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Draft Joint Employment Report 2004/2005

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EXECUTIVE SUMMARY

This draft Joint Employment Report (JER) is part of the "implementation package" and accompanies the Commission's 2005 Spring Report in view of the mid-term review of the Lisbon Strategy. It is in response to the invitation to the Council and the Commission by the 2004 Spring European Council to present a concise report on the implementation of the European Employment Guidelines and Council Recommendations for its 2005 meeting.

Past labour market reforms have strengthened the resilience of employment to the economic slowdown. Catching up factors have also played a role in raising labour productivity in some relatively poorer Member States. Otherwise, there has been recently little progress towards the three objectives of the European Employment Strategy (EES), namely: full employment; improving quality and productivity at work; strengthening social cohesion and inclusion.

- The overall employment rate has stagnated at 63%, despite continuing increases for women and recently also for older workers. The Lisbon target of 70% by 2010 looks increasingly challenging. The employment rate of older workers, which climbed to just over 40% in 2003 has the largest distance to bridge towards the 50% target for 2010, whereas progress towards the female employment rate target of 60% has slowed.
- Labour productivity growth has fallen dramatically. It is urgent to reverse this trend. Progress in improving quality in work is mixed. The synergies between quality in work and productivity are not fully exploited.
- The economic slowdown has raised the profile of social inclusion problems and enlargement has increased the complexity and diversity of situations across the EU, especially in national and regional employment and unemployment performances.

The ability of the EU to boost employment and productivity growth simultaneously will rely on further structural reforms not just in the labour market but also in the services, product and financial markets. It is currently constrained by low domestic demand and the macroeconomic adjustments relating to global imbalances.

As regards the labour market, accelerating labour productivity and raising, in particular, the employment rate of older workers are crucial. This report confirms the conclusions of the Employment Taskforce report that action must focus on four priorities: increasing adaptability of workers and enterprises; attracting more people to enter and remain in the labour market; investing more and more effectively in human capital and lifelong learning; and ensuring effective implementation of reforms through better governance.

An assessment of policy responses by Member States which were addressed specific recommendations is made. It does not reflect an assessment of the overall policies or systems in the relevant areas.

In addressing the Employment Guidelines and Recommendations, the strongest policy responses by the Member States are:

- The financial incentives element of making work pay

- Reforming public employment services
- Designing and reviewing lifelong learning strategies
- Facilitating business creation and development

There are also significant responses to:

- Ensuring employment-friendly wages and other labour costs
- Promoting flexibility combined with security in the labour market, although risks of segmentation are still present
- Promoting childcare and other care services to increase female participation
- Strengthening active labour market policies, although the efforts seem insufficient with rising unemployment, especially of young people
- Addressing the situation of disadvantaged people in the labour market

Much weaker policy responses are:

- Developing active ageing strategies
- Improving the level, effectiveness and sharing of investment in human capital, including reducing early school-leaving and increasing participation in training of the low-skilled
- Addressing the gender pay gap
- Tackling undeclared work
- Anticipating and managing economic restructuring

The gap must be bridged between the employment priorities at EU level and implementation in the Member States. It is vital that governments share ownership of EU objectives and foster public conviction in the need to translate EU commitments into action at national and local level. Partnerships for reforms, national targets and appropriate financial backing are essential.

The National Action Plans for Employment (NAPs) must achieve greater political legitimacy and be an integral part of the decision-making process. The response of many new Member States is clearly encouraging. The transparency and visibility of the NAPs need to be enhanced further to serve mutual learning, both within Member States and across the EU.

The EES plays the leading role in the implementation of the employment objectives of the Lisbon Strategy. This needs to be made more visible. The mid-term review provides an opportunity to raise its profile at all levels, to simplify the coordination process and to achieve greater focus on implementation.

1. THE ROLE OF THE 2004/2005 JOINT EMPLOYMENT REPORT

Following the 2003/2004 Joint Employment Report (JER) and the report of the Employment Taskforceⁱ, the 2004 Spring European Council called for real progress in the implementation of the European Employment Strategy (EES). The European Council announced its intention to review progress and requested a concise report for its meeting in 2005. The High Level Group on the Lisbon Strategy underlined the need to focus on the implementation of the Recommendations.

