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Subject:	Draft Joint Employment Report - <i>Adoption</i>

Delegations will find attached the text of the draft Joint Employment Report, as finalised by the Employment Committee on 31 January 2013.

The Committee is invited to forward the draft Joint Employment Report to the EPSCO Council for adoption.

## Joint Employment Report

The draft Joint Employment Report, mandated by Article 148 TFEU, is part of the Annual growth Survey (AGS) package to launch the 2013 European Semester. As key input to strengthened economic guidance, the JER underpins the key employment messages contained in the AGS. The analysis it contains is based on the employment and social situation in Europe, on the implementation of the Employment Guidelines<sup>1</sup>, on the examination of the National Reform Programmes that led to the country-specific recommendations adopted by the Council in July 2012 and on the assessment of their implementation so far.

### **Key Messages**

This Joint Employment Report (JER), mandated by Article 148 TFEU, forms part of the package to launch the 2013 European Semester. These Key Messages highlight the main messages emerging from the analysis of the employment and social situation in Europe and the implementation of the Employment Guidelines.

**The Employment situation across the EU is worsening** with divergences between Member States across a range of employment and social indicators widening. The impact has been more severe on certain groups, with those already at risk suffering the worst effects. This is the situation for which the European Employment Strategy was created and with which it can deal effectively, especially with the strengthened governance being embedded in 2013.

Tackling unemployment and the social consequences of the crisis must therefore be Europe's key common priority. Avoiding a lasting legacy of structural unemployment and poverty presents a major policy challenge and is essential to attain the Europe 2020 employment and social inclusion targets. By focusing on evidence-based implementation of the Semester, using the approaches that have been promoted even before the crisis, the Union can help deliver labour markets that are responsive to economic change.

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<sup>1</sup> Official Journal L308/46, 24.11.2010, “Council Decision of 21 October 2010 on guidelines for the employment policies of the Member States (2010/707/EU)”

**Europe's Labour markets are under-going profound change:** structural reforms are taking place in many member states that are essential to restoring Europe's competitiveness, while also challenging and socially difficult. The scale of reform is sizable with changes that are affecting already the majority of EU citizens. While, such reforms take time to embed and produce results, their impact should be closely monitored and evaluated.

There are already positive signs that labour markets in many Member States are becoming increasingly competitive. Reforms are bearing fruit and translating into significant competitiveness gains in several Member States. This substantial on-going adjustment, although necessary, has been costly in the short term and has resulted in higher unemployment.

Not only has gender mainstreaming been historically a part of the European Employment Strategy, but in pursuing the Europe 2020 target of aiming to achieve a 75% employment rate it must be remembered that this was set for men and women, therefore increasing the level of female labour market participation is essential. It will also help the EU manage the exit from this crisis and help promote the contribution of work to the improvement of Europe's social situation.

This JER illustrates that the necessary on-going fiscal consolidation is not currently sufficiently accompanied by growth-friendly approaches to public expenditure and revenue generation and structural reforms that account for the employment and social situation, and provide demand-side gains and jobs. Short term measures can help in the current economic situation and build towards the goal of more dynamic labour markets in the longer term. Priorities that have been proven to work include a clear focus on managing transitions, for example by strengthening support systems and services that meet labour market needs, especially to improve job matching, and supporting enterprise including by building human capital for example through targeted training, other investment in workforce potential, and targeted temporary incentives.

In this context, taking into consideration the priorities set out in the Commission's 2013 Annual Growth Survey, the Employment Committee's multilateral surveillance of the implementation of the 2012 Country-Specific Recommendations, and in line with the Employment Guidelines, this Joint Employment Report finds that whilst implementation of reforms to address structural challenges is substantially progressing, it varies across the EU, and **the following key challenges remain** in order to mobilise employment for growth through a balanced flexicurity based approach:

- Reducing long-term unemployment and tackling unacceptably high youth unemployment through early activation. The Commission's recent Youth Employment package forms important guidance in this respect, in particular a proposal for youth guarantees. It is also important to consider the relationship between a range of supporting policies and services, which will help reduce unemployment, and increase the employment potential, for different groups in the labour market including women.
- In the context of increasing deterioration in job-matching, strengthen Employment Services and Active Labour Market Policies. Despite the acknowledgement of range of important reforms in this domain, this JER notes a decline in expenditure on ALMPs per unemployed person, and there remains scope for improving results from both ALMPs and PES. The emerging role of PES in acting also to help prevent unemployment is an important development.
- Addressing skill mismatches in a time of high unemployment, and the plight of young people and women moving into the labour market, or trying to get a sustained foothold, illustrate the crucial role of education and training and the overall skill levels of the workforce. However, this JER presents increasing evidence of cuts being made in investment at a time when growth and productivity supporting investment are essential. Policies have not sufficiently addressed the need to increase the capacity of the existing workforce combined with strategies for active ageing. Only a few Member States have made progress in adapting education and training systems to the modern labour market through policies such as a wider use of quality apprenticeships.

- Despite some progress further efforts are needed to modernise employment legislation in order to reduce the gaps in employment protection between different types of work contracts, address labour market segmentation, and to discourage undeclared work.
- Important steps have been taken in some Member States to bring wages and productivity developments closer together with the important involvement of social partners according to national arrangements. Wages play a role in helping address competitiveness losses, but also have an important role supporting aggregate demand and reducing inequalities by making work pay and avoiding in-work poverty.
- Countries with an ability to temporarily adjust working hours and working time have tended to better cushion the impact of the crisis, highlighting the need to ensure improvements in internal flexibility.
- Some progress has been made to reduce the tax burden for specific groups, but the overall burden remains high in a number of Member States. A general approach to reducing a comparatively high tax on labour, where appropriate and where financially and socially sound, with a specific focus on reducing taxes for individuals that inhibit their participation can support job-creation, labour market participation and reduce undeclared work.
- Promote longer working lives, for example by raising the effective retirement age and implementing active ageing strategies. This will increase overall labour market participation and help Member States upholding sustainable pension systems.
- Alongside a focus on an number of economic sectors with job creation potential *inter alia* digital, health and eco-industry, specific policies to support job-creation or to maintain work, including the temporary use of short-term working arrangements, promoting a business and employment friendly environment, and ensuring unemployment benefits have appropriate eligibility requirements are being implemented. Such policies remain particularly important in the current context.

- The cushioning effect of social protection on household's income is weakening. Since late 2010 the contribution of social benefits to gross income has become negative, with coverage to individuals falling in many Member States. There is also evidence of significant differences between Member States in terms of the efficiency and effectiveness of their social protection spending. A significant challenge remains the need to fully implement active inclusions strategies for vulnerable groups.

## INTRODUCTION

The report is being issued at a time when:

The employment recovery has come to a halt. Employment is decreasing and the prospects are bleak for 2013. Job creation has remained subdued and has worsened despite unexploited potential in some job-rich sectors and throughout the single market. Labour market segmentation has continued to rise with an increase in temporary contracts and part-time work. Taxation on labour remains high and has further increased in a number of Member States.

Unemployment is rising again and has reached unprecedented levels in the euro area, with long term unemployment reaching alarming highs, especially in Member States under strong fiscal consolidation. More than one in five young people in the labour market are unemployed and there is a risk of a lost generation.

The disparity in unemployment rates between Member States has dramatically grown and reflects the effects of asymmetric shocks and the different resilience of labour markets to crises. Wages and labour costs have started to adjust but the effects of reforms are not fully visible yet. Signs of deterioration in the job matching process on the European labour markets are confirmed and there is a risk that increasing structural unemployment will become entrenched.

Average household incomes are declining in many Member States and recent data points to a trend of higher levels and deeper forms of poverty and social exclusion with in-work poverty and social polarisation on the rise in many Member States.

The effects of social protection as an automatic stabiliser have been weakened since 2010 and resulted in higher poverty rates. There are significant differences among Member States in the efficiency of their spending when it comes to poverty reduction.

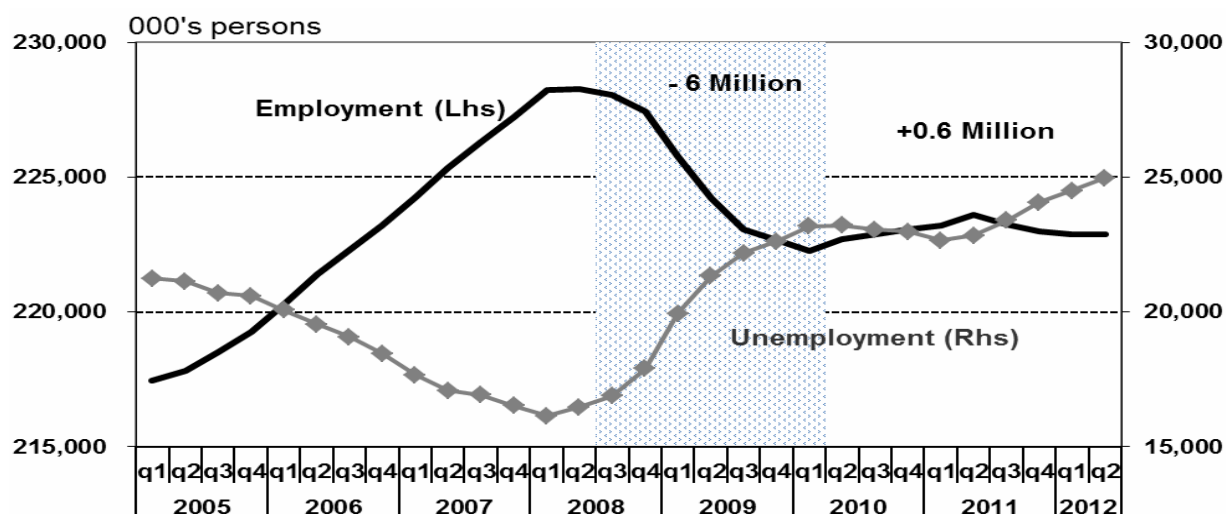
The employment and labour market situation in Europe, and in particular in some Member States, calls for more determined action by the public authorities and the social partners. Ambitious reforms are being implemented but further efforts are needed to modernise our labour markets and invest in human capital to create the conditions for a job-rich recovery

#### **RECENT LABOUR MARKET AND SOCIAL DEVELOPMENTS TRENDS**

The economic and employment outlook is negative and has worsened in recent months. If 2012 will be a negative year from the perspective of employment and the small increases in GDP forecasted for 2013 will be insufficient to create employment and reduce unemployment. A more positive outlook for the labour markets is expected in 2014. The EU is currently the only major region in the world where unemployment is still rising.

