

Jobs, Jobs, Jobs

Creating more employment in Europe

Report of the Employment Taskforce
chaired by Wim Kok

November 2003

Foreword

European Heads of State and Government established the Employment Taskforce in response to concerns that Europe was failing to tackle effectively the significant employment challenges it faces. We were invited to identify practical reform measures for Member States to implement the revised European Employment Strategy.

It has been my pleasure to chair this Taskforce which, as requested, has reviewed Europe's employment performance. The picture is worrying. We are clear in our own minds that the EU will fail in its employment objectives unless Member States step up their effort to increase adaptability, labour supply and investment in human resources. The Taskforce hopes this report will stimulate new momentum and kick-start the necessary reforms.

Our report comes at a time when Europe is facing considerable economic and social problems. The overall rate of economic growth is much too low and unemployment much too high. At the same time, globalisation and demographic ageing mean that Europe must become more competitive and increase employment and productivity drastically. This is not just an economic necessity - preventing people from becoming detached from the labour market is also a social priority.

Next year the EU will welcome ten new Member States and they too face significant challenges. The Taskforce sees enlargement as an important asset for Europe's stability and growth. Without enlargement, the reform process in these countries would be much more complex.

Europe is currently discussing measures to boost economic growth by increasing investment in infrastructure and knowledge. The Taskforce supports these efforts and encourages the European Council to launch its Initiative for Growth. But this, in itself, is not enough. Policies to promote economic growth must be backed up by structural reforms to make labour markets more flexible and work more attractive, to extend working life and develop human resources.

Although Member States must bear the primary responsibility to act, the EU must support them, making better use of its benchmarking tools to drive progress. Instead of setting new objectives or even amending existing ones the EU should confront Member States when they under-perform. Member States should focus on implementation of what has been agreed.

The high-minded words, expressed at Lisbon more than three years ago, must be followed by deeds. This applies not just to Governments, but to all stakeholders. Europe stands a fair chance of meeting its objectives of economic growth, more and better jobs and greater social cohesion if it acts decisively now. Many fear the social and financial costs of reform. To these people the Taskforce says: 'What will be the cost for growth, employment and social cohesion of failing to act?' In my life, I have seen the destructive effects of unemployment. But I have also learnt that it can be beaten with political will and leadership. Europe must keep its resolve and act now.

Chairing this Taskforce has been a privilege and I am grateful to all the Members for their harmonious co-operation and invaluable expertise. I would also like to thank the Taskforce Secretariat for its hard work and unfaltering support.

Wim Kok

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The Employment Taskforce

Mandate

The European Council held in Brussels in March 2003 invited the Commission to establish a European Employment Taskforce, headed by Wim Kok, to carry out an independent in-depth examination of key employment-related policy challenges and to identify practical reform measures that can have the most direct and immediate impact on the ability of the Member States to implement the revised European Employment Strategy and to achieve its objectives and targets. The Taskforce was due to report in time for the Joint Commission/Council Employment Report to be submitted to the 2004 Spring European Council.

Membership

The Taskforce was composed of the following Members:

- Wim Kok, former Prime Minister of the Netherlands
- Carlo Dell’Aringa, Professor at the Institute for Microeconomics and Labour at the University of Milano “Sacro Cuore”
- Federico Duran Lopez, labour market specialist and Professor of Employment and Social Security at the University of Cordoba
- Anna Ekström, President of the Swedish Confederation of Professional Associations (SACO)
- Maria João Rodrigues, President of the Social Sciences Advisory Group to the European Commission, Professor, Higher Institute for Business and Labour Studies, Lisbon University Institute
- Christopher Pissarides, Professor of Economics and Director of the research programme on Technology and Growth at the Centre for Economic Performance, London School of Economics
- Annette Roux, CEO, the Bénéteau company
- Günther Schmid, Director of Employment, Social Structure, and Welfare State at the Social Science Research Center in Berlin and Professor of Political Economy at the Free University of Berlin

