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NOTE

from: The Employment Committee
to: Permanent Representatives Committee (Part I) / Council (EPSCO)

Subject: Examination of the National Reform Programmes (2013) and the implementation
of the 2012 Country-Specific Recommendations
- *Opinion of the Employment Committee*

Delegations will find attached the Opinion of the Employment Committee on the above mentioned subject, for endorsement by the Council (EPSCO) at its session on 20 June 2013.

EMCO MULTILATERAL SURVEILLANCE: EXAMINATION OF THE 2012 COUNTRY SPECIFIC RECOMMENDATIONS AND THE NATIONAL REFORM PROGRAMMES

On behalf of the Council, the Employment Committee (EMCO) has carried out an ambitious and wide-ranging analysis of the implementation of all 2012 labour market country-specific recommendations (CSRs) issued by the Council to Member States. Throughout the European Semester EMCO conducted thematic multilateral reviews on the CSRS, with a final review for each country in May. These include two joint reviews with the Economic Policy Committee on Employment Protection Legislation and on the tax wedge on labour, and one with the Education Committee on reforms of education systems. This opinion below summarises the main findings of these reviews and also includes consideration of the response by Member States to the recommendations, and to the Employment Guidelines, as set out in Member State National Reform Programmes (NRPs)¹. It also takes into consideration a debate held with European Social Partners on these findings. This examination of the implementation of employment policies, seen in conjunction with the country-specific opinions going to Council, form the basis of EMCO's Treaty obligation and is a culmination of work to ensure a multilateral view within the committee.

The economic crisis has translated into a labour market and social crisis:

The global and European macroeconomic conditions have a large impact on our labour markets. The persisting crisis and the ensuing general low level of demand for labour in the economy mean we are now experiencing the most negative effect of the crisis, and without a return to strong economic growth, and the normalisation of credit flows, the labour market situation is unlikely to improve significantly in the short-term.

After a slight recovery from the first phase of the crisis, **employment** has been falling again, standing at 68.5% for 2012 (20-64 years). **Unemployment** continues to rise, by March 2013, **26.5 million EU citizens were unemployed**, 10.9 % of the active population. At 12.1%, the unemployment rate in the euro area is the highest recorded since the series started in 1995.

¹ For a full explanation of the EMCO Multilateral review process please see Annex I.

The employment outlook is very bleak, with unemployment foreseen to remain at a very high level until 2014. This continued worrying trend is apparent in the majority of the Member States and over time with increases in unemployment feeding into higher long-term unemployment. Amongst jobless people, 45% have been unemployed for over a year.

Such long-term unemployment can entail a significant loss of human capital, a depreciation of skills and loss of motivation, and thus of future employability, career prospects and earnings. It can discourage people from looking for work and encourage them to leave the labour market for good. It can increase the risk of poverty and associated social exclusion.

Youth unemployment in the EU reached a new peak at 23.5% by the first quarter of 2013. Nearly one in four active young people are jobless across the EU, ranging from 15 % or less in some Member States to more than 55 % in others. This poses serious risks for the young generation, rendered even more alarming by the rising number of young people who are neither in employment nor in education or training (NEET), now accounting for roughly 8 million young people under the age of 25.

Member States needed to and are reacting:

Europe has to address difficult and fundamental labour market reform within the context of a tight fiscal situation. Difficult as they may be, the scale of reform remains striking. Although varied across Member States, the reform agenda is substantial. The reviews carried out by EMCO clearly illustrate this. Most Member States recognise the severity of the situation and are pushing forward with difficult reforms to move out of the crisis and to tackle existing issues that have been exacerbated by the crisis. A continued focus on structural reforms is essential.

