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NOTE

from: The Employment Committee
to: Permanent Representatives Committee (Part I)/ Council (EPSCO)
Subject: European Semester 2014: Contribution to the European Council
(Brussels, 26-27 June 2014)
(b) Examination of the National Reform Programmes (2014) and the
implementation of the 2013 Country-Specific Recommendations (CSRs)
- Endorsement of the opinion of the Employment Committee (EMCO)

Delegations will find attached the opinion of the Employment Committee on the above mentioned subject, with a view to the Council (EPSCO) session on 19 June 2014.



The Employment Committee

EMCO MULTILATERAL SURVEILLANCE: EXAMINATION OF THE 2013 COUNTRY SPECIFIC RECOMMENDATIONS AND THE 2014 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 2013 labour market country-specific recommendations (CSRs) issued by the Council to Member States. EMCO conducted thematic multilateral reviews on the CSRS with a final review for each country in May 2014. This included a joint review with the Economic Policy Committee on the tax wedge on labour, and one with the Education Committee on reforms of higher education systems¹. Moreover, EMCO benefited from the reviews that took place in the SPC and the Education Committee.

This opinion summarises the main findings of these reviews and includes consideration of the response by Member States to the Employment Guidelines, as set out in Member State National Reform Programmes (NRPs). It also takes into consideration a debate held with European Social Partners on these findings and their initial reaction to the Commission's CSR proposals.

Furthermore, EMCO, as requested by the Council recommendation establishing the Youth Guarantee, has also conducted two implementation reviews to assess progress, details of the findings from these reviews are provided in a separate document. The opinion also summarizes EMCO's assessment of both the employment relevant parts of the Commission's in-depth reviews in the context of the Macro-economic Imbalances Procedure, and the implementation by Eurozone Member States to address the recommendation issued by the Council to the Eurozone in June 2013.

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

This examination of the implementation of employment policies, seen in conjunction with the country-specific opinions going to Council, forms the core of EMCO's Treaty obligation and is a culmination of work to ensure a multilateral view within the committee, in line with the Committee's strong conviction that the CSRs are by no means to be seen in isolation, but should follow logically from the work done throughout the European Semester.

The labour market and social situation is only now beginning to improve:

Labour market conditions started slowly to improve in 2013. The unemployment rate in the EU began to decline from its peak of 10.9% in April 2013, reaching 10.4% by April 2014.

Unemployment amongst the young has also begun to decline but only marginally. In April 2014 this stood at 22.5% in the EU and 23.5% in the euro area. At least part of this marginal decline can be accounted for by a discouragement effect. These improvements have yet to be translated into the annual employment figures, with employment falling by 0.4% in the EU (and 0.8% in the Euro area) in 2013.

With only limited economic growth, little net job creation is expected in the short term. According to European Commission forecasts, employment growth in 2014 is expected to be 0.6% in the EU and 0.4% in the euro area. The unemployment rate is forecast to decrease slightly. In 2015 the unemployment rate is projected to stand at around 10.1% in the EU and 11.4% in the euro area. Such a slow labour market improvement reflects the gradual recovery but, as the Commission points out, could also reflect a higher prevalence of structural unemployment than in the pre-crisis years.

An ambitious far-reaching reform agenda:

In the context of the crisis, guided by the European Semester process and the Memoranda of Understanding, Member States have pursued a far-reaching reform agenda, perhaps more ambitious than the EU has ever seen before. But the labour market reforms should not be seen in isolation. EMCO has stressed on a number of occasions the importance of an appropriate sequencing of policy measures and of accompanying labour market with product market reforms. These can act to reduce prices through better competition, mitigate adverse impacts on real wages and domestic demand, and strengthen productivity.

Some key findings from the reviews:

Notable progress has to be acknowledged in terms of reviewing wage-setting systems. The reforms in this domain which is significantly affected by national social dialogue traditions, with a view to favouring economic adjustment, cost and price competitiveness and job creation have contributed to a clear rebalancing in terms of unit labour costs observed over the last three years. Crucial challenges remain however to make sure changes in wage levels reflect productivity developments and support aggregate demand. In a number of Member States wages are in fact lagging behind productivity developments.

Many Member States have undertaken difficult labour law reforms to make labour markets function better, to tackle segmentation, to foster more rapid labour reallocation and to increase productivity. Ensuring labour law supports more and better jobs and allows for smooth, quick and secured employment transitions will be key in the coming years.