The National Action Plans for Employment (NAPs) submitted in Autumn 2004, based on the Employment Guidelines and Recommendations, constitute the main input to this report. For the first time, the Member States which joined the European Union on 1st May 2004 presented a NAP. The Commission Staff Working Paper which accompanies this report provides a more detailed assessment of progress in employment performances and policy implementation.

This report is an integral part of the Commission's "implementation package", also comprising the Implementation Reports on the Broad Economic Policy Guidelines and the Internal Market Strategy, which will contribute to the mid-term review of the Lisbon Strategy in 2005.

2. ECONOMIC CONTEXT AND PROGRESS TOWARDS THE EU EMPLOYMENT OBJECTIVES

Within the framework of the EES, Member States are committed to foster three overarching and interrelated objectives in a balanced manner: full employment; quality and productivity at work; social cohesion and inclusion.

Following a period of favourable economic growth over 1997-2001, the performances of the labour market were affected by the slowdown; progress towards the EU employment objectives has slowed downⁱⁱ. An economic recovery is essential but will not suffice. Europe's underlying economic potential depends on its ability to boost employment and productivity growth simultaneously. This will rely on further structural reforms not just in the labour market but also in the services, product and financial markets.

Improving the functioning of the labour market, raising quality at work, addressing social exclusion and tackling regional disparities are essential to attract and maintain more people in employment and to accelerate productivity. The EU must step up its efforts and fully exploit the synergies between the three EU employment objectives, as well as between the EES and action in the field of social inclusion.

ACHIEVING FULL EMPLOYMENT

To meet the EU employment rate target of 70% in 2010, Europe still needs to create more than 22 million jobs. The EU will miss the intermediate employment rate target for 2005 (67%) and, without much more positive trends, the 2010 target will not be achieved.

As a result of the prolonged economic downturn, the increase in the overall employment rate has come to a standstill, with the rate in the EU25 stagnating at 63% in 2003 (55% for women and 40% for older workers). However, past labour market reforms have strengthened the resilience of employment. In net terms, no jobs were lost in the recent downturn within EU15, while more than 3 million jobs disappeared in the 1992-1993 recession. The new Member States achieved reasonably strong economic growth over the last years, but this continues to

be driven by strong productivity increases, while employment growth was very modest or negative.

Table 1. Overall employment rates

Pace of progress since 1997 Rates in 2003 (%)	Low	Close to average	High
> 70	DK	SE, UK	NL
65-70		AT, CY, DE, PT	FI, IE
< 65	CZ, EE, LT, MT, PL, SI, SK	BE, EL, FR, LU, LV	ES, HU, IT

The employment rate for women continued to improve in 2003 but progress has slowed. To reach the target of at least 60%, the average annual increases seen in the female employment rate since 1997 must be maintained each year up until 2010.

Table 2. Female employment rates

Pace of progress since 1997 Rates in 2003 (%)	Low	Close to average	High
> 60	DK	AT, FI, PT, SE, UK	CY, NL
55-60	CZ, EE, LT, SI	DE, FR, LV	IE
< 55	MT, PL, SK	BE, EL HU	ES, IT, LU

Despite visible progress, the target of an employment rate of 50% for older workers is far off. Without a spectacular increase in this rate, the overall 70% employment rate target will remain unattainable.

Table 3. Employment rates of older workers (55-64)

Pace of progress since 1997 Rates in 2003 (%)	Low	Close to average	High
> 50	CY, EE	PT, SE	DK, UK
40-50	EL	CZ, ES, LT	FI, IE, LV, NL
< 40	AT, DE, PL, SI, SK	BE, IT, LU, MT	FR, HU

Economic recovery has gained momentum for the EU but employment growth was subdued in 2004, and prospects for 2005 remain modest. The return to higher employment growth - like economic growth - will crucially depend on developments in internal and external demand, with the imbalances in the US economy acting as a possible brake.