**The employment recovery has come to a halt and employment is decreasing.** The number of people aged 20-64 in employment in the EU has decreased by 0.2 % from Q2 2011 to Q2 2012. In the 2008 – 2011 period employment shrank by 1,7 %, showing more resilience than the US during the same period (-5,8). However the decline has been more pronounced in the euro area, especially in those countries which undertook more substantial fiscal consolidation. Since the start of the economic and financial crisis in 2008, the number of jobs lost now totals 5 million, of which 4 million were lost in the euro area. The fluctuations in overall employment since the outset of the crisis have been mainly driven by part-time work and temporary contracts, but permanent contract jobs have also been affected.

**Figure 1: Employment and unemployment in the EU 27, 2005-2012**



Source: Eurostat, National Accounts and EU LFS

**A positive feature is that the employment rate of older workers increased** by 1.8 p.p. between 2008 and 2011 compared to a 1.5 p.p. decline in the general employment rate. Women have also weathered the economic crisis relatively better than men with employment rates virtually at the same level as in 2008 while the employment rate of men has declined by 2.6p.p. during the same period. At the same time, the youth employment rate declined by 3.8 p.p..

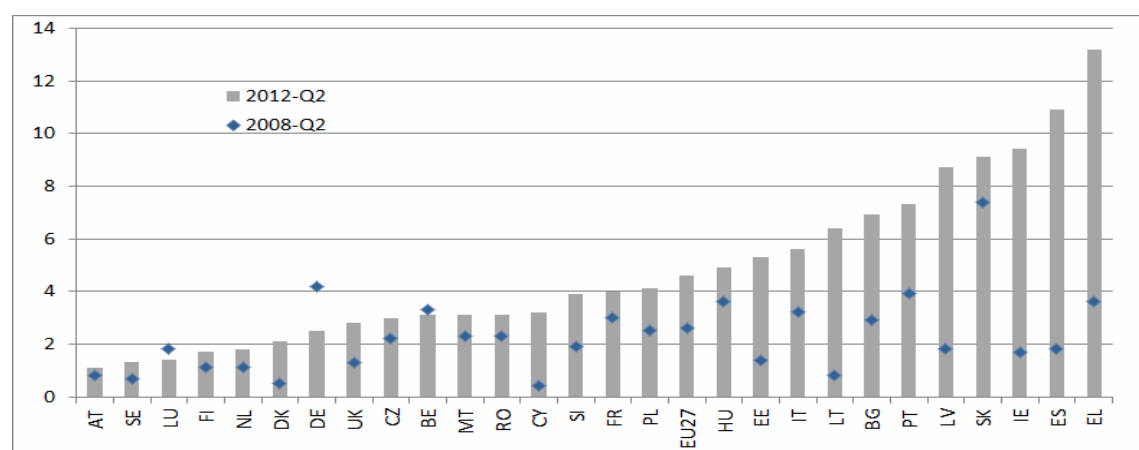
**Unemployment is rising again and has reached unprecedented levels in the euro area.** The overall unemployment rate of the EU is currently at 10.6%, while in the euro area it reaches 11.6 %, the highest level since the birth of the EMU. In May 2012 the number of unemployed in the EU exceeded 25 million people for the first time ever and has increased by an additional 0.75 million in the quarter since then, which represents a total increase of almost 9million since 2008. The trend in unemployment is upward in the majority of the Member States, with only six countries showing a decrease in unemployment during the last 12 months to August 2012.



**Long term unemployment has reached alarming highs.** In the second quarter of 2012 11.1 million unemployed Europeans had been unemployed for more than 12 months, accounting for 4.6 % of the active population<sup>2</sup>. This represents an increase of 4.8 million in comparison to 2008. In 2011, 70% of all long-term unemployed in the EU-27 were concentrated in the 6 largest Member States, with Spain accounting for more than 21% of the total number of long term unemployed in the EU and contributing 1.6 million to the 3.7 million increase in the number of long-term unemployed over 2008-2011.

**The probability for unemployed people to find a job has decreased in most Member States** since the outbreak of the crisis, both for short and long term unemployed. This decrease has been particularly pronounced for Member States subject to significant fiscal consolidation measures. In Spain the probability decreased from 50% to 30% and in Greece it dropped from 25% to 15% while it remained stable in the Netherlands and improved in the Czech Republic and Estonia.

**Figure 2: Long-term unemployment rate in % of active population, 2008 and 2011**



Source: Eurostat, EU-LFS

<sup>2</sup> Long-term unemployed represents currently more than 44% of the people unemployed.

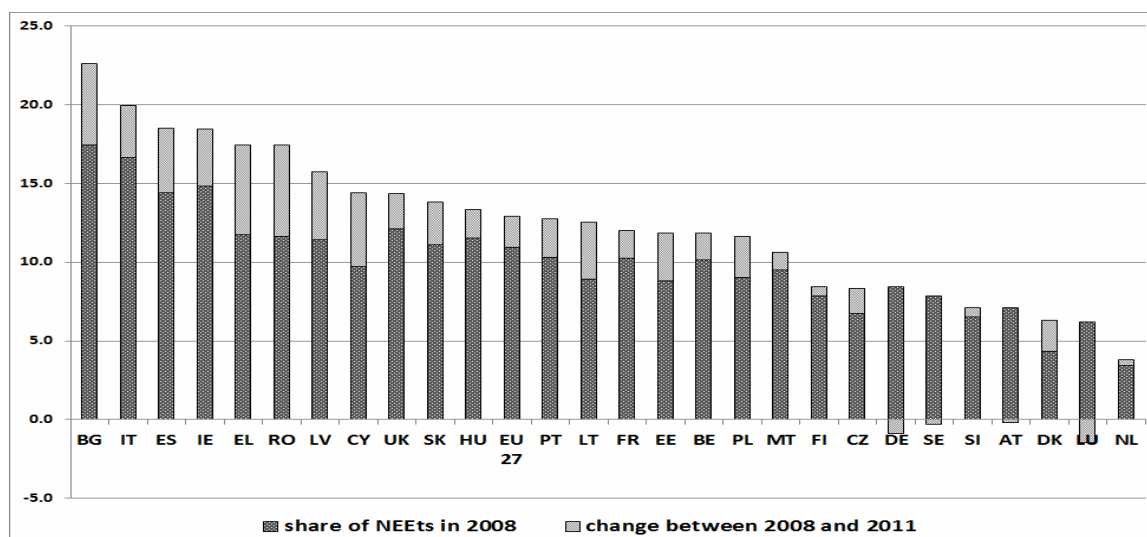
**Long term unemployment has increased for all groups but mostly for young people and those with lower education levels.** However the risk of becoming long-term unemployed for older workers in 2011 was more than 55% while it was only about 30% for young people. In 2011 long term unemployment among low skilled workers was four times as high as it was for high skilled workers. Also third-country nationals recorded twice as high long term unemployment as the average EU worker in 2011. Some Member States have been able to limit the extent of long term unemployment either because the recession has been shorter or due to effectiveness of labour market institutions.

**More than one in five young people in the labour market are unemployed.** The situation of youth in the labour market represents both an economic and a social emergency with 5.52 million young people unemployed. Over the last 12 months, the unemployment rate for young people increased in the large majority of Member States and in two Member States has remained in levels above 50% and above 30 % in six. In 2011 the employment rate of young people aged between 20 and 34 and graduating from at least upper-secondary education decreased by 4.2 percentage points to 77.2% compared to 2008, pointing to the reduction of vacancies and growing difficulties in the transition from education to employment.

**Early school-leavers face bleak employment prospects.** Early school leavers are arguably the most vulnerable subgroup of Europe's young workforce. Across the EU, more than half of young people dropping out of school are unemployed. The share of early school leavers dropped from 14.1% in 2010 to 13.5% in 2011. Wide disparities in ESL rates continue to exist between Member States but those who introduced effective and comprehensive policies to combat early school leaving have also experienced significant improvements. Early school leaving remains more frequent among young people from disadvantaged backgrounds, among migrants and ethnic minorities such as Roma and among boys.

**The proportion of young people who are neither in employment, education, nor in training (NEET) continues to increase.** More worryingly, increases were higher in those Member States which already had higher levels. In spite of the larger increase registered by young men, youth NEET rates remain higher for young women in almost all European countries.