Labour market reforms are complex and often politically sensitive. To be successful they require buy-in, consensus within government and in most cases close interaction with Social Partners. Activation policy or PES reforms take time to implement and show their worth. Addressing labour market segmentation or major competitiveness problems requires often fundamental changes that need careful negotiation. Extending childcare provision cannot be achieved overnight, and once in place require other measures to impact on behaviour and result in increasing female labour market participation. Although a continued focus on structural reforms is essential, careful sequencing, paying attention to the need for short term actions or results to complement longer term achievements, and careful consideration of the sustainability of policies, are fundamental. But reforms in certain areas, which have been carried out over a number of years, before and since the onset of the crisis, are paying off. The most notable example is policies to increase the employment rate for older workers. Although further progress is desirable, in a number of Member States employment and participation rates continue to increase for this group even in this climate.

Appropriate sequencing and a realistic timetable are crucial for successful implementation of reforms, as stressed on a number of occasions throughout the review process. Wide-ranging packages have been put place in a number of Member States, who are finding a need to carefully consider for example the inter-relationship of reform to contractual relationships and unfair dismissal with reform to the system of active labour market policies (ALMPS). It is also important to ensure short-term successes help encourage longer-term reform objectives.

Some key findings from the reviews:

As part of a wider approach to address youth unemployment, many Member States are progressing towards delivering **the Youth Employment Guarantee**, to ensure all young people receive a good-quality offer of employment, continued education, an apprenticeship or a traineeship.

While education and training reforms can take some time to show results, substantial progress has been made towards the EU2020 headline target of reducing the number of early school-leavers and increasing the number of young people with tertiary or equivalent attainment. The review carried out jointly between EMCO and the Education Committee showed that many Member States are carrying out ambitious reforms at all levels of their education systems and are aware of the need for continued efforts. They recognise the importance of education and training, in particular lifelong learning and the development of knowledge, skills and key competences, in tackling and preventing unemployment by addressing its root causes and in improving the transition to work, as well as in promoting social cohesion. Attention is given in particular to promoting excellence in vocational education and training with a strong work-based learning component to help combat existing skills mismatches, improving the performance of young people at high risk of early school leaving and with low basic skills with measures starting already in early childhood education, modernising higher education and reducing drop-outs, reducing the number of low-skilled adults, high quality teaching, and optimising ICT supported learning. However, many Member States are also facing **the challenge of protecting investment in their education and training** systems in the context of the difficult economic situation. At European level, Member States have also agreed to establish a closer link between the key strategic policy challenges identified throughout the European Semester and joint activities carried out through the open method of coordination in education and training.

A lot of work has focussed on improving **the effectiveness and targeting of active labour market policies**, but this remains a major policy challenge given the scale and diversity of the client group that PESs have to now deal with and the budget constraints faced. Reforms address a range of issues related to the quality of service provision, alongside the capacity of PES's to deliver. Many reforms include a stronger activation element with ALMPs and benefit reform, and a number aim to increase capacity at the local level to tailor support to individual needs.

Tackling long-term unemployment is an increasing challenge. Maintaining access to the labour market and re-training are becoming increasingly essential. One particular problem illustrated by a number of Member States is the concentration of long-term unemployment in jobless households. In all Member States, but particularly where the signs are promising for a turn-around in the labour market, more focus is being placed on these policies.

Rather fundamental reform is taking place in Member States to address CSRs on **labour market segmentation**. Reforms of contractual arrangements and employment protection legislation are likely to take time to fully change employment practice, given the profound changes they aim for. A few Member States are also experimenting with new contract forms for certain groups (the young or the low-skilled). The challenge remains to balance the need for greater labour market adaptability with adequate protection for vulnerable groups, and to embed labour legislation reforms in an efficient framework of social protection and active labour market policies.

Strategies to reduce the level of **labour taxation** vary significantly and appear to be mainly shaped by the country-specific circumstances. Reforms of the tax wedge on labour have to be seen both in the broader perspective of fiscal consolidation needs and as part of a wider approach to making work pay. Moreover, social security contributions are not only part of labour costs, but can and should also be seen as an investment in an effective safety net and in public services. Changes to labour taxation aim to facilitate the demand for labour, and thus have to be viewed in the context of the overall structural reform agenda including implementation of the other CSRs. Reforms of the tax wedge should not substitute, but rather complement, other measures aimed at improving the functioning of the labour market, such as active labour market policies.