IMPROVING QUALITY AND PRODUCTIVITY AT WORK

Whereas labour productivity growth is essential for the EU's competitiveness and for its capacity to generate sustainable growth, it has fallen dramatically in the EU15. In the early 1990s, the EU outperformed the US but the situation has reversed since the mid-1990s. Whereas the US was able to combine strong employment and productivity growth, in the EU, the rise in employment is combined with a drop in productivity growth. The entry of workers in sectors with lower levels of productivity may have played a role but the slowdown in productivity suggests broader underlying difficulties of the EU economies to foster and absorb innovation.

Table 4. GDP, employment and labour productivity growth (annual averages)

	1990-1996		1997-2000		2001-2003	
	EU15	US	EU15	US	EU15	US
1. GDP	1.5	3	3.2	4.1	1.0	2.5
2. Employment	-0.4	1.6	1.9	2.1	0.4	0.5
3. Labour Productivity (per worker)	1.9	1.7	1.3	2.0	0.6	2.9
4. Hourly Labour Productivity	2.2	1.3	1.9	1.4	1.1	3.3

Productivity levels and dynamics vary considerably across the EU, with a clear catching up in the new Member States.

Table 5. Labour productivity growth and levels (per person employed)

Average annual growth rate of real GDP per person employed (1997-2003)	Low	Median	High
GDP per person employed at ppp in 2003 (EU25= 100)			
≥ 110	IT	AT, FI, BE, FR, LU, NL	IE
75-110	ES	DE, DK, SE, UK	CY, EL, MT
50-75		PT	CZ, HU, PL, SI, SK
≤ 50			EE, LV, LT

While there is a positive link between productivity and quality in work, recent progress in improving quality in work has been mixed. Transition patterns within the labour market and the extent of undeclared work vary a lot, with evidence of segmentation in many Member States. There are big differences between the average earnings of men and women; the average gender pay gap has remained at 16% for several years. Low participation of adults in training is a concern and those people most in need (the low-skilled, older workers and SME workers) are the least likely to receive it. Though decreasing, the number of accidents at work remains high and progress is uneven.

STRENGTHENING SOCIAL COHESION AND INCLUSION

With the economic downturn, unemployment has increased moderately. After a steady decline since 1997, long-term unemployment has also increased and there are worrying signs of deteriorating job prospects for the young, the low-skilled and other vulnerable groups, such as disabled people, immigrants and minorities, who face compounded disadvantages, including risks of discrimination.

These trends should be countered with a renewed emphasis on the integration of people excluded from the labour market, in particular through policies combining active labour market policies, safety nets and access to social services.

While a job is the best safeguard against social exclusion, around 1/4 of people at risk of poverty in the EU-25 have a job. Promoting access to quality employment, including access to training, and an income that enables full participation in employment and society, is key for social inclusion.

Enlargement has made the challenge of cohesion more acute. 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.

3. IMPLEMENTATION OF THE GUIDELINES AND RECOMMENDATIONS

The 2004 Council Recommendations were structured around the four priorities for action identified by the Employment Taskforce. This section presents a summary of the most important recent developments. Annex 1 of this report summarises the assessment of the policy response of each Member State to the Recommendations. The assessment relates to the implementation of specific recommendations under each category addressed to each Member State. It does not reflect an assessment of overall policy or systems in the relevant category.

3.1 INCREASING ADAPTABILITY OF WORKERS AND ENTERPRISES

Promoting flexibility combined with security in the labour market

Increasingly, Member States seek to promote a balance between flexibility and security, often through discussion with social partners. Adapting working time is used to better reflect company and individual needs. Modernising work organisation is highlighted in FI and SE. However, labour market segmentation is not significantly addressed across the EU and major differences exist between types of contracts, occupational status and age groups. In particular, a lot remains to be done to improve work organisation, facilitate mobility and labour market transitions, especially for young people.

Ten Member States received a specific recommendation on the modernisation of labour law. Most of the new Member States are introducing more working time and contractual diversity. Raising the attractiveness of part-time work is increasingly seen as a priority, but still remains underused. The implementation of the labour code reform in PT opens the possibility to better control fixed term contracts and self employment. The high share of fixed-term contracts needs to be addressed through social dialogue in ES in the near future, by adjusting levels of protection in standard jobs to make them more attractive. IT still needs to implement major

parts of reforms aimed at preventing and tackling labour market segmentation. Policy action has only begun in FR.

