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Subject:	The Annual Growth Survey and the Joint Employment Report in the context of the European Semester: political guidance on employment and social policies - Draft Council Conclusions

Delegations will find attached a set of draft Council Conclusions, as prepared by the Employment and Social Protection Committees with input from the Education Committee, and discussed by the Working Party on Social Questions at its meeting on 14 February 2013.

The Permanent Representatives Committee (Part I) considered these draft conclusions on 20 February 2013.

The UK delegation maintains a parliamentary scrutiny reservation.

The HU delegation maintains a general scrutiny reservation.

The Permanent Representatives Committee invites the EPSCO Council to adopt these draft Council Conclusions at its session on 28 February 2013.

**The Annual Growth Survey and the Joint Employment Report in the context of the
European Semester: political guidance on employment and social policies**

Draft Council conclusions

Effective employment and social protection policies play an essential role in spurring growth and competitiveness and in preventing macroeconomic imbalances. The European Council has called for economic governance arrangements to be supplemented by improved monitoring of employment and social policies¹. Improved economic governance should rely on several interlinked and coherent policies for sustainable and inclusive growth, employment, and social cohesion, in particular a Union Strategy for Growth and Jobs. The Commission and the Council must share a common vision for the development of social policies through joint social protection reports allowing the European Council to consider social developments in the EU.

The Council, with its expertise on employment, social and labour market policies, will actively contribute to the successful implementation of the Europe 2020 strategy and its new key features relating to enhanced economic governance, thereby contributing to the work of the European Council. The Council will support the efforts of the European Council to strengthen the governance of the Economic and Monetary Union.

¹ EUCO 139/11, 9 December 2011.

The Council of the European Union stresses that:

1. The 2013 Annual Growth Survey (AGS)², together with the Joint Employment Report and the Integrated Guidelines, provides the basis for guidance by the European Council to Member States on the comprehensive strategies to be set out in National Reform Programmes (NRPs) and Stability and Convergence Programmes (SCPs). A balanced policy mix needs to encompass policies aimed at fighting unemployment, poverty and social exclusion.
2. Tackling unemployment and the social consequences of the crisis is one of Europe's challenges and key common priorities: almost 26 million people in the Union are out of work, nearly half of them for more than a year, and almost 120 million people are at risk of poverty or social exclusion. Divergences and geographical imbalances across the Union are widening. Preventing a lasting legacy of structural unemployment and poverty presents a major policy challenge and is essential to attain the Europe 2020 employment and poverty / social exclusion targets.
3. The European Employment Strategy was created to support reforms to help people and labour markets to be responsive to economic change. In the context of the European Semester, the Strategy provides a framework for coordinating Member States' policies and for conducting multilateral surveillance, including ex ante guidance at certain stages in the process. It should play a key role in helping the European Union manage the current crisis and in achieving all the Europe 2020 objectives.
4. The Commission and the Employment and Social Protection Committees have taken important steps to involve the Social Partners throughout the European Semester. The Council will take note of the minutes of the tripartite exchange of views on wage developments.

² Presented by the Commission on 28 November 2012 (16669/12).

5. Whilst recognising that the ambitious reforms undertaken in many Member States will take time to bear fruit, attention must be placed on increased commitment to reform and improved implementation; this involves using evaluation, both ex ante and ex post, as well as multilateral surveillance. It requires further investment in robust multilateral surveillance mechanisms and building upon the Joint Assessment Framework, the Employment Performance Monitor and the Social Protection Performance Monitor.
6. The continuity in terms of the five main priorities between the 2012 and 2013 Annual Growth Survey Priorities is welcome. On the basis of the AGS and the Joint Employment Report, the following orientations in the field of employment and social policies require strategic guidance by the European Council:

Growth-friendly fiscal consolidation

- Whilst debt reduction remains a priority for many Member States, the persistent crisis and the ensuing general low level of aggregate demand in the economy are having a severe impact on the labour market. Member States should implement growth- and employment-friendly fiscal consolidation measures to preserve future growth potential and adequate social protection.
- On the expenditure side, investments in education, employment services, active labour market policies, and training and youth guarantee schemes should be preserved, as should investments in social protection systems delivering adequate, sustainable and efficient support. On the revenue side, where it is comparatively high and hampers job creation, the tax burden on labour could be reduced in a revenue-neutral way by increasing, for example, consumption, property or environmental taxes, ensuring fair burden sharing with due attention to the financial equilibrium of social protection systems and their capacity to deliver on their core functions.