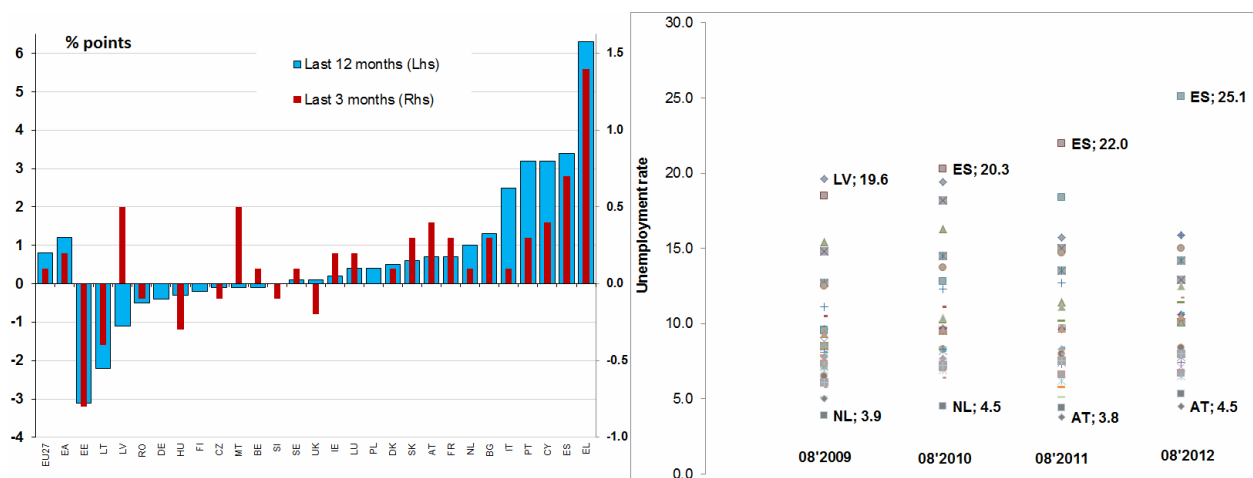
**Figure 3: Share of NEETs among the 15-24 year old (%)**



Source: Eurostat, LFS

**The dispersion of unemployment rates between Member States has markedly increased in recent years**, particularly in the euro area. The diversity is also marked at regional and local levels with pockets of very high youth and long term unemployment at subnational level. In August 2012 unemployment was lowest in AT at only 4.5% while it has reached 25.1% in ES. A large share of unemployment is concentrated in relatively few countries. In effect, the number of unemployed in IT, ES and those countries with financial support programmes (EL, IE, PT, RO) represent almost half of all unemployment in the EU and this share has increased significantly during the crisis.

**Figure 4: Change in unemployment rate (% points) over the last 12 months and the last three months to August 2012 and evolution of distribution of unemployment rates between Aug. 2009 and Aug. 2012**



Source: Eurostat

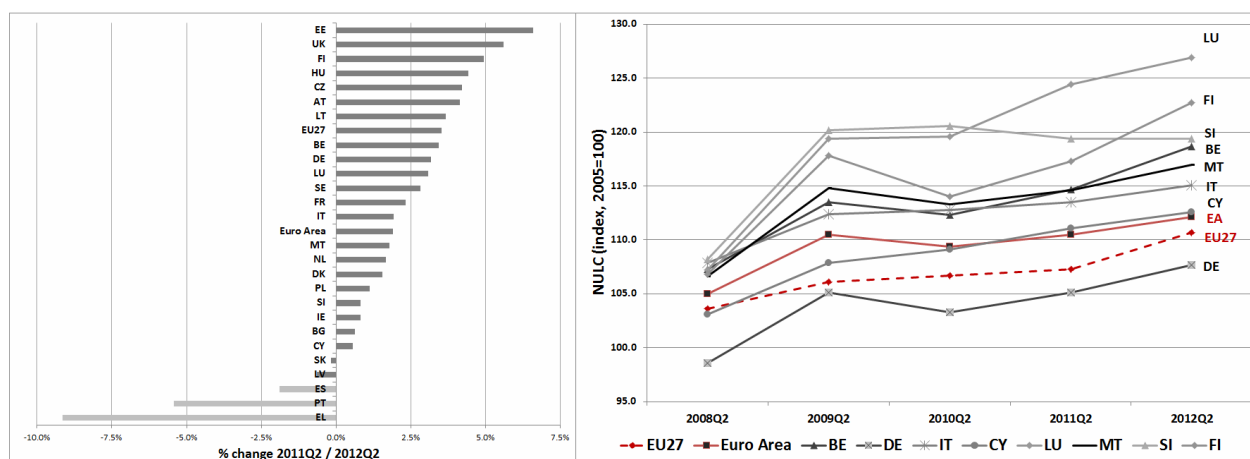
Notes: Eurostat. 2<sup>nd</sup> Graph: Missing data for 08'2012 for 5 MS. Data used: June for EE and LV, July for EL, HU and UK

**The gap between Member States in employment and social indicators is widening.** This is particularly visible between the Southern and peripheral European countries. The Member States which have shown better resilience so far are mostly the Northern and central European countries. The shocks appear to be asymmetric but very often countries with relatively un-segmented labour markets, strong welfare systems and an ability to temporarily adjust working hours and working time (internal flexibility) have fared better.

**Recent data show that wages and labour costs have started to support external re-balancing.**

In 2011, European labour markets showed clear signs of improved wage dynamics, with nominal unit labour costs rising moderately following real declines in 2010. Real compensation per employee declined in about half of the Member States in 2011 and expanded at a rate below that of productivity, confirming the trend initiated in 2010 of a declining wage share. Nominal unit labour costs developments differ somewhat across Member States. In general, unit labour cost developments are increasingly following patterns supportive of external re-balancing with an increasingly clear differentiation between countries with stronger needs to reduce unemployment and rebalance external positions and countries with a more sustained recovery and current account surpluses.

**Figure 5: Annual growth rate of the nominal unit labour cost (2011Q2/2012Q2) and trend across eight selected Member States (those that received a Country Specific Recommendation on the issue of wages), 2008Q2-2012Q2**



*Note: Quarterly data seasonally adjusted*

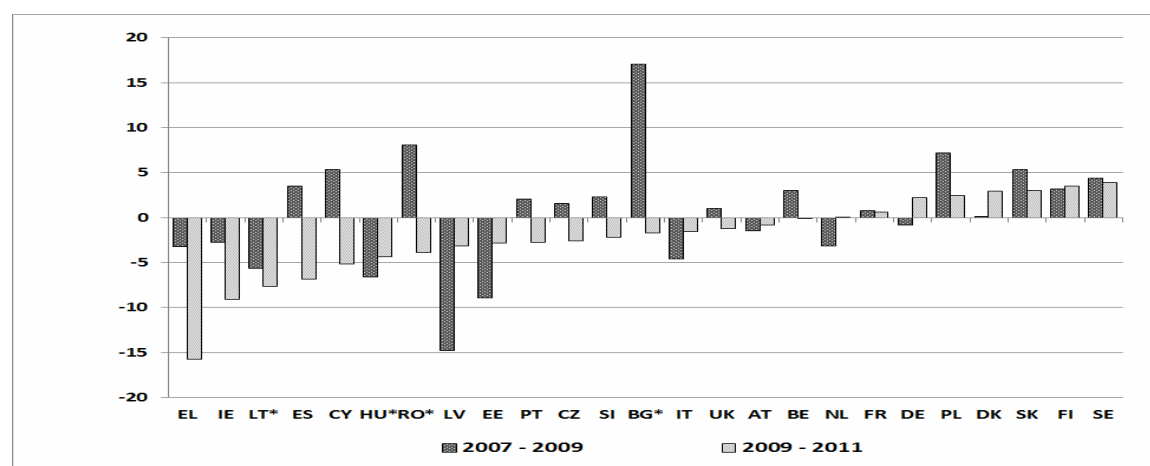
*Source: Eurostat. 1st Graph: For the case of CY the comparison is with 2011q1 and 2012q1 (there is no data on 2012q2)*

*Source: Eurostat*

**The pre-crisis pattern of stronger real wage dynamics in countries with poor unemployment outcomes has been reversed since 2010.** These developments have contributed to the gradual improvement of the competitiveness of export-oriented sectors. Labour demand and wages appear to be more sustained in the tradable sector in countries having clearly started or nearly completed a process of correction of current account deficits. Moreover, evidence shows that until 2009 real wage dynamics were stronger, but that this pattern has been reversed since 2010.

**Average household incomes are declining in many Member States.** Between 2009 and 2011 gross household disposable income fell in two out of three Member States and the situation between countries diverged further. In most Member States, the protracted economic and labour market crisis combined with the need to pursue fiscal consolidation (involving cuts in benefits and increases in taxes) weakened the protective effect of national automatic stabilizers over time as beneficiaries reached the end of benefit entitlement or faced declines in benefit levels. As a result, household incomes declined especially in those Member States where the recession was prolonged. Fiscal consolidation measures implemented since 2010 seem to have contributed to reduce significantly household disposable incomes.

