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COVER NOTE

from: The Employment Committee and Social Protection Committee
to: Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject: Examination of the 2012 National Reform Programmes and of the implementation
of the 2011 Country Specific Recommendations (CSRS)
- Opinion of the Employment Committee and of the Social Protection
Committee with the Education Committee
= Endorsement

Delegations will find attached the joint opinion under reference as finalised by the Employment and Social Protection Committees on 7 June 2012, with a view to their endorsement by the Council (EPSCO) on 21 June 2012.

**EXAMINATION OF THE NATIONAL REFORM PROGRAMMES (2012) AND THE
IMPLEMENTATION OF THE 2011 COUNTRY SPECIFIC RECOMMENDATIONS
(CSRS)**

*Opinion of the Employment Committee and the Social Protection Committee,
and in consultation with the Education Committee*

The economic crisis persists and is having a profound impact on Europe's labour markets and citizens, requiring urgent action. Unemployment in the EU has increased to over 10%, meaning there are more than 25 million unemployed within the EU-27. Young people have seen their employment prospects substantially diminish in many Member States. The EU unemployment rate for the 15-24 year-olds now stands at over 22%, and in a number of Member States it is above 40% and rising.

The overall social situation in the EU is worsening. The EU is off-track to reach its poverty and social inclusion target. After a small improvement in 2009, the crisis and subsequent consolidation measures have eliminated any progress made since then: the number of people at risk of poverty or social exclusion in 2010 increased to the 2008 level. There are 25 million of children at risk of poverty or social exclusion in the EU. Quick actions need to be deployed to contain the rise in poverty and exclusion and strengthen our social models. Failing to address social challenges now risks higher future costs for the economy and for the society as a whole. Further efforts are also needed to reach the education headline target, which, in turn, will facilitate the achievement of the employment and the social inclusion targets.

Mandated by the Council, the Employment and Social Protection Committees have enhanced the level of multilateral surveillance in this European Semester. As the reviews have shown, in 2011-2012 Member States undertook major efforts to respond to the priorities of the European Council, the Annual Growth Survey and the 2011 Council recommendations. All with the view to improving the conditions for creating employment, confronting the social consequences of the crisis, enhancing education and training reforms and preparing for long-term challenges. These efforts must strengthen the European social model in all its diversity and prepare it to face future challenges.

For a job-rich recovery, Europe has to address difficult structural reforms, including in the labour market, in a context of fiscal consolidation, financial stability and growth enhancing policies. Fundamental structural reform is essential to remove barriers to employment growth, to ensure education and training systems are responsive to labour market needs, and to ensure that the unemployed remain connected to the labour market and are given the skills and competences they need.

This crisis has above all else demonstrated the increasing interaction of economic, labour market and social policies within the single market, and particularly within the Eurozone. Important reforms, or a lack of them, in one Member State have ever more implications for others. Whilst labour market, skills issues, education and training as well as social policies are a Member State competence, other Member States in the Union have an interest in ensuring that deficiencies are tackled, and reforms implemented.

With this in mind, an ambitious series of multilateral reviews by both the Employment Committee and the Social Protection Committee have focused on the implementation of policies to address the commonly agreed 2011 Council Recommendations to Member States. Reviews were carried out in conjunction with other committees (the Education Committee and the Economic Policy Committee) and these conclusions relate to the outcome of these reviews. These reviews have enabled the committees to take a full and genuinely multilateral view on the extent of implementation of reforms to address these issues.

