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ADDENDUM TO NOTE

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| from: | The Employment Committee and the Social Protection Committee |
| to: | Delegations |
| Subject: | Annual Growth Survey 2014 (AGS), draft Joint Employment Report (JER) and Alert Mechanism Report (AMR) |

- Contributions by EMCO and SPC

Further to the Presidency note (doc. 16843/13) regarding the exchange of views on the above 2014 AGS package, delegations will find attached contributions from the Employment Committee and the Social Protection Committee, with a view to the EPSCO Council on 9 December 2013.



The Employment Committee

In December of this year the European Council will aim to agree, on the basis of the relevant indicators, on the main areas for coordination of economic policies and reforms. With this in mind, the Commission's 2014 Annual Growth Survey (AGS), the draft Joint Employment Report (JER), containing for the first time a Scoreboard of key employment and social indicators, and the Alert Mechanism Report were discussed by the Employment Committee (EMCO) on 3 December. The following summarises the main flavour of this first discussion.

A welcome focus on the employment and social situation:

Members broadly share the Commission's analysis of the economic, labour market and social situation for the coming year, and welcome both the continued focus on the five main priorities, and the additional emphasis placed on addressing the worsening labour market situation.

EMCO wishes to stress that, although the Commission's economic forecasts confirm signs of a slow recovery, this recovery remains modest and fragile. The legacy of the crisis, in particular through high levels of unemployment will continue to weigh on growth for a considerable time. The employment and social situation continues to worsen, with more than 26.8 million jobseekers unable to find a job, household incomes falling and inequalities rising in many countries. This represents a considerable drag on growth in the short term through weakened demand, and also threatens to undermine Europe's long-term competitiveness as people lose their skills and many young people struggle to get a foothold in the labour market and unemployment becomes increasingly structural in nature.

The impact of the crisis has also translated to a growing divergence between Member States' employment and social situations, particularly in the euro zone, as the draft Joint Employment Report and the new scoreboard of key employment and social indicators illustrate. This divergence is visible across all of the key indicators.

The effects of important labour market reforms will take some time to be fully felt:

The AGS and the draft JER provide an overview of the implementation of Country Specific Recommendations (CSRs) and the main employment and social reforms by Member States during last year. These overviews and the work undertaken by the Employment Committee show that significant measures have been taken to reform labour markets and enhance their resilience, combat segmentation and promote labour market participation. However, it is also clear that the extent of progress varies across policy areas and between Member States.

Unemployment is still expected to remain unacceptably high in many parts of Europe for some time to come and social hardship will continue to be felt across Europe, particularly in countries implementing adjustment programme.

Reducing the unacceptably high levels of unemployment of young people has received a strengthened emphasis. Given the fragile employment growth prospects and the longer duration of unemployment spells it is essential to maintain the attachment of youth and the long-term unemployed to the labour market. The Committee welcomes the stress within the AGS both on protecting longer term investment in education, and on maintaining or reinforcing the coverage and effectiveness of employment services and active labour market policies.

In addition, the Employment Committee wishes to reinforce the messages within the AGS and JER by stressing the need for further specific attention to be placed on:

1) A focus on implementation:

The Employment Committee concurs that the immediate priority should be an ambitious implementation and follow up of reforms to address the functioning of the labour market so that participation of men and women can be increased. This includes tackling segmentation, boosting sources of jobs in expanding sectors, maintaining the employability of the labour force including the long term unemployed and the most vulnerable groups, and attracting the inactive back into the labour force.

2) Fuelling job creation:

However, 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 and further labour market reforms become increasingly difficult to achieve. The most important factor in improving EU labour markets is to have more and better jobs created. The Annual Growth Survey rightly stresses the impact of financial market fragmentation which has led to very divergent interest rates for loans to businesses and households across the EU. This also has profound implications for labour markets, as enterprises and in particular SMEs, face barriers for access to finance.

Furthermore, although a continued focus on structural reforms remains essential, the lessons of recent years have taught us that careful attention to the sequencing of reforms, and exploiting the synergies between product and labour market reforms are crucial. Product market reforms can help to bring about the full benefit of broad labour market reforms. The deepening of the internal market is important in this regard.

3) A particular policy-focus on participation, skills and good functioning of the labour market:

- Incentives for the creation of more and better jobs: Whilst recognising the role they play in social security and the provision of services, there remains a good degree of room for redesigning tax systems by shifting the tax burden away from labour on to other tax bases less harmful to employment. This seems particularly important for the low paid, often including young workers. The greening of the economy, the digital sector and health care services will generate significant job opportunities in the years to come. Labour market and skills policies, and those helping encourage entrepreneurship, can play an active role in supporting the job creation in these and other sectors and in anticipating and adjusting to new patterns of growth.