The Taskforce carried out its work from April to November 2003. It met six times and presented its report to the Commission on 26 November 2003. The Secretariat of the Taskforce was held by the European Commission. Antonis Kastrissianakis, Director in the Directorate General for Employment and Social Affairs, acted as Secretary, with the support of Hélène Clark, Head of Unit, and Luc Tholoniati, member of the Employment Strategy Unit. Servaas Deroose, Director in the Directorate General for Economic and Financial Affairs, also contributed to this work. Jos Kester, senior policy advisor in the Dutch Ministry of Social Affairs and Employment, acted as political assistant to Mr Kok. Clare Maclure, Director of Maclure Ltd, contributed to the editing.

Content of the report

The report covers all Member States – current and new – in the enlarged Union. Chapter 1 presents the main challenges and conditions for increasing employment in Europe. Each section of chapters 2, 3 and 4 includes key lines for action for the EU as a whole and concludes with country-specific messages. A number of practical examples are also given. Chapter 5 focuses on issues of governance at national and EU level. Country-specific messages are summarised for each of the 25 Member States in Annex 1. Some statistical information is provided in Annex 2. The contents of this publication reflect the opinion of the Employment Taskforce only.

Summary

The European Union is at risk of failing in its ambitious goal, set at Lisbon in 2000, of becoming by 2010 the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion.

Unless the Member States step up their efforts, it is looking increasingly unlikely that the overarching goal for 2010, and the employment objectives, will be attainable. The new Member States are also called on to undertake proportionate action.

Despite the structural improvements achieved in a number of Member States and the rise in employment from the mid-1990s to 2002, it is clear that, overall, Europe has a large gap to bridge to achieve the employment objectives set at Lisbon. Moreover, with the economic slowdown, unemployment has increased, reaching high levels in a number of Member States.

In responding to the slowdown, Europe should not lose sight of the wider, longer-term challenges it is facing. Globalisation and economic integration are increasingly affecting the way Europeans live and work and demanding for rapid response to, and management of, change. The rapid ageing of the population is calling into question Europe's ability to remain competitive and achieve higher employment and economic growth in the future.

Reducing unemployment and boosting employment are political, social and economic necessities. By acting decisively *now*, Member States can increase confidence and support economic growth. The issue, however, is not just about how many new jobs Europe can create in the short-term, but also how Europe can raise its economic potential, with sustainable employment and productivity growth in the medium- and longer-term. Europe needs more people in work, working more productively.

To boost employment and productivity, it is clear that success in Europe will depend on four key requirements:

- increasing adaptability of workers and enterprises,
- attracting more people to the labour market,
- investing more and more effectively in human capital,
- ensuring effective implementation of reforms through better governance.

In responding to these requirements, Europe should make better use of the many examples of good practice that exist.

Firstly, Europe needs to increase the adaptability of workers and enterprises. Member States, social partners, enterprises and workers must increase their capacity to anticipate, trigger and absorb change, whether cyclical or structural, if more jobs are to be created and filled.

To achieve this, the creation of new businesses must be fostered and job creation maximised by reducing administrative and regulatory obstacles to the setting up and management of businesses, by providing better access to finance and offering advisory support to business start-ups. To maximise job creation, in particular for the low-skilled, Member States should pursue efforts to reduce the non-wage labour costs for low-wage earners. Overall wage developments should not exceed productivity growth over the economic cycle and should reflect the labour market situation.

Levels of investment in R&D, private but also public, must be boosted by setting the right legal and fiscal incentives, for instance through improved property rights and a favourable tax environment. Efforts to promote and disseminate innovation must be undertaken by encouraging networks and partnerships at regional and sectoral level. Europe must make better use of the potential of the European Single Market by applying common standards and by co-ordinating research efforts. The Taskforce draws attention to the experience of Sweden, Finland and Denmark, which stand out as best performers in terms of R&D and innovation.