**Figure 6: Change in gross household disposable income during the crisis**

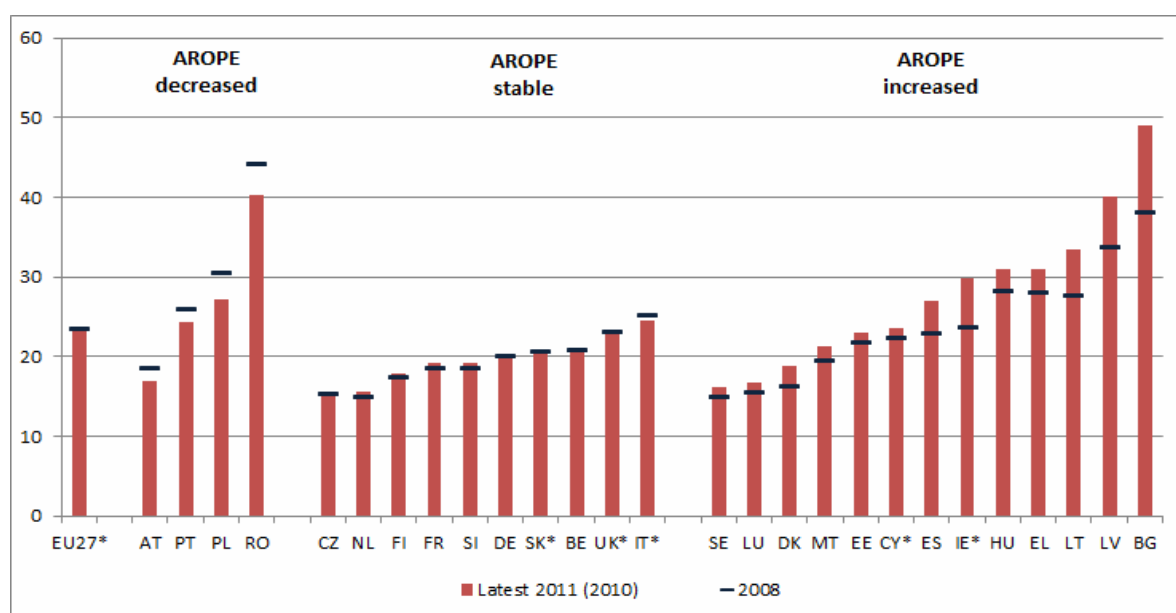


Source: Eurostat, National accounts

**The share of the EU population reporting that their households are experiencing financial distress remains historically high**, having generally edged up further over recent months. The 2012 year-on-year increase in the financial stress indicator among the lowest quintile was especially strong in Spain and Italy (up 10 pp) while decreases were reported in 6 Member States.

**Recent data point to higher levels and deeper forms of poverty and social exclusion.** The proportion of people at risk of poverty or social exclusion has risen in a number of Member States since 2008, outnumbering those in which it decreased. Some groups have been particularly hit (including children, single parent households, the active age population and more specifically youth). The evolution of the depth of poverty confirms that those at risk of poverty are getting poorer in many countries, especially those where the overall risk of poverty rates is high. In 2010 in the EU, the median income of people at risk of poverty was 22% lower than the poverty threshold, evidencing a deepening of the poverty gap in most Member States since 2008.

**Figure 7: Development in the number of people at risk of poverty or social exclusion (AROPE) across EU Member States between 2008 and 2011**



Source: EU-SILC; \* data: SILC 2011(2010)

**In-work poverty and social polarisation is on the rise in many Member States.** Working poor represented one third of the working age adults at risk of poverty in 2011. In 2010, 8.4% of the people in employment were living under the poverty threshold and the risk was significantly higher for families with dependent children (10.7%). The incidence of in-work poverty rose among women, but remains higher for men. In-work poverty significantly increased in one out of three Member States between 2006 and 2010, including some of the wealthiest Member States with more resilient economies and labour markets. Factors such as wage adjustments, reduction of working hours, short-time working arrangements and increased part-time and temporary contracts may have contributed to this.

## **MAJOR LABOUR MARKET CHALLENGES**

The recent labour market trends are partly the result of cyclical movements, and notably of the deep economic crisis, but they are also due to structural and institutional labour market challenges affecting economic activity and the performance of labour markets.

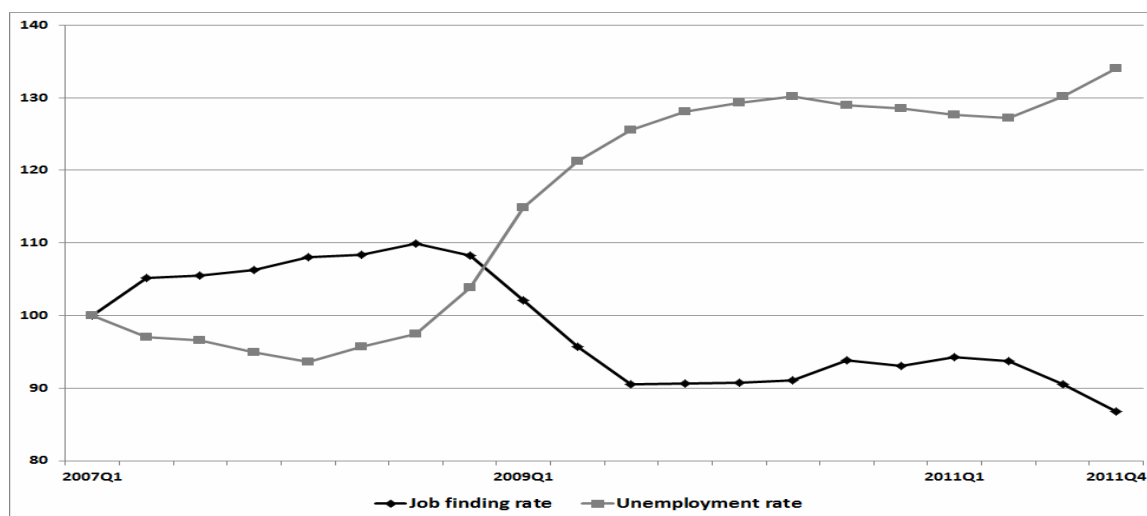
**Net job creation (employment growth) has consistently decreased both at EU level and across Member States, with the exception of 2010.** Since the mid-2011 Europe as a whole has gone back to negative employment growth rate values. This is the net result of the declining trend of job findings (unemployed getting into jobs) and increasing trends in job separations, calling for policies to stimulate labour demand and a more jobs-rich growth pattern.<sup>3</sup> At the same time however, job creation programmes supported by the Structural Funds and the Cohesion Funds report significant positive progress both in terms of gross jobs creation and start-ups supported.

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<sup>3</sup> See European Commission's "Employment Package" of April 2012



**Figure 8: Unemployment rate and job finding rate in the EU-27, 2007Q1-2011Q4**



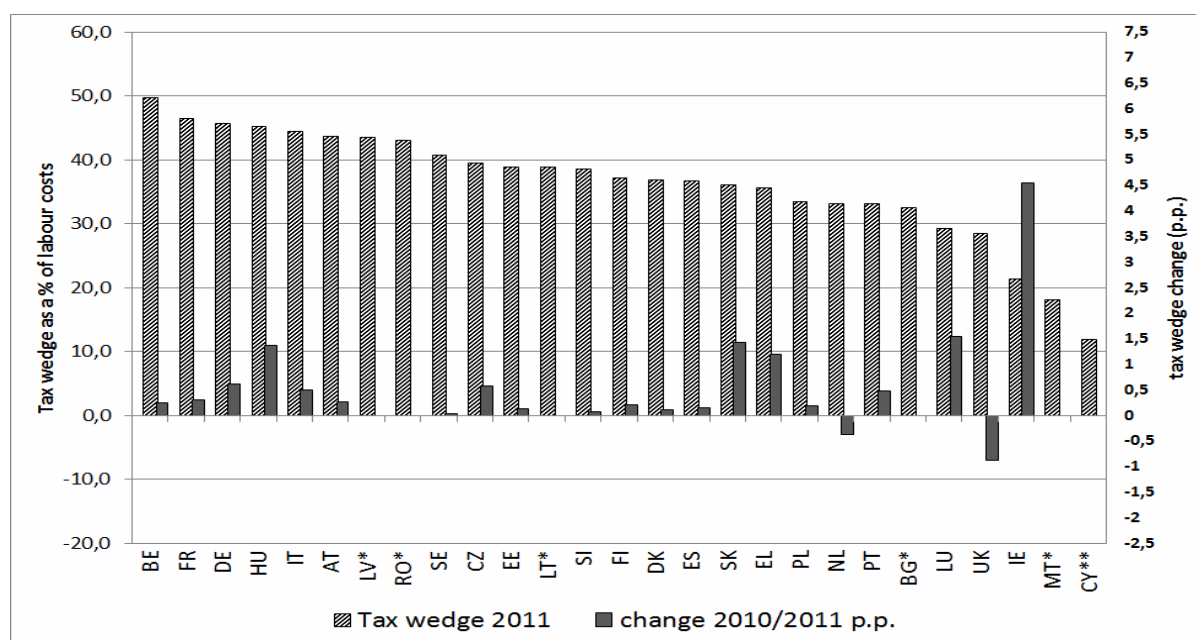
*Source: Commission Services calculations based on Eurostat data*

**The potential of job creation in some key sectors could be further exploited if skills shortages were addressed.** The eco-industry is estimated to create about 8 million jobs by 2020, with up to 2.8 million of these jobs originating from resource efficiency measures, 2 million from the implementation of energy efficiency policies, and a further 3 million from the development of the renewable energy sector<sup>4</sup>. In 2012, the number of people projected to work in eco-industries specifically across the EU is expected to be 3.4 million, an increase from 2.7 million in 2008, demonstrating that even in the current economic climate there is job growth potential in the green sector. Between 2005 and 2009 the renewables sector contributed to the creation of more than 300,000 new jobs. During the 2008-2011 period, the 'health and social work' sector created about 1 866 000 new jobs. Moreover, the demand for new positions in this sector is expected to increase with a projected 8 million of total job openings between 2010 and 2020. As for the ICT sector, by 2015, it is expected that up to 700 000 unfilled vacancies will be available for ICT practitioners. Both sectors face similar challenges to replace an ageing workforce with younger workers. Significant skill shortages are generally reported within the sectors of the green economy, the ICT sector and the healthcare especially for occupations with a high degree of technical specificity.