Three Member States received a specific recommendation on the modernisation of work organisation and the dissemination of innovation. This remains a considerable challenge, particularly for SMEs. The involvement of the social partners is essential for genuine progress. Reporting on action taken to improve working conditions is generally weak, although the setting of national targets for health and safety and reductions in accidents at workⁱⁱⁱ is welcome.

Facilitating business development

Member States displayed overall a good response to improve their business environment, concentrating on reducing administrative and regulatory obstacles for setting up new firms, with less attention being given to business expansion and sustainability. DK, NL and SE have worked together on measuring the administrative burden of regulations.

Ten Member States received a specific recommendation. The development of one-stop shops, on-line services and business advisory support is progressing, but poor access to finance and low investment in innovation and R&D remain significant constraints. Therefore, despite the fact that most Member States have adopted measures to promote entrepreneurship, as well as self-employment, their performance needs to be improved. Moreover, the priority given to reducing administrative burdens has to be fully implemented, in particular by easing the procedures for the hiring of staff.

Ensuring employment-friendly labour costs

In 2003/2004, overall wage developments were broadly in line with productivity developments and price stability in the medium term, and efforts were sustained to reduce or maintain non-wage labour costs.

Nine Member States received a specific recommendation on wage developments and wage bargaining systems. Some positive steps are noticeable in countries which received a country specific recommendation, but progress should be monitored. Despite the call to review the wage-setting mechanisms, no major initiatives are reported in ES and IT, where responsibility is shifted to social partners. In DE, the flexibility allowed in collective agreements is increasingly being used to address the issue.

Fourteen Member States received a specific recommendation to reduce non-wage labour costs, especially for low-wage earners. Most have taken steps, in particular as regards employer social security contributions. Progress nevertheless remains limited, notably in many of the new Member States.

Anticipating and managing economic restructuring

The need for a positive management of restructuring, especially for collective lay-offs, is highlighted in many NAPs, but much more needs to be done. Steps are taken to improve the capacity of public authorities to anticipate and respond in a coordinated manner. In SI, the establishment of "labour funds" is designed to offer services for workers at risk of redundancy.

Five Member States received a specific recommendation. BE, FR and PT have called upon the social partners, with varying degrees of success, to implement effective mechanisms at sectoral and local levels.

Transforming undeclared work into regular employment

Efforts to transform undeclared work into regular employment are patchy. FR demonstrates a particular effort to better document the nature of undeclared work.

Eight Member States received a specific recommendation. Initial progress is reported in IT and LV. The low priority given to this issue in many of the new Member States is a concern.

3.2 ATTRACTING MORE PEOPLE TO ENTER AND REMAIN ON THE LABOUR MARKET: MAKING WORK A REAL OPTION FOR ALL

Strengthen active labour market policies (ALMP)

Progress in the provision of preventative services for the unemployed is mixed. Ten Member States meet the 25% target for activation of the long-term unemployed^{iv}, although in AT, DK, DE, FR, UK, SI^v a lower proportion participated in an active measure than last year. Ten Member States fail to provide comparative data^{vi}.

Twenty Member States received a recommendation to modernise the public employment services (PES) and improve access to ALMPs, also to facilitate integration of disadvantaged people and improve occupational and geographic mobility. PES are being reformed but the response is uneven for ALMPs. This is particularly worrying in a context of rising unemployment, especially of young people.

Making work pay

There has been a significant policy response across Member States but the outcomes are mixed. Many are committed to improve the combined impact of taxes and benefits on employment and their link with activation. There is also a more visible commitment to tackle the issue of working poor through in-work benefits and rises in minimum wages. Improving work incentives in benefit systems, including eligibility rules and related financial incentives (such as transport and housing costs), are less forcefully addressed.

Fifteen Member States received a specific recommendation. Most of them have taken steps. For a number of new ones, progress is essential to reduce undeclared work. For others, the focus is placed on reform of sickness and disability benefit systems.

Increasing the participation of women

The employment rate for women is increasing, and the provision of childcare and other care services has improved. The gender pay gap remains stubbornly high and weakly addressed. National targets exist in half of the Member States^{vii}. A gender mainstreaming policy is only visible in SE.