Labour markets must be made more flexible while providing workers with appropriate levels of security. Flexibility is not just in the interest of employers; it also serves the interest of workers, helping them to combine work with care and education, for example, or to allow them to lead their preferred lifestyles. On the other hand, security does not just mean employment protection, but encompasses the capacity to remain and progress in work. Member States and social partners are advised to examine and, where necessary, adjust the level of flexibility provided under standard contracts, in order to ensure their attractiveness for employers and to provide for a sufficiently wide scope of contractual forms to enable employers and workers to adapt their working relationship to their respective needs and preferences. They are also advised to examine the degree of security in non-standard contracts.

This would help to prevent the emergence of a two-tier labour market where “insiders” benefit from high levels of employment protection, while an increasing number of “outsiders” are recruited under alternative forms of contracts with lower protection. The Taskforce draws particular attention to the examples of Denmark and The Netherlands. They represent two approaches to balancing flexibility with security that have proven their value in practice. In addition to this, the Taskforce advocates that the Member States work towards the removal of obstacles to temporary work agencies rendering them effective and attractive intermediaries in the labour market, offering improved job opportunities and high employment standards. Further, governments and social partners must allow for, and promote, modern and more flexible work organisation. Removing obstacles to part-time work is also a necessary condition in many countries to raising labour market participation and employment. Governments and social partners are also advised to examine the extent to which social protection systems facilitate transitions between different statuses, such as work, training, career breaks or self-employment.

Secondly, Europe needs to make work a real option for all. To underpin economic growth, the EU must draw more people into employment. The challenge is both to attract more people to the labour market and also to ensure that they can achieve sustainable integration in jobs. In spite of the economic slowdown and the rise in unemployment, everything possible must be done to ensure that those who become unemployed remain closely attached to the labour market and to increase their employability. Increasing labour market participation is all the more necessary because of the forthcoming decline of the working age population.

To ensure that people enter the labour market, Member States must seek to end unemployment, inactivity and low pay traps by adjusting the balance between taxes and benefits, focusing on the low paid. In-work benefits and careful targeting of income-dependent benefits can help to ensure that each hour worked results in a net income gain. Moreover, assisting effective job search, facilitating access to advice, training and work for the unemployed and inactive people, is of crucial importance, especially in a period of economic restructuring when people are at risk of losing touch with the labour market. This includes disadvantaged young people, for whom intensive coaching and effective pathways to work and training are required.

Specific action is also needed to remove the many obstacles that still hinder the participation of women. This calls for the provision of good quality childcare and eldercare which is affordable and widely accessible in terms of geographical coverage and opening hours, the removal of remaining tax disincentives, encouragement of attractive part-time work and addressing pay gaps. The need to achieve better integration of immigrants deserves particular attention, including through the promotion of business creation by immigrants.

To ensure that people remain in work longer, it is vital that Member States engage in building comprehensive active ageing strategies. The labour market situation for workers aged 50 and over is a major cause for concern, all the more so in the light of demographic ageing. Urgent action is needed not only to ensure that a higher share of those currently aged 55-64 stay in work, but also to keep a much larger share of those currently in their 40s and 50s in employment.

Building active ageing strategies requires a radical policy and culture shift, away from early retirement, towards three key lines for action: providing the right legal and financial incentives for workers to work longer and for employers to hire and keep older workers; increasing participation in training for all

ages, especially for the low-skilled and for older workers; and improving working conditions and quality in work. This implies, in particular, discouraging early retirement: working after the age of 60 should become the norm. In this respect, the Taskforce draws attention to the experience of Sweden, which has achieved the highest employment rate of older workers, and of Finland, where employment trends of older workers have been the most favourable since 1995.