<sup>4</sup> SWD (2012) "Exploiting the Employment Potential of Green Growth", 92final, 18.4.2012.

**Taxation on labour remains high and has even increased in a number of Member States, but changes in the composition are reducing the cost of labour .** A high tax wedge could be a disincentive to work for secondary earners and for low-income and low-skilled workers and may have a negative impact on their employment rates at aggregate level. In 2011 the average tax-wedge for the EU 27 was 39.6 % compared to 21 % in Switzerland, 29.5 % in the US and 30.8 % in Japan and Canada. On average, the tax-wedge in Europe increased by 0.3 percentage points between 2010 and 2011, affecting also low-wage earners. The increases have generally been highest in the Member States already concerned by high tax wedges. However, this has been mainly due to changes in the personal income taxes and in a number of cases accompanied by reductions in the social security costs of employers thereby reducing the labour costs.

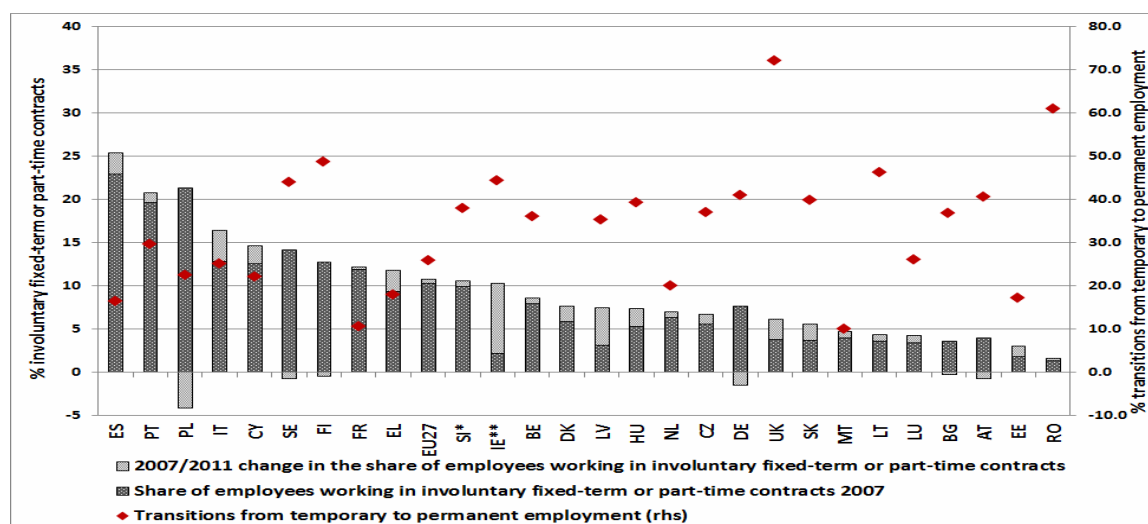
**Figure 9: Total tax wedge for low earners (using 67 % of the average wage as a proxy for this group) in 2011 and annual change 2010-2011**



*Short description: \*Data for non-OECD-EU countries (BG, LV, LT, MT and RO) are only available for 2010; \*\*CY data for 2007. For these countries, changes in tax wedge refer to period 2009-2010 (for CY to period 2006-2007). Source: OECD*

**Labour market segmentation has continued to rise with temporary contracts and part-time work expanding.** Between 2007 and 2011 the share of employees working in involuntary fixed-term or part-time jobs increased in 21 out of 27 Member States. There are large divergences across Member States but Mediterranean countries and Poland are characterised by the strongest segmentation. The asymmetric employment protection legislation between permanent jobs and fixed term/temporary ones is the main cause of labour market segmentation. In 2011, 60.4 % in the 15-64 year-olds working on temporary contracts did so involuntarily. The likelihood of being employed on a permanent contract is lower in Member States with stricter employment protection legislation.

**Figure 10: Share of employees working in involuntary fixed-term or part-time contracts (in 2007 and 2011) and transitions from temporary to permanent employment (2010data)**

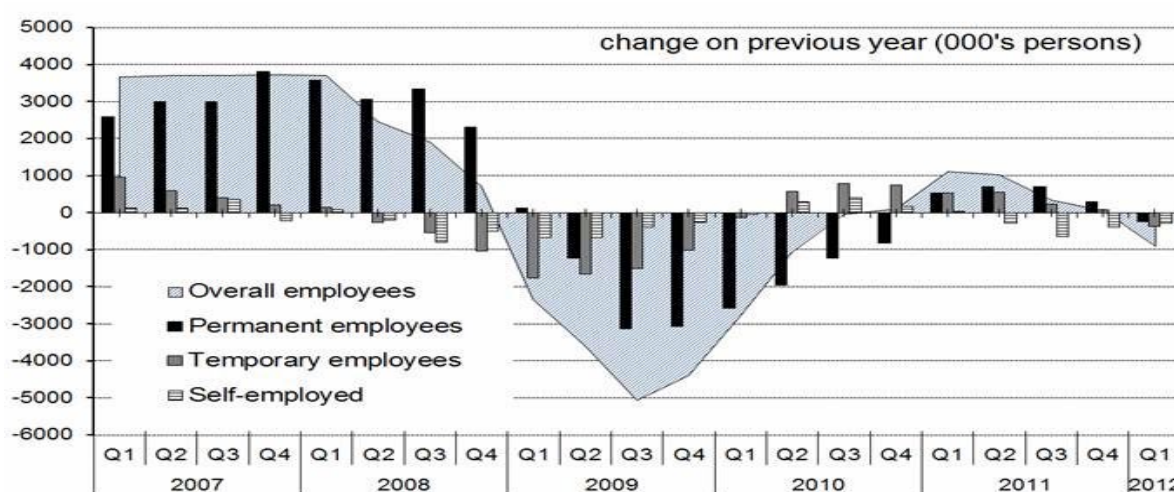


Short description: \*Data for SI refers to 2011; \*\*IE data are only available for 2007.

Source: Eurostat, LFS and SILC

**Young people are strongly over-represented in temporary work on the EU labour markets** and their situation has been worsening through time. In 2011, some 42.5 % of young employees in the EU were working on temporary contracts, compared to 14.0 % of the average working-age population. Evidence shows that among young people, temporary jobs may to some extent serve as a stepping stone for permanent employment, but this is not the case in a number of other Member States, where the transition rates from temporary to permanent contracts are particularly low.

**Figure 11: Employees in permanent and temporary work, self-employment and total employees (15-64), 2007Q1-2012Q1**



Source: Eurostat

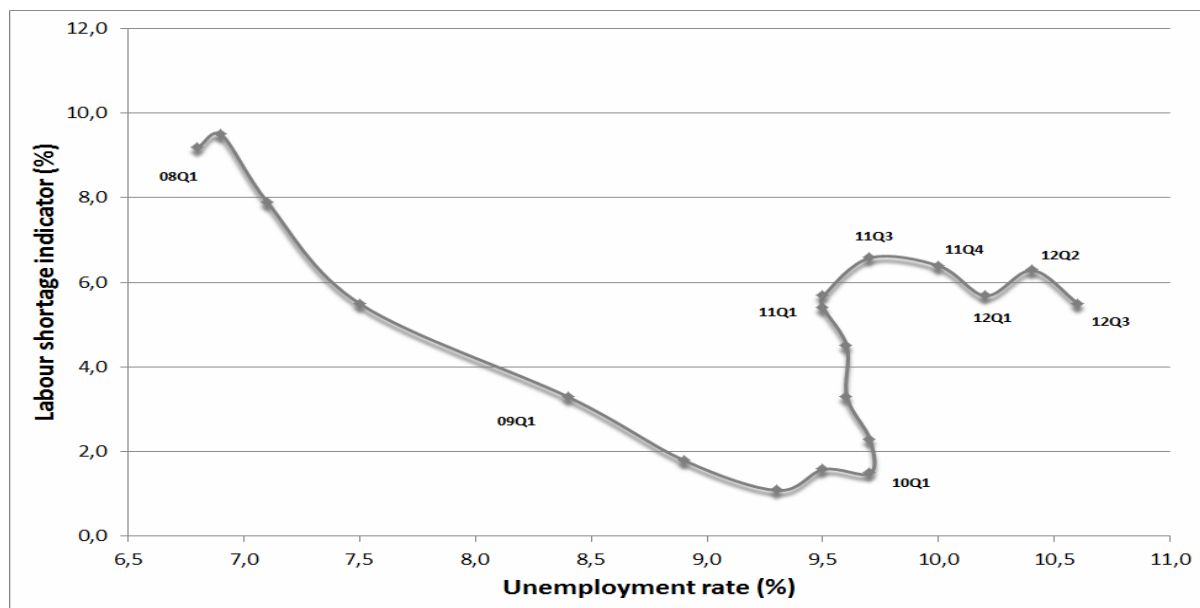
**Part-time employment has accounted for a significant share of the job growth experienced during the crisis.** While total employment contracted between 2008 and 2010 and the number of full-time workers shrank by 6.2 million, the number of part-timers increased by 1.1 million in that same period. The expansion of part-time work has been steady in recent years and reached 18,8% in 2011. About one third of women in employment are part-timers compared to only 8,1% of men, reflecting the fact that childcare services only cover 28% of children under the age of 3 and 84% of children over 3.