A: Implementation of policies to address the 2011 CSRs:

1. The most striking point of the review is one of scale. Both in terms of the challenge facing Member States, and in terms of the policy response. Although this varies from Member State to Member State, there is no lack of reforms addressing the issues identified in the recommendations. Member States recognise the severity of the situation and are pushing forward with difficult reforms to address structural bottlenecks. Whilst labour market interventions cannot create jobs by themselves, reforms can help deliver the right skills to fulfil demand in sectors with high employment potential, easing structural change.
2. Implementation is progressing, but often takes time as political consensus is difficult to achieve. Labour market reforms are often complex and politically sensitive, particularly against a backdrop of reduced fiscal space. The involvement of Social Partners is essential for building the consensus for reform, but requires compromises on all sides.
3. Pension reforms matter for providing income to an increasing number of citizens after retirement and for ensuring sound public finances. The political legitimacy of pension systems is to ensure that achievements throughout working life are adequately rewarded once people retire. To a significant extent, however, progress made in controlling future pension expenditures has been obtained through reductions in future adequacy.
4. Public support and involvement of the social partners are keys for successful pension reforms. Most Member States reformed their pension systems between 2011 and mid 2012 of which some received a Council recommendation to do so in 2011. The reported measures include raising the effective retirement age by equalising it for men and women and by advancing earlier plans to do so, by providing incentives to prolong working lives and by restricting exit to early retirement. Depending on country specific circumstances, measures also focus on increasing contributions rates to pension schemes, on lowering of taxes on pensions and on revising pension indexation mechanisms. The latter may entail temporarily suspension of pension indexation for all persons except basic, guaranteed and minimum pensions with a view to mitigate the risk of poverty and material deprivation for low income older people.

B: Multilateral review of progress towards addressing key challenges:

5. Whilst the impact of this crisis has been far reaching, it has had an intensified impact on certain groups within the labour market, and particularly the young. Policies to support young people focus on early activation, with an increasing number of Member States offering a youth guarantee of active support. Member States are also increasingly focused on apprenticeships and traineeships with lessons drawn from those Member States that have a long and positive experience and tradition in this area.
6. Member States must continue reforms and intensify efforts to reach the education headline target of improving education levels in particular by reducing the number of early school leavers and increasing the share of young people with tertiary or equivalent attainment. This, however, requires appropriate and targeted investment with most Member States facing a key challenge of balancing the consolidation of public finances with essential investment in the quality of education and training systems. Member States are to ensure better coordination between the education and training systems and labour market needs in cooperation with social partners and in the context of lifelong learning.
7. Recent increases in unemployment are now resulting in more long-term unemployment, and targeted active labour market measures are increasingly important in preventing this unemployment from becoming structural. Member States continue efforts to improve both the efficiency and effectiveness of ALMPs and reforms of public employment services to improve their capacity to support the unemployed.

8. Losses in competitiveness remain a persistent concern in a number of Member States. Whilst such losses accumulated over a number of years, and will not be eliminated overnight, efforts to ensure a closer relationship between labour costs and productivity continue in a number of Member States. These have been pursued through concerted engagement with the national Social Partners, and should be pursued with due regard for the national systems of wage formation. The multilateral review showed that the main objective should be wage setting mechanisms that allow wages to adapt to productivity growth. Here again there is no a single solution. Some countries have pushed forward with reforms that allow greater scope for agreements at firm level, through a more flexible framework of higher level agreements. Others, while having in place indexation systems, aim to avoid rigid wage setting mechanisms.
9. Whilst labour market interventions cannot create jobs in themselves, reforms can encourage economic growth to be employment intensive, and help ensure the right skills are in place to fulfil demand in sectors with high employment potential. Whilst in a number of Member States with a low level of labour demand budgetary neutral shifts in taxation away from labour towards other areas may generate job growth, the multilateral review showed that in some Member States labour taxes and social security contributions are considered as an investment for the provision of services. Shifting the burden away from labour should not undermine the resilience and nature of national social protection systems, and must be compatible with the fiscal consolidation processes now in place.
10. Broad, universal social protection systems are effective in withstanding the worst effects of the crisis on people. Although the main priority is to avoid that persons in the most vulnerable situations bear the brunt of the consolidation measures, the on-going reforms need to preserve the ability of social protection systems to play their economic function of automatic stabilisers.