Seven Member States received a specific recommendation. Gender gaps in employment and unemployment are largely neglected as objectives. Although the gender pay gap is widely recognised as a serious problem, new concrete targets and action are rare. The reconciliation

of work and private life receives widespread attention but the equal sharing of responsibilities between women and men is overlooked.

Building comprehensive active ageing strategies

Despite some progress, the EU is falling far short of the 2010 employment rate target for older workers and policies are below expectations. The employment rate in the EU now exceeds 40% but it remains stubbornly low in many Member States, especially for women.

Most Member States received a specific recommendation. There are efforts to define national active ageing strategies^{viii} but action often relies on piecemeal measures in the area of tax-benefit and pension reforms discouraging early retirement rather than on increasing employability and participation throughout the lifecycle, including young people. There seems to be a high degree of reliance on the impact of pension reforms (FR, IT). Moreover, the commitment of some Member States was essentially limited to proposals for tripartite social dialogue (BE, LU).

Promoting the integration of immigrants and people at a disadvantage

The potential of migrants and disadvantaged people, such as minorities and the disabled, is still insufficiently recognised and exclusion from the labour market remains an issue.

Six Member States received a specific recommendation. Some Member States have developed strategies to increase labour participation of all underrepresented groups in the labour market. Specific policies for the integration of migrants and minorities are being developed with a focus on assimilation and access to the labour market, including language training, literacy programmes or vocational guidance. The burden, however, is often placed on individuals to adapt. The Roma or migrants for example often seem to be portrayed largely responsible for their own situation.

3.3 INVESTING MORE AND MORE EFFECTIVELY IN HUMAN CAPITAL AND LIFELONG LEARNING

Developing lifelong learning strategies and investment in human capital

The EU does not deliver the "increased investment in human resources" called for. The NAPs provide little systematic information on levels or efficiency of resources. Public investment in this area only shows a very slight increase (5.1% GDP for EU15). This varies from 8.5% in DK to 3.9% in EL and LU.

SE, FI and DK deliver performance as measured by the EU benchmarks, and commit to investment levels, well above the EU average. The converse is also true. Member States with poor performance tend to invest lower levels and have under-developed strategies to raise human capital.

While there is recognition that actors must share responsibility, no Member States demonstrate a truly comprehensive approach. Some adopt a levy approach to encourage employers (particularly for SMEs) to invest. Sectors funds are also used (BE, IT, NL). Tax reform is considered in other Member States (EE, IE, SK, UK).

Many Member States received a specific recommendation. Action is still largely in the design and development stage. It is important to move more rapidly to implementation as most of

them still need to put in place systems and capacities to deliver lifelong learning opportunities for all.

Broadening participation in, and supply of, education and training

The target set for the EU for 2010 that 85% of 22 year olds should have completed upper secondary level education represents a major challenge. The EU average (76.7% in 2003) has hardly progressed since 2000. Wide disparities exist, with rates ranging from 94.1% in SK to 43% in MT. Completion rates are also very low in ES, IT, LU and PT.

Despite encouraging recent progress, the 2010 objective of a 12.5% rate of adult participation in lifelong learning will require continued efforts. Further policy reforms are needed to encourage participation in most Member States. Participation rates have seen a steady increase since 2001 (7.9%) to the current level of 9.3% (2003). However, participation remains particularly low in CZ, EL, IT, LT, MT, PT and SK and varies widely by age and attainment level.

A systematic commitment to address the situation of disadvantaged people is missing. The case of SE is a notable exception, where municipalities are obliged to offer upper secondary education to all young people up to the age of 20. After that age, they can obtain qualifications in adult education, with all employees entitled to study leave.

Twenty Member States received a specific recommendation. CY is reforming its apprenticeship scheme. Faced with a lack of apprenticeship places, DE concluded a national agreement with industry to ensure that all young people who apply for vocational training get a place and HU announced a major increase in funding for adult education.

Reducing the number of pupils leaving school early

Despite recognition of the importance of the issue, action is often piecemeal. Most policies consist of special measures to support the most vulnerable students outside the mainstream education and training system.