**There are recent signs of deterioration in the job matching process on European labour markets.** For most Member States the Beveridge curve, linking unemployment and vacancies rates, has shifted further outward to the right. However, three Member States have moved along the Beveridge curve (BE, AT and FI) since the beginning of 2008 and for one Member State the curve has shift inwards (DE), showing the improvement of the labour markets and the matching process. The deterioration might be the consequence of mismatches between skills and educational qualifications required for a certain job, rising long term unemployment, inadequate response to demographical changes and inefficiencies in the services offered by employment services. It may also however, be the consequence of frictions and barriers to geographical and occupational mobility and asymmetric information between employers and employees. European citizens still face legal, administrative and practical obstacles when moving across borders. Further reforms are foreseen to transform Eures<sup>5</sup> into a demand-driven tool for intra-EU recruitment, placement and job matching, allowing Member States to develop their EURES services according to their specific economic needs, for example through supporting under-serviced occupations and specific groups of workers, including young people. .

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<sup>5</sup> The network of 31 European Employment Services which supports the mobility of workers between Member States, EEA countries and Switzerland.

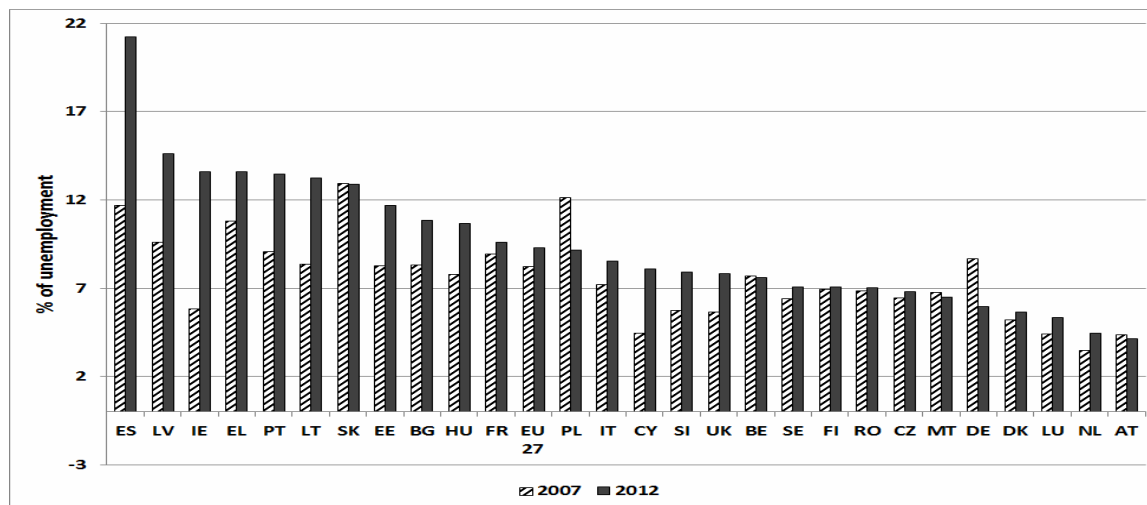
Figure 12: Beveridge curve, EU-27, 2008 (Q1) — 2012 (Q3)



Source: *Eurostat*, the data used are: (i) the unemployment rate (UR, %), and (ii) the labour shortage indicator (LSI, %), derived from EU business survey results

**Persistent structural unemployment risks becoming entrenched.** The registered outward shift of the Beveridge curve might be temporary, as the labour market seeks to react and adapt to changing economic activity for example through changes in wage dynamics, retraining or intensified active labour market policies. However, the shift may also point to more long-lasting structural problems threatening to increase permanently the structural unemployment level. Data show that the level of structural unemployment measured by the non-accelerating wage rate of unemployment (NAWRU) has risen in most EU countries since the outset of the crisis and that this increase has co-evolved with the deterioration of the Beveridge curve.

**Figure 13: Non-accelerating wage rate (%) of unemployment (NAWRU) per Member State**

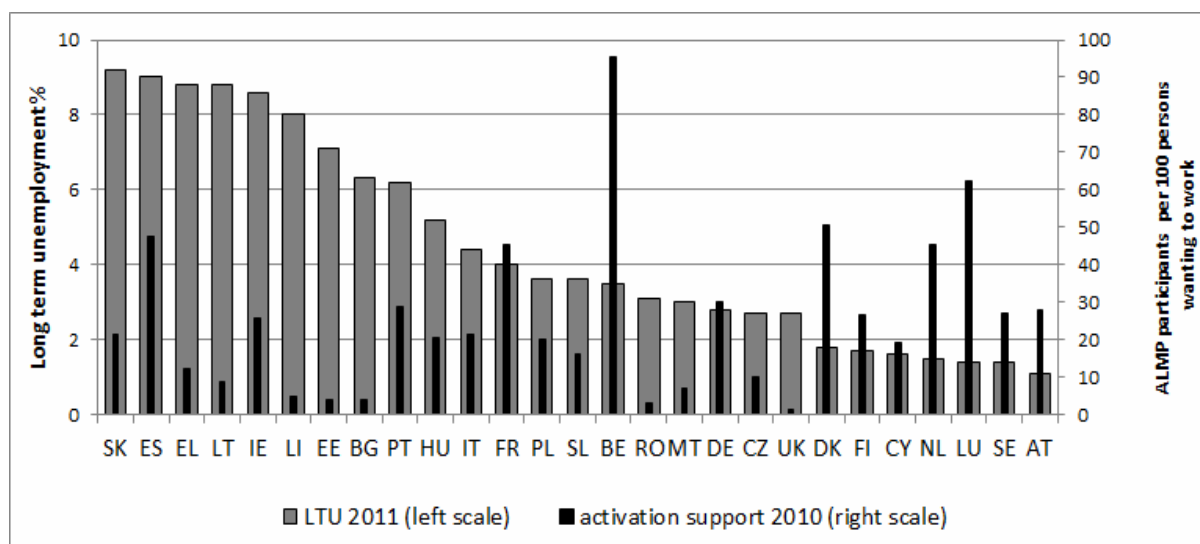


Source: AMECO

**Recently there has been a decline in the expenditure on active labour market policies per unemployed person.** Evidence shows that active labour market policies have a positive effect on employment rates, particularly for women and low-skilled population. Those Member States with the lowest level of long term unemployment are also amongst those where the level of participation in active labour market policies is the highest, although other factors may have contributed to this good performance. However, the decline in actual ALMP resources per unemployed has declined by more than 20% between 2007 and 2010.<sup>6</sup>

<sup>6</sup> OECD estimates based on the *OECD Labour Market Programmes* and *OECD Main Economic Indicators Databases*

Figure 14: Participation in ALMP 2010 and long term unemployment rate 2011



Source: Eurostat

**The cushion effect of social protection system on households income as an automatic stabiliser has started weakening after 2009.** In the first phase of the crisis, social benefits played an important role in sustaining household incomes. In the Eurozone, net social benefits and reduced taxes contributed positively to the change in gross household disposable income during 2009 and in the first two quarters of 2010. However, in the second phase of the economic crisis this effect started weakening. At the end of 2010, the contribution of social benefits to the change in gross household income has started becoming negative. In some countries more and more people are not covered by any scheme at all. The weakening is related to the reduction of the benefit entitlements over time, the phasing out of initial discretionary income support measures, and, in some countries, to the cutbacks in social spending that were part of fiscal consolidation programmes.



**There are significant differences among Member States in the efficiency of their spending, namely in the outcomes and poverty reduction effect they achieve per unit of spending** when the patterns of spending and structures in social protection provisions are similar. Tax and benefit systems<sup>7</sup>, are among the most important instruments to prevent and address income poverty. In 2010, expenditure on social protection benefits (excluding pensions) reduced the poverty rate in the EU from 26% to 16%, i.e. by 37%. Yet, Member States spending similar amounts on social protection obtain rather different results, and vice versa. Some countries manage to reduce poverty rates among children and the old or absence due to sickness with less spending than others. Some countries can have better benefits levels for people because they manage to reduce the time they spend on benefits by bringing them quickly back to work. Striking a balance between universal and means tested benefits and between benefits in cash and kind could contribute to activating people to work. Measuring social protection expenditure against the poverty reduction suggests that some systems are more efficient than others. BG, LV, PL and RO are clustered in the area of low spending with low impact; ES, IT, PT, CY (and EL) show similar results but for higher spending. They also perform below the EU average in terms of reducing child poverty.

**Major challenges remain in the full implementation of active inclusion strategies**, focusing concomitantly on adequate income support, inclusive labour markets, and access to quality services. A move towards active welfare policies and tackling financial disincentives to work is now visible in many Member States. Still, persisting differences exist in the level of coverage of social assistance and minimum income schemes across Member States and challenges remain to reach out to groups experiencing the deepest forms of poverty (such as the homeless and Roma). Quality and affordable childcare supports parents' participation in the labour market and give children the best chances in life, but evidence shows that the most vulnerable families have generally lower rates of participation due to factors such as availability and access, affordability, eligibility, and parental choice.

