require a better targeting of social expenditures. Furthermore the need for fiscal consolidation in order to restore sound public finances intensifies the urgency of speeding up reforms of social protection systems, with particular attention to pensions and health care. Efforts to restore sound public finances and reforms of social protection systems should both aim at ensuring sustainability and adequacy. Combining effectiveness, efficiency and fairness will help preserve EU's human capital and take full advantage of recovery.

In addition, job creation for the EU will probably continue to be subdued in the near future. This reflects between others the usual lag with which labour markets reacts to a change in economic activity and also the fact there has been substantial labour hoarding during the crisis alongside reductions in working time.



In selecting priorities for reform, Member States will most likely want to prioritise their choices in function of their available fiscal room for manoeuvre and the business cycle position they are in.

The most appropriate measures to be taken must also consider the time frame in which measures are expected to produce an impact on the labour market situation. Although costs to implement a given policy measure may differ from country to country, the table below may help as it groups the policy priorities according to the amount of public investments required (smaller or larger) and according to policy focus on impacts being more short term or longer term. For example, reducing early retirement schemes would require less public investments and can be expected to mainly have a longer term effects on employment. On the other hand, reducing non-wage labour costs will require more sizeable public investments and will have more short term effects on reducing unemployment.

**Table 1:** Overview of policy priorities and approaches (referred in section 3) according to investments required and time frame of expected impacts

	<b>Measures with immediate impacts on tackling unemployment</b>	<b>Measures with longer term impacts on increasing employment</b>
<b>Smaller public investments required</b>	<ul style="list-style-type: none"> <li>– Re-enforce mutual responsibility approach in unemployment benefit systems</li> <li>– Improve wage responsiveness</li> <li>– Enhance flexibility of entry wages</li> <li>– Support internal flexibility, adjustment of work organisation</li> </ul>	<ul style="list-style-type: none"> <li>– Reduce early retirement schemes</li> <li>– Improve exit age and pension rights link with life expectancy</li> <li>– Adjust unemployment and other employment-related benefits to the fluctuations of the economic cycle</li> <li>– Reconsider employment protection legislation to reduce segmentation</li> <li>– Enhance employment services cooperation, including with training providers</li> <li>– Enhance active inclusion strategies</li> </ul>
<b>Larger public investments required</b>	<ul style="list-style-type: none"> <li>– Support targeted training</li> <li>– Reduce non-wage labour costs/ provide hiring subsidies</li> <li>– Reduce unemployment traps with in-work benefits</li> </ul>	<ul style="list-style-type: none"> <li>– Improve fiscal incentives for 2nd earners</li> <li>– Increase access to care facilities</li> <li>– Modernise education and training system and improve responsiveness to labour market needs</li> </ul>

As a first milestone the JER will feed into the deliberations of the Spring European Council. It can offer guidance to Member States for their full National Reform Programmes. In these, Member States will need to indicate in full what choices they are making. If deemed necessary, following the orientations of the Spring European Council and an in-depth examination of the employment situation and labour market bottlenecks in each Member State, the Commission will propose and Council will adopt employment recommendations to address the areas insufficiently tackled.

Employment policy makers need to make the right choices. The first imperative is a rapid reduction in unemployment and to put in place effective labour market reforms for more and better jobs. Job creation is also vital to boost jobs growth and reduce social exclusion. In this context, the Europe 2020 flagships provide further guidance on how the interaction of employment, innovation, R&D, industrial, and environmental policies can be further reinforced and generate new job opportunities.