It is broadly agreed that the EU can only reach the Europe 2020 headline employment target through a clear commitment to **gender equality**, continued reforms to facilitate the **participation of women** in the labour market, and a more systematic gender mainstreamed approach. Reviews within EMCO of the CSRs related to female participation illustrate broad approaches to tackling the issue – through increased provision and better affordability of childcare provision (in particular for disadvantaged group), a focus on the fiscal treatment of second earners, and wide policies to encourage a better balance between work and family life.

Despite the continuing crisis, **older people of working age (55-64) have increasingly stayed in the labour market**, leading to substantially higher employment for that age group. However, the challenges of a still comparatively low employment rate (49.5 %) and a high share of long-term unemployed (nearly 60 %) remain, in particular in light of the demographic challenges the Union is facing. The increase in pension ages should thus be accompanied by targeted policies to tackle unemployment in this age group and active ageing measures to further address the challenge. Important steps have been taken in a number of Member States to **align wages and productivity** developments and to address wider competitiveness issues. The reviews conducted within EMCO stressed both that policy advice provided in this domain must reflect national arrangements and the differing degree of autonomy of social partners in some Member States in this area; and also that there should be recognition of the role wages play in supporting aggregate demand, reducing inequalities and protecting against in-work poverty.

Future work of the committee:

EMCO will now draw some lessons from an ambitious programme of multilateral surveillance and country review. The committee will take stock on ways of further improving the quality and efficiency of this work, in particular through a more effective use of existing tools, a closer working relationship both with other committees on joint work, but also with Social Partners, and a more effective sequencing of reviews throughout the calendar year.

With the mid-term review of Europe 2020 in mind, EMCO will report to the December EPSCO on future prospects for the Europe 2020 objectives and targets and on employment policy reform priorities for the medium term. Given the pace of reform across the EU, this report will use the multilateral surveillance work to take stock of the profound changes to many labour markets over recent years and aim to establish some good practice and food for thought in terms of mutual learning. This contribution will take into account the work of Mutual Learning Programme and exchanges with other stakeholders.

Multilateral Surveillance by EMCO under Europe 2020

What is multilateral surveillance?

The term is used to explain the review process amongst peers (Member States and the European Commission) of policy reforms, and, in EMCO's context, to address labour market challenges. The focus is on the monitoring of policies and measures to implement the Europe 2020 strategy, through the country specific recommendations (CSRs) in the context of the European Semester. These reviews are both ex-post (backward looking) assessing implementation over the year, but also contain a strong ex-ante (forward looking) flavour because they usually examine policy announcements before implementation.

The multilateral surveillance work uses a broad range of tools to help EMCO deliver Peer Pressure through a common view on the progress in the implementation of the reforms to address the CSRs: the **multilateral position**. Together with EMCO's analytical instruments, this position is then used in June to discuss the Commission's proposals for new CSRs

Why has this become such a focus of EMCO work?

In the follow-up to the June 2011 negotiations on the CSRs EMCO and its chair recognised that the Committee needed to change the bilateral discussion on the CSRs between Member States and the Commission to a multilateral decision making process. EMCO has since built up its capabilities to evaluate the implementation of policies in order to meet the CSRs and to better collectively assess the proposals in June. This has led to significant progress in the past eighteen months.

Which reforms are covered?

All CSRS addressed to Member States which cover labour market issues are reviewed throughout the annual cycle of surveillance. This is an ambitious objective given that in the 2013 European Semester EMCO will review progress on over 60 CSRs. Furthermore, Member States operating under a Memorandum of Understanding are also fully included in the process, in recognition of the scale of reform and wealth of experience they have to offer.