## IMPLEMENTING STRUCTURAL LABOUR MARKET REFORMS

The European Council of 1-2 March 2012, based on the Commission 2012 AGS, set out the policy guidance for Member States to submit their national reform programmes containing their plans for labour market reforms to achieve the EU headline targets set in the employment guidelines. Based on proposals of the Commission, the Council adopted country-specific recommendations underlining areas in which Member States should undertake policy reforms within the overall framework of the guidelines for Employment Policies.

The following section reflects the policy measures taken by Member States in view of their NRP and the priorities set out in the AGS 2012.

### **Mobilising labour for growth**

Several Member States (BE, CZ, EE, FR, HU, IE, MT, PT and UK) are taking steps to reinforce active **labour market policies (ALMPs) and public employment services (PES)**. In BE, wage subsidies for employees considered as ‘knowledge employees’ (i.e. researchers in the private or public sectors) have been increased. As part of the new Career Agreement the Flemish region has extended activation efforts for older jobseekers to the age category 55-58 in June 2012. In CZ, community service is used as an activation measure, coordinated by the Labour Office. In EE the new Employment Programme for 2012-2013 offers a broader selection of ALMPs and expands the target group entitled to different measures. In HU the ALMPs have been reinforced by reallocating available ESF resources to labour market programmes which provide comprehensive personalised set of labour market services, subsidies and training for disadvantaged people. In FR a strategic plan (Pôle Emploi 2015) aims to strengthen the personalisation of services for jobseekers and firms, and improve organisation through staff re-deployment towards guidance services. In IE conditionality is being reinforced to ensure that part time workers are encouraged to take up full time employment. Finally, in PT measures are taken to increase the effectiveness of PES and wage subsidy schemes have been introduced for the unemployed. In MT a wage subsidy scheme targeting various cohorts of the working age population as well as reimbursement of training costs for employers who offer training to their workforce are currently being implemented through the Public Employment Service.

In 2011 and 2012, the tax burden on labour remains high with an overall increase in labour cost even if some progress has been made for some categories of vulnerable workers such as low-skilled / low-income jobholders. Many Member States ( DK, FI, EL, ES, IE, IT, FR, LU, NL, PT, SL, ) recently increased **personal income tax**, often through increased statutory rates. This was often done on a temporary basis in the form of general surcharges or solidarity contributions or statutory higher tax rates for high-income earners ( IT, CY, LU, PT, SP- ES, SK). AT and CZ also plan to shortly introduce similar measures. Social security contributions were also increased in many countries (AT, CY, FR, EL, HU, LV, PL, PT, and UK). Fr has recently passed a taxation changes for firms (crédit d'Impôt pour la Compétitivité et l'Emploi) which will equate to a reduction of 4 percentage points of the tax wedge for workers earning up to 2.5 times the minimum wage.

**Measures to reduce the tax on labour were mainly targeted to increase work incentives for specific groups and generally involved changes in the tax base.** In BE for example, a whole set of social security reductions is targeted at young people, low wage and older employees, and new hiring in SMEs or self-employed. Tax relief measures were also granted to low and medium income earners by increasing tax credits and basic allowances in FI. In order to counterbalance the negative impact resulting from the phasing out of tax credits and preserve the net wages, HU introduced a wage compensation scheme to help maintain the wage level of low-income employees. SE raised basic income allowances for labour income of people older than 65 aiming to increase life spent at work.

A variety of measures are being taken to promote **business creation and self-employment** ( BE, BG, CY, EE, ES, IE, MT, HU, PL, PT, and UK).. In BE, measures are taken to improve the access to credit for companies, promote administrative simplification, or reduce social security contributions in the Horeca sector. In BG, self-employment is promoted through guidance, training and assistance to start up own businesses or through granting equipment and repairs of newly established small enterprises. In EL, business creation is encouraged through social entrepreneurship, alongside the possibility to set up a company with an equity capital of only one euro without requiring the involvement of a notary. In ES business creation is being simplified through reducing administrative burdens on smaller businesses and allowing extended opening hours in tourist areas. In IE, a range of aids are provided involving capital grants, loan funds and guarantees, incentives for business start-ups etc. In MT, measures are being taken to reduce bureaucracy for the self-employed and a new “Micro Guarantee Scheme” has been announced to help self-employed people and small businesses obtaining guarantees for bank loans. A start up grant of €5000 is also being offered by the Public Employment Service for unemployed persons who undergo successful training and mentoring in self-employment. In PL, entrepreneurship, self-employment and business activity is promoted through the ESF. In PT access to credit is provided to entrepreneurs and self-employed, and a technical support is provided to unemployed who wants to create their own business. In the UK, the National Loan Guarantee Scheme was bolstered to encourage banks to lend more freely to SMEs. In CY ESF funds are used to promote entrepreneurship among the young people and to support start-ups to recruit qualified personnel.

Some Member States have taken measures **adapting unemployment benefits** to facilitate the return to work (BE, ES, IE, IT, SE). In BE, the adopted reform of the unemployment benefit system implies that allowances are decreasing earlier and faster than previously. In ES, the unemployment benefit has been reduced for recipients after 6 months unemployment, along with an enhanced link of active and passive policies. In PT a new law reduces the maximum duration and amounts of unemployment benefits with the view to reduce the risk of benefit dependency and long-term unemployment. In SE, more strict eligibility rules, lower income replacement rates and maximum durations for unemployment benefits have been introduced. In EL, the unemployment benefit was adjusted downwards following recent legislation reforming the minimum wage level. In parallel, a new benefit for long term unemployed was been established.

More efforts to reinforce **mutual responsibility** are being made in ES, by linking conditionality to participation in ALMP. In IE, a clearer focus on conditionality for jobseekers with particular focus on long-term unemployed has been introduced. In IT, the new system of social insurance for employment will gradually substitute the current unemployment benefit system.

A number of Member States have taken measures to address **wage setting** to ensure that wages develop in line with productivity (EL, ES, PT). In ES, the recent labour market reform gives priority to company-level decisions on working hours and wages and makes it easier for companies to opt out of sectoral agreements. In PT wage developments consistent with firm-level conditions are ensured by exempting collective agreements where the employer's associations cover less than a 50 % of the total work force.

In DE, the sector-based minimum wage system is applicable in certain sectors. Recently, sector-based minimum wages have been implemented for temporary employed workers and in the area of services in the field of training and further education. In EL a series of working allowances and benefits have been repealed and the minimum wage level in the private sector, as defined by the national general collective agreement (NGCA), reduced by 22% for workers above 25 years old. In order to tackle the severe problem of youth unemployment, the minimum wage level in the age cohort up to 25 years old will be reduced by 32%. In HU, the level of minimum wage has risen by 19%, while the new Labour Code took effect as of 1 July 2012, implying a possibility of differentiation of minimum wages in the future .. Wage-setting measures are introduced in EL with the decision to reduce minimum wages and introduce differentiated minimum wage for youth.

Measures to **enhance labour mobility** have been taken by a number of Member States (AT, BG, DE, ES, LV, HU). In AT, the introduction of the Red-White-Red Card, a criteria-based score system for labour market access of third-country nationals, was completed by opening it also to skilled workers in shortage professions. In BG, the adoption of a National Qualification Framework will ensure transparency of vocational training of students and workers and employer requirements concerning the education and training systems and additional measures are provided to workers and employers aimed at stimulating geographic mobility. In DE more attractive employment conditions for third-country nationals with a university-degree and a job-offer apply as a result of the introduction of the Blue-Card EU. In LV, a scheme has been proposed for a re-settlement benefit to compensate workers for moving from where they live to work in another locality/municipality. In HU the Government supports mobility by giving financial support for covering rental fees to registered unemployed people who move 100 km from their place of origin.

Member States are taking measures to **reduce early exit from the labour market** (AT, BE, CY, ES, DK, EL, IE, IT, NL, HU, SK, UK). In AT, reforms have been introduced to reduce the number of invalidity pensions. In BE, the age limit for older employees to access the time-credit system has been increased and the system of part-time early-retirement has been discontinued. In DK, disability pension reform plans require that activation possibilities are depleted before early retirement can be considered. In ES, the schedule for increasing the statutory retirement age will be accelerated, the early retirement age will increase from 61 to 63 with increased penalties for early retirement, and a suspension of access to partial retirement for two years. In IE new initiatives will allow people receiving an Illness or Invalidity payment to both work and receive income support and the legal retirement age will increase to 68 by 2028. In NL, steps are being taken to gradually raise the pension age to 67 by 2021 and hereafter it may be linked to life expectancy. In HU early retirement has been abandoned as a general rule. The UK government has recently announced plans to link pension age with life expectancy. In SK to receive an early pension and have an income as employee or as self-employed person has not been possible since 2011 (excluding those persons who work on an agreement) and from 2013 it will no longer be possible to receive a pension early and work on an agreement on the ground that social contributions will be paid compulsory from agreements (till end of 2012 social contributions has not been paid at all from agreements). In EL, the recent legislation raises the pension age two years, and creates anti-incentives for early retirement. In CY the statutory retirement age in the public sector has increased while early retirement is penalized.