Thirdly, Europe needs to invest more in human capital. Too many people do not enter the labour market because of a lack of skills, or due to skills mismatches. Knowledge-based and service-based economies require different skills from traditional industries; skills which also constantly need updating in the face of technological change. Workers, if they are to remain and progress in work, need to accumulate and renew skills regularly. The productivity of enterprises, and the overall competitiveness of our economy, is directly dependent on building and maintaining a well-educated, skilled and adaptable workforce that is able to embrace change. In this respect, the Taskforce draws the attention to the experience of Denmark, Sweden and Finland, which combine high levels of initial educational attainment and access to university with high levels of participation of adults in training.

Governments need to ensure that educational attainment levels are improved and, as a matter of priority, all stakeholders must be mobilised to make lifelong learning a reality. The Taskforce urges each Member State to devise ambitious policies to raise educational levels and ensure greater participation in training throughout working life. This is particularly necessary for those considered as low-skilled. Such policies should include clear objectives for the whole population and cover effective measures to stimulate demand and supply of learning activities, and better anticipation of skills' needs. The vicious circle of low investment by business in training must be broken. This should be done by devising systems of cost sharing on a voluntary, compulsory or mixed basis, for example through sectoral and regional training funds.

Finally, carrying out reforms in these three policy fields is a major political challenge and good policies must be backed up by good implementation. Member States should reaffirm their commitment to the employment objectives they have set together at European level. They should now define clear national policies and objectives, backed by appropriate targets and efficient use of public funds. The National Action Plans for Employment, called for under the EU Treaty, are an obvious tool to bring together the different elements in the programming of reforms. They need to have political legitimacy and the approach of several Member States of involving their national parliaments, and consulting social partners and civil society, could become the norm.

To succeed, it is essential that governments build up reform partnerships, by mobilising the support and participation of the various stakeholders, and securing public conviction in the need for reforms. Also, more efforts should be made to demonstrate to the general public why reform is necessary and why it is in the interest and advantage of all.

The EU has an important role to play to support Member States' efforts. By confronting Member States with their specific strengths and weaknesses and addressing policy recommendations, by strengthening co-operation and by linking the EU budget more closely to the implementation of the Lisbon objectives, the EU can be an effective lever to bring about the necessary reforms.

Chapter 1. Are the Lisbon objectives still within reach?

The European Union is at risk of failing in its ambitious goal of becoming by 2010 the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion¹.

These objectives were challenging when they were set in 2000, at a time when the EU was enjoying strong GDP growth and falling unemployment. Since then the economic outlook has become less favourable, the employment performance has deteriorated and the objectives seem even more daunting.

To implement the Lisbon strategy, the EU has put in place important policy instruments. However, unless Member States step up their efforts, it is looking increasingly unlikely that the overarching goal for 2010, and the employment objectives, will be attainable. Three years into this ten-year programme of change and it is clear that insufficient progress has been made.

The European Employment Taskforce has been set up to analyse the challenges that the EU faces and to identify the key issues that the EU as a whole, and Member States individually, need to address in order to achieve the Lisbon objectives and targets. The Taskforce has neither the need nor the remit to revisit the strategy; rather it seeks to re-energise the Member States' efforts towards this goal by identifying priorities for action and proposing practical measures that can have a direct and immediate impact.

1.1. Key employment challenges

The Taskforce believes that the EU's success or failure in meeting the employment targets - and by extension the overall objective of the Lisbon Council - hinges on its response to the twin structural challenges that it currently faces: economic transformation and demographic ageing. In the medium-term, it is also being tested by the cyclical shock of the recent economic downturn, and by persistently high levels of long-term unemployment in many Member States (see chart 1 in Annex 2).

These issues demand that both existing and the new Member States review the way they use and develop their human resources. They must ensure that short-term responses to the economic slowdown are compatible with policies to address the underlying and more important structural changes.

1.1.1. Globalisation and economic integration – driving forces of change and modernisation

Globalisation, economic integration and technological innovation are changing the way Europe lives and works.