- Addressing youth unemployment in all its forms: The Employment Committee's multilateral surveillance review of the implementation of the CSRs related to youth unemployment has illustrated the importance of a timely implementation of the Youth Guarantee and the high political visibility across the EU of this issue. The review showed the importance of comprehensive and coordinated approaches involving a wide range of actors at national, regional and local level. The approach requires a balance of short-term measures to help the young, combined with longer-term structural reforms. Member States are making progress towards putting in place their Youth Guarantee and addressing the considerable challenges faced in implementing such an approach, in terms of reaching all of the young not in education, training or employment, and addressing capacity constraints at all levels.
- Preventing and reducing long-term unemployment: by improving the efficiency of public employment services and effectiveness of activation measures, including investment in human capital.
- Increasing labour market participation: through incentives for the inactive to return to the labour market. In addition, in a context of an ageing labour force, longer and more fulfilling working lives require skills and lifelong learning, enabling working environments, and also addressing the impact of gender pay and activity gaps on women's pension entitlements. Access to affordable care services, and the removal of disincentives in tax- and benefit systems, will support and promote the participation of women. A higher level of female labour market participation is an essential source for enhancing the EU's growth potential and to meet the demographic challenges.
- Addressing skill mismatches and bottlenecks: the EU workforce still has a serious lack of skills, including low literacy, numeracy and ICT skills, reducing the capacity of the EU labour force to adapt.

- Increasing overall labour mobility: This includes professional mobility across the entire economy and cross border mobility, paying attention to potential side effects. This will benefit from the reinforced cooperation and from a strengthened EURES-network, that will help firms and job-seekers find opportunities in other Member States.
- Wage developments that continue to be consistent with productivity developments and the need to adjust external imbalances and reduce unemployment.
- Continued balanced reform to employment protection legislation to help towards remedying persistent labour market segmentation including between the public and private sector.
- Continued effort to fight undeclared work.

Wider Governance issues brought up by the AGS:

Helping reforms to materialise requires a **wide partnership and broad ownership**: The Employment Committee again wishes to stress that labour market reforms are complex and often politically sensitive. To be successful they require buy-in, consensus within government and in most cases and in line with national traditions, and respecting their autonomy, close interaction with Social Partners and other stakeholders. The Committee welcomes notable examples of Member States embarking on reinforced consultation with Social Partners and significant reforms with the Social Partners on board. It equally welcomes the Commission's suggestions for better involvement of the Social Partners in the European Semester and their Joint Declaration. EMCO will come forward with specific proposals on further improving this cooperation for the March EPSCO Council.

The Committee welcomes the creation and application of the **Scoreboard of key employment and social indicators**. The Scoreboard can help to underpin the contribution of the EPSCO Council to the agenda set by the European Council regarding the reinforcement of the social dimension of the EMU within the current institutional framework, and can represent a valuable additional tool within Article 148 and the European Semester. Work will now continue to improve the scoreboard and refine its operational scope.

The Committee welcomes the increased attention placed by the Commission on labour market and social issues within the **Alert Mechanism Report**. The committee will inform the Council of its views on the labour market aspects of the in-depth reviews, which are prepared by the European Commission as provided for under Article 5 of the Regulation on the prevention and correction of Macroeconomic Imbalances.

Member States have the responsibility to decide on the policy mix that suits their national systems best but need also, particularly those that share the Euro, to take policy decisions that reflect the wider interests of their fellow EU members. Structural reforms to the labour market are of particular importance in this respect. Indeed, the euro area Member States committed themselves to an **ex-ante coordination** of their national plans for major economic reforms with a view to benchmarking best practices and working towards a more closely coordinated economic policy. The Employment Committee, taking note of the on-going pilot exercise by the Economic Policy Committee, feels that a reinforced system of EMCO's multilateral surveillance, allowing discussion of Member States reforms at an earlier stage, provides the right vehicle to provide grounded analysis, peer pressure, and exchange of relevant best practice. EMCO will reinforce its current work and work closely with others to provide this. Such work, within the mechanisms of Article 148 and the European Semester, should fully respect national legislative practices and subsidiarity, with a division of competence based on policies, not on procedures.