11. Active inclusion approaches combining adequate income support, inclusive labour markets and access to quality services need to be implemented according to different country modalities. Providing activation measures in combination with different forms of social assistance and social services improves the inclusiveness of labour markets and facilitates the labour market participation of persons in particularly vulnerable situations. Participation of social partners in such schemes is crucial for their success.
12. Providing integrated services tailored to individual needs brings more people into employment and increases the efficiency and effectiveness of social protection spending. Reconciliation between work and family life for both women and men is key for ensuring equal participation in the labour market. There is a strong determination for designing comprehensive, integrated and strategic long-term approaches cutting across different policy strands.
13. Recognising the interdependence between the CSRs on the NRPs and other contributions to Europe 2020, and in line with the Council decision¹ on renewing the three strands of the open method of coordination (social inclusion, pensions, health and long-term care), these conclusions also assess wider social protection reforms in the areas of health and long-term care. In these areas reforms are on-going to improve the quality and provision of services, the general health status of the population and of the workforce, and to control age-related public expenditures.
14. These reforms² are geared toward efficiency gains through better hospital sector management, enhanced role of primary health care services and wider use of generic drugs. Their overall aims are better health outcomes and healthy ageing with strong focus on health promotion and disease prevention, and improved delivery of health care services with strong determination to ensure that fiscal consolidation does not widen health inequalities. As the demand increases, the provision of high quality and accessible long-term care services is an increasingly important policy issue with implications for access, quality and sustainable financing of long-term care services.

¹ Council document 10405/11.

² In 2011, the Council addressed a few recommendations of direct relevance for health policy.

C: Conclusions

Pushing forward with Implementation and taking stock of progress:

15. The pace of reform is apparent. Member States recognise the scale of the challenge and have taken action to respond to the Council recommendations from 2011. The focus must now clearly be to ensure these reforms are fully implemented. Given the pace of change, there would also be a clear benefit from analysing on whether these reforms are the right ones, and are on a sufficient scale to have the required impact.
16. The reviews have shown that a better horizontal co-ordination of policies and actions under different policy strands facilitates the achievement of the EU inclusive growth objective. The crisis also revealed that not everything can be done at once. Striking the right balance and sequencing of reforms without policy subordination and ensuring better co-ordination of different levels of governance is a key for future success.

Further Strengthening Multilateral Surveillance:

17. The Committees, in drawing lessons from the first semester of enhanced multilateral surveillance have concluded that this work is of significant added value to Europe 2020 and should be continued. However, in order to improve its effectiveness the enhanced surveillance must be continuous. Labour market and social policy reforms are not limited to the European Semester, and the Committees will therefore continue their multilateral surveillance work throughout the year in order to provide EPSCO with this “stock-take” of the reforms that have been implemented on a more continuous basis.
18. This work will be further developed by the Committee in light of the Commission's proposals in the Employment Package. In particular EMCO will work closely with the Commission to further improve the Employment Performance Monitor in order to better benchmark the labour market progress made by Member States towards reaching the Europe 2020 goals and better monitor the progress in the implementation of Member States commitments for reforms.

Future work:

19. With this in mind, the Employment Committee will develop two products for debate amongst Ministers at the EPSCO Council. For October, in a response to the EPSCO conclusions of February 2012, EMCO will develop some "Principles of well-functioning labour markets" as our focus in the short term, based on experience amongst Member States, and to form the core of EPSCO's contribution to the Council's growth agenda. Secondly, for the December EPSCO, EMCO will confirm what the further strengthened coordination proposed in the Commission's Employment Package will look like, and provide an interim response to the Annual Growth Survey and the draft Joint Employment Report 2013. This will include a presentation of thematic reforms across the EU to take stock of progress. These will aim to expose gaps in implementation, establish a compendium of good practice.

20. The Social Protection Committee will prepare an advisory report on child poverty for the Commission and main messages for the October EPSCO Council. Further, Ministers will receive the results from the thematic surveillance on active inclusion, pension and health policy carried out in 2012. Finally, the SPC will submit to EPSCO its analysis of the Annual Growth Survey and a new instrument called 'Social protection performance monitor' that should contribute to strengthening the monitoring of the social situation and the development of social protection policies in the EU.