Seventeen Member States received a specific recommendation. The proportion of early school leavers^{ix} decreased slightly to 15.9% in 2003, well above the 2010 target of 10%. In seven Member States^x rates have increased since 2002. Progress towards the EU target depends critically on progress in ES, IT, MT and PT, which levels are significantly above the EU average. Significant falls occurred in the Member States with the highest rates, notably PT and MT (with levels still above 40%).

3.4 ENSURING EFFECTIVE IMPLEMENTATION OF REFORMS THROUGH BETTER GOVERNANCE

Building reform partnerships

The delivery of the Lisbon Strategy and of the EES requires coordinated action and public conviction over a fuller reform agenda, in particular as regards the management of economic change. The European Council called on Member States to establish partnerships for reforms. While partnership approaches exist in many Member States, IE was the only one to cite the establishment of reform partnerships in its NAP.

Promoting the role and visibility of National Action Plans

To have impact, NAPs need political legitimacy. The involvement of parliaments is insufficient, as they play hardly any role in the approval procedure, with the notable exception of MT. This low profile may be one reason why NAPs do not receive significant input or support from civil society.

The NAPs are mostly summing-up reports. They do, however, receive a higher profile in many of the new Member States where they tend to be more forward-looking and play a central role in the policy cycle. They must become attractive and accessible for dissemination (e.g. BE).

Defining national commitments and targets

Member States were recommended to define national targets to reflect those agreed at EU level. There have been some positive steps in 2004 with ES and seven of the new Member States setting national employment targets^{xi}. Less than half set targets to increase the employment rate for older workers. Exit age targets already existed in FR, FI and PT and CY set a new target. More Member States have set targets for improving levels of human capital.

Adequacy, transparency and cost-effectiveness in the allocation of financial resources

Reforms must be backed by adequate financial means and effective use of public funds. The provision of information in the NAPs is insufficient. It should include actual expenditure, allocated budgets and prognoses for main measures.

About half of the Member States provide some comparable data on ALMP expenditure and, to a lesser extent, on human resource investment^{xii}. DK and CY give a reasonable picture based on national data. A few Member States^{xiii} provide financial data split by Guideline. The role of the European Social Fund (ESF) is highlighted but reporting is uneven.

Developing more effective mutual learning

Mutual learning and shared expertise serve to enrich policy-making. Some Member States compare their employment performances with the EU average and others' performances. The NAPs seldom quote examples of policies inspired by others' experiences. The new EU mutual learning programme provides an opportunity to strengthen this key element.

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- i The Joint Employment Report (JER) examines how Member States are progressing in the implementation of Employment Guidelines and Recommendations adopted on the basis of Article 128 of the Treaty. All the documents related to the European Employment Strategy, including the report of the Employment Taskforce, the EU Guidelines and Recommendations and the 2004 National Actions Plans for Employment are accessible at: http://europa.eu.int/comm/employment_social/employment_strategy/index_en.htm
- ii For a detailed analysis of recent trends and performances of the EU labour market, see European Commission "Employment in Europe 2004" (http://europa.eu.int/comm/employment_social/employment_analysis/employ_en.htm). For latest macro-economic updates, see European Commission "Economic Forecasts Autumn 2004" (http://europa.eu.int/comm/economy_finance/publications/european_economy/forecasts_en.htm). The source and methodology for the tables presented in this report are described in the accompanying Commission Staff Working Paper.
- iii DK, CY, EL, FR, LV, PT and UK
- iv BE, DE, ES, FI, IT, LU, LV, SE, UK, and FR (on the basis of figures for 2002).
- v The figure for SI is subject to be confirmed
- vi CY, CZ, EE, IE, MT, NL, PL, PT, SI, SK
- vii AT, CY, EE, ES, FR, HU, IE, IT, LT, LV, PL, PT (EL has not confirmed the target set in its 2003 NAP)
- viii CY, CZ, EE, FI, FR, LV, NL, PT, UK
- ix The percentage of 18-24 year olds having achieved lower secondary education or less and not attending further education or training leaving.
- x BE, CZ, CY, DE, DK, ES, FR
- xi CY, EE, HU, LT, LV, SI, SK
- xii AT, BE, DE, EE, FI, FR, HU, IE, IT, LT, LV, PT, SE
- xiii BE, ES, HU, IE, PL