The crisis has brought to the forefront the urgency to address genuine labour market mismatches that have continued to grow. Education and training systems need to become more responsive to developments on the labour market. Important reforms to education and training systems continue, but take time to implement and have visible impact.

Member States have also adapted social security systems to the crisis, to provide adequate support and strong incentives for labour market participation. And efforts to make sure older workers stay longer in the labour market were intensified, with noticeable results. However, the challenges of a still comparatively low employment rate and a high share of long-term unemployed 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.

Progress is less evident in other areas. Although women are the most important source for enhancing the Union's future growth potential, only limited steps in the direction of increasing female participation in EU labour market were made, predominantly in the provision of childcare. Collectively, the EU has not reduced the tax wedge on labour or shifted taxes towards other more growth-friendly taxes. In part budgetary constraints have limited the room of manoeuvre, but our reviews point to the potential for further measures in this regard.

In the area of making active labour market policies more efficient and modernising PESs reforms need to be intensified. The EU is currently in the unacceptable scenario of high unemployment twinned with substantial numbers of unfilled vacancies, and this mismatch must be tackled. In this respect, tackling long-term unemployment and making sure quality jobs are offered are increasing challenges. Maintaining access to the labour market and re-training are becoming increasingly essential. In all Member States, but particularly where the signs are promising for a turn-around in the labour market, more focus needs to be placed on these policies.

Implementation of the Euro Area CSRs related to the labour market:

Euro area Member States were asked in June 2013 to take collective and significant measures in order to tackle the social consequences of the crisis and the rising unemployment levels, devoting particular attention to the situation of unemployed young people. Further reforms to facilitate access to employment, prevent early withdrawals from the labour market, reduce the cost of labour, combat labour market segmentation and support innovation were also recommended.

EMCO's multilateral surveillance reviews have indicated significant measures have been taken by euro area Member States, with progress more evident in terms of combatting labour market segmentation, preventing early labour market withdrawal, and in putting in place a Youth Guarantee. Little progress can be seen in reducing the cost of labour.

Social Partner reflections on the CSRs

During the discussions with European Social Partner representatives, the union representatives stressed some positive developments in the Commission proposals in terms of more balance in the language of policy advice to Euro-area Member States. However they emphasised their view that there remains too much focus on what unions consider to be inappropriate policy advice on wage formation and the impact of a minimum wage on employment, in particular in a context of potential deflation.

Employer representatives welcomed the continuity in the Commission proposals and the focus on ensuring a recovery, on growth and on a tax shift away from labour. Representatives of small businesses also welcomed the increased attention given to access to finance, while public employers underlined the need for sufficient investment, i.a. in health and social services.

All sides welcomed the strong attention for the attention given to education and skills policies in the CSRs, as well as the focus on youth unemployment in general and to the Youth Guarantee in particular.

Beyond the Mid-term review of Europe 2020:

Substantive, ambitious labour market reforms have been carried out as the crisis acted as a catalyst. Looking forward it is essential to promote a job-rich recovery and ensure labour markets are in a fit state to deal with previously long-term challenges that have now become immediate. Reform fatigue cannot be an option and should be overcome through a strong commitment and intensive dialogue with all relevant actors, in particular the social partners.

Europe's post crisis labour markets will require the involvement of men and women throughout their lifecycle, with more diverse work and varied career paths. Skills policies will be crucial. More than ever, the EU cannot afford the loss of human capital and the impact on social exclusion of insufficiently functioning labour markets. Quality work must be accessible for all, through improving the resilience of the labour market, introducing more internal and external flexibility, guaranteeing levels of security, preventing and combating long term unemployment and ensuring a shift from passive to active benefits, and by fighting against undeclared work.

Encouraging job mobility and innovation and facilitating safe transitions between jobs without unjustified barriers or penalties will require the right incentives through tax/benefit systems and labour law frameworks. However, tax systems and wage setting are about more than providing incentives. A substantial shift of the fiscal burden away from labour will only be possible in the context of a wider debate in the Member States on different tax bases, taking into account the sustainability of the public finances and of the European social model. And wage setting policies should respect the role of the social partners and reconcile the provision of adequate incomes with the need to maintain competitiveness and reflect productivity developments.