Restoring normal lending to the economy

- Addressing the weaknesses of the financial sector is essential to restore lending in the economy and boost job creation, particularly in respect of SMEs. This has to be supplemented by a balanced approach to foreclosures so that vulnerable groups are duly protected.

Improve employability levels to reduce long-term unemployment and tackling unacceptably high youth unemployment

- Long-term unemployment is rising in most Member States, reaching alarming levels particularly for the young and those with lower levels of education. Specific efforts are needed to boost the effectiveness of public employment services and to step up active labour market policies (ALMPs), including skills upgrading and individualised job-seeking assistance.
- To reduce the alarming numbers of young people either unemployed or not in employment, education or training (NEET), Member States should implement youth guarantee schemes ensuring that all young people receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship. Reducing early school-leaving and improving transition to work require efforts to develop quality traineeships, apprenticeships and dual learning models.
- High-quality education and broad opportunities for lifelong learning are important prerequisites for higher employment, and should be responsive to labour market needs and facilitate geographic and occupational mobility. Cross-border worker mobility should be encouraged by removing obstacles and improving cooperation between employment services, building upon the EURES platform.

Increasing labour market participation

- Facilitating the participation of women in the labour market will be essential to achieve the EU 2020 employment target. Member States should ensure a genuine gender mainstreamed approach, promote flexible and secure working arrangements for the benefit of both employers and employees, sufficient and affordable quality care facilities, and eliminate tax-benefit disincentives for secondary earners.

Preparing for a job-rich recovery

- Well-targeted temporary reductions in social security contributions or job subsidy schemes are potential ways to improve the chances of recruitment of the low-skilled and the long-term unemployed.
- A labour market adaptable to change requires effective ALMPs, negotiated flexible working-time arrangements or short-time work schemes. Reducing the gaps in employment protection between different types of work contracts could reduce labour market segmentation. The impact of unemployment benefits should be monitored to ensure strict eligibility and conditionality requirements supporting job search whilst ensuring adequate income support.
- The AGS and the accompanying Alert Mechanism Report illustrate that important steps have been taken in a number of Member States to align wages and productivity developments. While policy advice should respect the autonomy of Social Partners and distinct national arrangements, Member States should monitor the effect of wage-setting systems, and where necessary, continue to review them, including indexation mechanisms, to better reflect productivity developments and support job creation. In this area, there should be recognition of the role wages may play to support aggregate demand, reduce inequalities and protect against in-work poverty.

- Supporting job creation in expanding economic sectors deserves more resolute action. Specific policy can also help support job-creation through the implementation of policies transforming undeclared work into formal forms of employment.

Broad political objectives for social policies

- Facing the depth and persistence of the economic crisis, Member States have been able, mainly through their social protection systems and their interaction with key growth drivers, to mitigate both the slow-down in economic growth and its worst impact on households and individuals. Sustaining this achievement requires allowing the automatic stabilisers to work around the agreed path of structural adjustment. The AGS places the emphasis on social safety nets and on the sustainability aspect of pension and healthcare systems. In working towards the Union's political goals of full employment and social progress, Member States need to ensure that social protection policies pursue a wider political objective going far beyond the provision of safety nets for the poorest citizens. This political objective includes the provision of adequate and sustainable protection against social risks emerging during the life-cycle through continued effective and efficient social investments that promote participation and inclusion in the labour market and in the society. The utmost attention needs to be paid to the capacity of social protection to cushion the impacts of the crisis and of ongoing fiscal adjustment.