THE REVIEW PROCESS EXPLAINED IN THREE STAGES.

The starting position: We begin with the Council adopted CSRs from July of the last year (year n-1). So for the 2013 European Semester EMCO takes all CSRs adopted by the Council in July 2012 and will assess the degree of implementation of policies to address each CSR during the following European Semester (late November until end May).

Stage 1: Thematic Reviews of the CSRs: The first stage is to look at individual CSRs within themes or clusters. These thematic reviews are the main meat of EMCO's work during the European Semester. The themed approach is used in order to look at implementation across Member States with similar challenges, but each Member State's CSR is assessed independently. It also helps assess policy options and plans in case measures are still being developed.

When the issues addressed under these themes overlap with the work of other Council Committees these meetings are held jointly, notably with the Economic Policy Committee, the Education Committee, and on occasion with the Social Protection Committee.

For the 2013 European Semester EMCO has or will hold thematic reviews on 8 issues:

- Female labour market participation
- Active labour market policies and Public Employment Service Reform
- The tax wedge on labour
- Labour market disadvantage – looking at (for example) the young, older workers, migrants
- Labour market functioning – addressing employment protection legislation, benefit reform, and regional labour market mobility
- Wages
- Education and the transition to work
- Lifelong learning and vocational training

Each review follows a similar process:

Background documents: Four sets of background documents are circulated to help discussions:

- 1) Over-arching thematic fiches. These address the general issues raised by the labour market challenges under each theme. They are prepared by the Commission, and in some cases the EMCO Indicators sub group.
- 2) A Commission Fiche on each Member State under review. These recall the CSR itself and summarise the justification found in the Commission's Staff Working Document for the CSR.
- 3) A Fiche prepared by the Member State under review with detail on policies implemented or announced since the CSR was adopted.
- 4) A Discussant fiche: Each Member State under review is allocated a discussant. The fiche prepares an initial analysis of progress and some starting questions for the review.

The review itself: Each review is introduced by the Commission, presenting the rationale and focus for the CSR. The Member State under review presents their policy response, followed by an assessment from a discussant country, and a general Q&A session from all Member States and the Commission. The Chair concludes each session with a set of provisional conclusions on progress which are subsequently circulated to the committee. These conclusions are the focus for further discussions at the country by country examination.

Stage 2: The country by country examination “Cambridge Examination” (CE) of the National Reform Programmes: These take place each May. The primary aim of the CE is to explore the

response to the CSRs and wider employment challenges set out in the National Reform Programmes. The CE process has evolved over time, and the objective now is to complement the thematic examinations to produce as complete and up-to-date an assessment as possible.

Each country is reviewed within a workshop (1/3 of the Member States each) by peers and the Commission. The Member State presents the NRP and its response to the CSRs, with emphasis on the draft conclusions coming out of the thematic reviews. They are then reviewed by both the Commission and a peer Member State. The summary of the conclusions from all the thematic reviews are adapted in light of this discussion.

This is also the moment when the analytical instruments that have been developed are brought into the debate. Since the start of Europe 2020 EMCO, SPC and the Commission have developed an indicators based Joint Assessment Framework (JAF). The results coming out of the Framework are brought together with the analysis from the Commission. This leads to a synthetic overview: the Employment Performance Monitor (EPM) with the main data and a table with the key employment challenges for each Member State.

Stage 3: Adoption of the conclusions by the Committee: At the end of May, immediately prior to the discussions on the Commission's draft CSRs, EMCO adopts a set of conclusions from the reviews. This is the multilateral position on implementation.

As a final step, this multilateral position is used alongside the EPM as the primary evidence base for the committee when discussing the new set of proposed CSRs in June. When this discussion leads to changes to the Commission proposal, these instruments provide the key input to explain changes from the initial proposal that can be used by the Council when it formally adopts the CSRs, thereby ensuring that the whole process has a strong analytical and multilateral foundation.

The chart on the next page is an effort to present this process in its most simple form.