Annual Growth Survey 2014 (AGS), Joint Employment Report (JER) and the Alert Mechanism Report (AMR) 2014

- Report -

The SPC examined the autumn package of the Commission and exchanged views on it with the European social partners. The Committee thanks the Commission services for their availability in presenting the autumn package. The following points are highlighted for the attention of Ministers:

1. Annual Growth Survey

Signs of emerging but fragile recovery

The economic cycle is making an upward swing. The AGS is published in a context of an emerging fragile recovery following a protracted economic slowdown that affected the employment outlook and the living standards of millions of Europeans. As shown by the Commission analysis on the implementation of the Council recommendations, progress is made in a number of key policy areas positively impacting on public deficits, competitiveness and economic imbalances.

Further worsening of the social situation is likely to continue

The Committee heard the concern of social partners that the EU growth forecast of 1,4 % for 2014 is unlikely to redirect living standards up and significantly reduce the unacceptably high unemployment. The legacy of the economic crisis will continue to weigh on the social situation particularly in countries where unemployment remains historically high and where social protection systems operate with significantly reduced automatic-stabilisation capacity. The SPC therefore shares the Commission assessment of the depressed social situation: those at risk of poverty or social exclusion reached the alarming figure of 25% of the EU total population. Youth unemployment in the euro zone soared to 24,4%.

As the AGS 2014 refers to the income situation of Europeans in 2011 (except for material deprivation), further worsening of the social situation and climate is likely to continue well beyond the AGS horizon. Although stabilising, the record levels of unemployment and long-term unemployment generate social exclusion and poverty- particular of young people - which weakens social cohesion and confidence in the future.

Continuation of the policy priorities ensures stability but requires more balance

The SPC appreciates the stability of the AGS policy orientations. The Committee sees room for more balance between the emphasis on targeting of social benefits and the less promoted universal access to them. As part of the social investment approach, universal and selective approaches are complementary¹ and are both required for adequate and effective social protection systems. In cooperation with the Economic Policy Committee and EMCO, the SPC is preparing a report to the Council on the effectiveness, efficiency and financing of social protection. With this in mind, the SPC is of the view that the analysis needs to go beyond the social emergencies which cannot always be addressed through efficiency gains. More preventive approach is therefore needed.

As regards the recurrent individual policy recommendations (retirement policy and financing of social security) a better link should be made with their structural and growth potential. The involvement of social partners in the preparation of these reforms is essential. Better integrated and synchronised economic and social policy reforms will more effectively spur growth and drive living standards up again.

Looking ahead to new policy priorities

Following the discussion within the Committee and with the EU social partners, future policy analysis needs to focus more on:

- the growth-enhancing potential of investments in human capital,
- the downward drivers of the social situation (in-work poverty, poverty risk of the (quasi) jobless households and child poverty),
- the role of the social economy,

The social partners also stressed the need for more emphasis on the potential of small and medium enterprises and on their skills' and financing needs.

¹ Council conclusions 'Towards social investment for growth and cohesion', 20-21 June 2013.

2. The employment and social scoreboard²

In the wake of the October 2013 European Council conclusions, the SPC recommends the approval of the proposed employment and social scoreboard³

While the scoreboard is a positive contribution to the reinforcement of the social dimension of the EMU, the Committee found that in the short-term there is a need to:

- review the geographical grouping of Member States and the references used in this respect;
- verify the statistical significance of the trends

Further work on the scoreboard will continue beyond 2013

In the long run, the Committee and its Indicator-group will pursue further examination of the choice of indicators, the possible application of the Social Protection Performance Monitor (SPPM) criteria for identifying social trends to watch to the scoreboard indicators and its links with the SPPM. The Committee stands ready to discuss with the Commission further improvements to the scoreboard in order to better exploit its potential as a policy guidance tool. There is also a need to ensure better consistency between headline and sub-indicators and underpin the data with more analysis.

At the same time, the SPC highlights that policy analysis as well as the integration of policy indicators in the current quantitative monitoring remains essential.

3. The Alert Mechanism Report

The SPC notes that the Commission introduced auxiliary social indicators in the scoreboard of the macroeconomic imbalance procedure (MIP) different from those it proposed in the employment and social scoreboard. Multiplying the monitoring instruments on the social situation and applying different indicators across instruments could potentially weaken the effectiveness of the monitoring process. The application of the MIP needs to remain focussed on its core functions. In addition, the inclusion of social variables in the auxiliary indicators of the MIP scoreboard is not a justification for applying the MIP to policy areas outside its regulatory scope.

² Chapter III of the draft Joint Employment Report.

³ The UK is of the view that the scoreboard should be voluntary for non-euro zone Members.