Improved resilience, effectiveness and efficiency of social protection systems

- Social and economic disadvantage occurs at different stages in life but often builds upon earlier experiences and is compounded over time. To enhance the function of social protection systems, their resilience, their effectiveness and their efficiency must improve, enabling them to reach out to the entire population ahead of increases in poverty and a fragile recovery. Member States should choose the most appropriate policy mix and pace of reforms ensuring that these reforms support a speedy and lasting recovery, reduce poverty and improve the long-term sustainability and adequacy of social protection systems. As poverty increases and given the time-lag between employment growth and economic recovery, spending and savings choices need to be carefully assessed against their effects on the capacity of Member States to contain the rise in poverty and social exclusion.
- In their National Reform Programmes and Social Strategic Reporting, Member States should report on the measures taken to maintain the capacity of social protection systems to perform their welfare functions.

Preventing and reducing poverty and social exclusion

- Improved effectiveness of social protection, combined with a higher level of labour market participation and long-term growth-oriented fiscal consolidation, is crucial for pursuing the AGS priority of tackling the social consequences of the crisis. Better use of the structural funds can contribute to tackling the social consequences of the crisis.
- To prevent and reduce poverty and social exclusion, Member States are invited to consider the following key elements in their national policy approaches:
 - a. implementing active inclusion strategies with particular attention to income support, access to services and inclusive labour markets;

- b. better use of social protection systems to improve long-term adequacy and sustainability, access to high quality services, and to reduce income inequalities;
- c. better protection against the effects of structural adjustment for those in the most vulnerable situations;
- d. measures promoting gender equality, implementation of gender mainstreaming and anti-discrimination, equal opportunity, and solidarity between generations;

Adequate and sustainable pensions, health care and long-term care

- Pensions, health and long-term care are essential social protection policies of high importance for both social welfare and public finances. While the AGS considers pensions only in connection with the priority of pursuing differentiated, growth-friendly fiscal consolidation, the core objective of old-age pension systems is to enable women and men to avoid poverty in old age and to maintain their living standards to a reasonable degree after retirement. To achieve this, the scope of pension reforms needs to be broader and include issues such as interactions between public and private pension pillars, coverage, life-cycle performance, age management at the workplace, fairness between men and women and solidarity between generations, healthy and active ageing and risk management in funded pensions. Improving the employment rate for older workers is essential in order to raise effective retirement ages and extend working lives. As the demand increases, the Council emphasises the importance of sustainable universal health and long-term care, delivering improved outcomes and services with a strong focus on health promotion, disease prevention, quality and patient safety.

7. CALLS UPON the EMPLOYMENT COMMITTEE and the SOCIAL PROTECTION COMMITTEE, respectively:

- further to the European Council conclusions of 14 December 2012 on completing the Economic and Monetary Union (EMU), to reflect jointly and report on the social dimension of the EMU, including social dialogue, and on the application of increased ex-ante coordination of major reforms, and the feasibility of using contractual arrangements and solidarity mechanisms to enhance reform efforts;
- the Employment Committee, recognising the profound changes taking place in many labour markets, to report to the December Council on the impact of these reforms on the basis of the Commission report on labour-market performance;
- to continue to strengthen the dialogue with the social partners throughout the European Semester, and develop with the social partners a framework and agenda for further exchange.

8. CALLS UPON the COMMISSION

- to actively engage the Social Partners in developing policy guidance in the 2014 Annual Growth Survey;
- to ensure that, in line with the request made by the European Council, the 2014 Annual Growth Survey is accompanied by a detailed assessment of the performance of Europe's labour markets, taking into account the need to make progress towards the Europe 2020 main objectives at the same time as the proposed revision of the Integrated Guidelines;
- to present a joint social protection and inclusion report in 2014 as part of the 2014 Annual Growth Survey.

The Council looks forward to examining the Commission Social Investment Package and the vision it will propose for the future development of social protection policies at EU level.

9. CALLS UPON THE MEMBER STATES

To reflect the priorities of the Annual Growth Survey and the Joint Employment Report in their National Reform Programmes, including their National Job Plans, and the Strategic Social Reporting as prepared under the social open method of coordination, or the updated information on the state of play of their national targets under the Europe 2020 Strategy in the case of the Member States with EU/IMF lending programmes.

National Reform Programmes should report on how the European Social Fund is to be mobilised to help deliver the Europe 2020 objectives, including help for young people.