Measures also focus on the promotion of **longer working lives** (AT, BE, BG, DE, EE, FI, LU, NL, PL, SK, UK). In AT, active labour market measures, professional reintegration measures and re-training, part-time allowances and employment subsidies are made available for older workers with health impairments. In BE, by collective dismissals, companies with more than 20 employees will be obliged to develop an annual plan for employees aged 45 and more. In CZ, the pensionable age will be raised by 2 months every year with no upper limit following the pension reform adopted at the end of 2011. In EE, the focus is on older workers, participation in lifelong learning and ensuring their health. In FI, efforts are being made to improve the quality of working life and wellbeing at work as a mean of extending working lives. In LU companies with more than 150 employees are being forced to provide more support to older workers in companies. In PL, efforts are being made to increase learning opportunities for older people and improve the quality of education for older persons. In the UK, the default retirement age was abolished in October 2011. In SK adopted legislative changes have adjusted the retirement age in line with change in development of the life expectancy from 2017. In NL, additional tax credit provisions are being prepared for employees on a low income and aged 61 to 65 who continue working.

Some Member States have taken measures not supportive of the extension of working lives. In CZ, there will be an increase in the taxation of labour provided by pensioners, which is likely to lower the participation of older people in the labour market. In FR the possibility to retire at 60 years for those who have begun to work at 18 years old, if they have adequately contributed to the welfare system has been re-opened. In HU the retirement age of all public employees, excluding those working in the medical sector, was made mandatory.

### **Supporting employment especially of young**

A number of measures have been taken to support the employment of young people especially those who are not in employment, education or training. FI is launching a comprehensive **Youth Guarantee** to offer young people work, a traineeship, or a study, workshop or labour market rehabilitation place within 3 months of unemployment. EL has launched a comprehensive action plan to tackle youth unemployment.



A group of countries (AT, BE, BG, ES, CY, IE, PL, MT, PT, SE and SI) are promoting initiatives aiming at **enhancing the quality apprenticeship** and traineeship contracts. In AT, a pilot project provides additional support to apprentices and companies offering apprenticeship places including legal advice services and mediation. In BE a large scheme of in-companies traineeship has been introduced for unemployed people under 25 who didn't find a job after the six months of occupational integration. In BG traineeships are promoted in the central and regional offices of the public administration, with 6 month traineeships in private companies for young people under 29 without work experience. The implementation of a new initiative for traineeships of young people in public administration under which young people with disabilities are a priority target group has started. In IE, initiatives are taken to activate and up-skill young people through 5,000 internships of 6 to 9 months duration. In ES, steps have been taken to develop a contract for education and apprenticeship, and establish a dual vocational training system. In PL a pilot project target unemployed less than 30 years of age by individual tutor support, internship and training vouchers. In PT and MT occupational traineeships and job placements are supported. In SI young unemployed under 30 years of age are offered employment for a period of 15 months and the government is promoting voluntary apprenticeship within the Tax Administration and the Prevention of Corruption institutions. In SE, the government grants companies up to EUR 2,750, per pupil and year, to stimulate the provision of apprenticeship positions in work places, and the state grant is proposed to further increase in 2014-16.

Other concrete actions to support young people not in employment, education or training include programmes focused on the **vocational training dimension** (DE, LV, MT, FI), on-the-job training (LT, CY) and on financial support (HU). In DE young people from migrant backgrounds now have improved opportunities to enter a vocational training programme. In LT the project "Increasing Youth Employment", targeted at people aged less than 29 subsidises wages and expenses for organising acquisition of skills within the workplace. In LV, 15-24 year old unemployed are offered the opportunity during a nine week period to try their hand at three different vocations in a vocational training institution. In HU the "first job guarantee" has been introduced, providing full wage compensation to the employers including gross wage and social security contribution. In MT, the "Employment Aid Programme" offers a 26 week wage subsidy to employers who recruit persons under 25 years of age and who are within 2 years of completing their full-time education and have not yet secured a full-time job. In CY a project for improving the employability of young people up to 29 yo through acquiring work experience and enhancing their job-searching capacity has been approved while implementation will start in June. In LT the project "Support for the first job" seeks to promote youth employment. Part of the salary of a young employee, employed for the first time, is reimbursed to employers, to engage employees with no prior work experience. In a number of Member States **partnerships** have been established with the **social partners** to promote quality apprenticeship or traineeship contracts (BG, CZ, FR, IE, IT, LU, RO and SK). In BG measures aim at providing or at supporting investment costs and labour costs for the creation of jobs for young people. In CZ, an ESF-funded project, supports the costs of internships to companies notably graduates and people who lack work experience and need to complete their skills profiles. In IE new measures provide additional training places for unemployed by means of collaboration and engagement between employers and enterprise and education and training providers. In RO, enterprises hiring young workers below the age of 25 will receive for each worker hired a one-year exemption from the payment of social insurances contributions. In SK, jobs for young unemployed up to 29 years in the private sector will be subsidised up to the level of the minimum labour costs (minimum wage and employer insurance contributions) for maximum one year while employers should contribute for at least six months.

Measures to reform the **employment protection legislation** have only been taken in few countries (HU, SK, PT, ES and IT). In HU changes include regulations of holding multiple jobs, regulation of flexible working-time arrangements and simplification of firing rules. PT has reduced severance payments to 20 days per year of work for both open-ended and fixed-term contracts and eased the definition of individual dismissals for economic reasons. ES has reduced severance payments for unfair dismissals to 33 days, clarified the use of fair dismissal for economic reasons, and simplified the administrative procedure for collective dismissals. In IT the legislation regulating wrongful individual dismissals in firms with more than 15 employees, has been revised to increase the flexibility on exit from the labour market and measures have been introduced to limit the abuses of atypical labour contracts. In SK measures are taken to restrict the maximum duration and number of successive fixed-term contracts.

Only few Member States are making progress concerning **adapting education and training systems to reflect labour market needs** (BE, BG, CY, IE, HU, LT, MT, SK and UK). In IE measures aim at helping the unemployed, particularly the long term unemployed and young people, remain as close as possible to the labour market by accessing education and training opportunities to up-skill or re-skill in areas where sustainable employment opportunities are likely to arise. In LT, qualifications will be mapped in several stages in order to provide better information to people on the structure of skills demand and to identifying the specialities that are most demanded. In MT, students are encouraged to further their education through qualifications required by industry and through a tax credit covering up to 80% of the course fees incurred. In SK the recently adopted Act on vocational education and training aims at reinforcing links between VET and labour market requirements. Also in BE all communities have taken measures to reform vocational training in view of reinforcing its quality, flexibility and links with labour market requirements. In BG the Government is providing measures through which universities together with employers are adapting the curriculum to the needs of the real sector. The UK's Sector-based work academies will provide 50,000 places by the end of March 2013, with "The Youth Contract" providing an extra 250,000 sector-based work academy or work experience places from April 2012 to March 2015. In CY the Post-Secondary Vocational Education Institutes have been established and started operation as of last October.

A number of measures have been taken to **review the quality and funding of the universities** (IT, LV, SK and MT). IT has taken steps to decrease the generosity as tuition fees set to increase by between 25% and 100%. As regards scholarships, only MT has announced the continuation of the two scholarship schemes. LV has undertaken a large scale assessment of more than 800 higher education study programmes and a number of reforms are in the pipeline, including reform of the accreditation process, development of a new financing model of the universities and reform of the management of the universities. SK has taken steps to strengthen the internal system of quality assurance of higher education.

Despite the European Semester's call to prioritise growth-friendly public expenditure, there is evidence that cuts are being made at the detriment of **investment in education**. A significant number of Member States decreased education spending in consecutive years in 2011 and 2012 (EE, IT, LV, LT, UK) or in either 2011 or 2012 (BE, BG, IE, FR, CY, HU, PL, RO, SK, FI). Discussions on budget consolidation focus on education issues also in ES. In contrast, budgets remained stable or increased in CZ, DE, DK, LU, MT, AT.

### **Protecting the vulnerable**

A number of Member States have taken steps to address the **effectiveness of social protection systems** (EE, LV and ES). In IE, despite general cuts of social benefits, vulnerable people still receive income support, albeit at a lower level. In LV unemployment benefits will no longer depend on seniority insurance scheme but will be based on decreasing coverage of up to 9 months. In ES the activation of the minimum income scheme will be linked to the length of the working career of a claimant.

Some Member States have made progress regarding the implementation of **active inclusion strategies** focusing on adequate income support, inclusive labour markets, and access to quality services (AT, DK, FI, FR, MT, NL, PL and SE). In AT an action plan for disability has been adopted covering measures in the fields of anti-discrimination, accessibility, care, education, employment, self-determined life. In DK, a major reform of disability pensions was agreed in June 2012 restricting access to those above 40 and envisaging rehabilitation teams to support health, employment, education and social services. In MT, voluntary organisations are encouraged to employ disadvantaged persons through the allocation of financial help. In SE the Government intends to further strengthen the position of vulnerable groups in the labour market by increasing active labour market measures for long-term unemployed and people with a weak foothold in the labour market. In PT a rental social market was created aiming at ensuring access to affordable and quality housing for the most vulnerable. In NL, a new Participation Act is being developed aimed at increasing labour market participation of vulnerable groups. Among others, provisions for a quota scheme are being prepared for the employment of disabled persons by larger employers.

Only few measures are being taken concerning **access to services supporting integration in the labour market** and in society (CZ, IE and PL). In CZ a pilot small-scale program offering better housing and retraining to those socially excluded families (especially the Roma) who ensure full attendance of their children in elementary schools is being launched at local level. In IE, the ESF supports programmes aiming at making immigrants financially independent and more socially integrated through employment or further education and training. In PL the income criteria has been increased to support working poor and the amount of cash benefits from social assistance has been increased including for foreigners and refugees taking part in language training.

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