International trade and financial markets are increasingly integrated and the markets for capital and information are to a large extent global. The service sector is of growing importance and information and communications technology is creating new industries and new services. Globalisation and technical progress are constantly shifting the structure of markets and are changing work relationships. The EU's economic performance is influenced by these changes in trade, capital movements and consumption patterns and through the diffusion of knowledge and technology. Unlike old industries where success and advancement was and must continue to be linked to investment in physical

¹ Conclusions of the European Council held in Lisbon in March 2000.

equipment and infrastructure, the knowledge-based economy depends on investing in human capital and R&D. The transition to a knowledge-based economy is not only key to Europe's productivity but is also a major source of job creation.

The economic transformation is changing the employment profile of the EU, the skills requirements of enterprises and traditional thinking about how, when and even where people should work. Globalisation is an issue for all but it is affecting, and will continue to affect, different Member States and different regions within those countries differently. The differentiated impacts are likely to increase performance gaps between the knowledge-rich and knowledge-poor within society and across regions.

Economic integration, both world-wide and within the EU, is a massive change generating unique challenges and opportunities but it is a fact of life for all developed economies. The question for Europe is how well is it responding to the new reality. Implicit in its overarching goal to be the most dynamic and competitive knowledge-based economy is the assumption that it must be the most successful at adapting to and embracing the new information age.

1.1.2. Facing up to a shrinking and ageing workforce

The process of economic transformation is coinciding with a radical demographic shift that is progressively altering the make-up of European society and the functioning of the EU economy. It is raising difficult questions about how Europe can remain competitive and achieve higher employment and economic growth in the future.

For years the so-called 'Demographic Timebomb' has been debated as if it were a distant problem on the far horizon. This attitude is no longer sustainable. The facts are stark. By 2030 there will be 110 million people over the age of 65 in the EU25, up from 71 million in 2000. This means that the old age dependency ratio – the percentage of people aged 65 and above compared to the number of people aged 15-64 – will increase from 23% in 2000 to 39% in 2030.

Clearly this population profile will create severe problems for the sustainability of welfare systems. Although the opportunities in terms of demand for new products and services should not be neglected, the implications for employment, productivity and growth will be serious. As the old age population grows the working age population will shrink. By 2030 it will stand at 280 million compared to 303 million today.

This means that even if the EU meets its target of having an employment rate of 70% by 2010 - about which there is already doubt - the fall in the working age population over the subsequent 20 years will result in a sharp overall decline in the volume of employment. The EU25 would lose an average of one million workers a year (see chart 2 in Annex 2).

This has a direct impact on the ability to sustain economic growth in the longer term. A decline in the total volume of employment would have to be compensated for by very significant increases in productivity growth just to maintain an overall economic growth of about 2-2.5% a year. Unless employment levels above the 70% level can be achieved and productivity can be significantly improved, the average GDP growth per capita in the EU will slow down significantly between 2010 and 2030.

1.1.3. The economic slowdown is compounding problems

Although EU labour markets have responded to the current economic slowdown better than to the last one in 1992/3, suggesting an increased resilience, employment growth over the last two years has stalled or turned negative in most Member States.

After a significant increase, from 60.7% in 1997 to 64.3% in 2002, the overall employment rate for EU15 is expected to stand virtually unchanged in 2003, at 64.2%². Assuming a moderate economic recovery, the employment rate is expected to rise slowly, reaching a level close to 65% in 2005. This would still be two percentage points below the EU intermediate target set in Lisbon.

Moreover, since 2001, unemployment has risen in EU15 and is forecast to reach an average of 8.1% for the year 2003. Some Member States are affected more than others but there are now some 14 million people unemployed in the EU15 as a whole (see chart 3 in Annex 2).

The new Member States have enjoyed solid economic growth in recent years but employment growth has been very modest and even negative in a few countries. Unemployment has declined in most new Member States but, on average, it still stands at about 15%, with particularly high rates in Slovakia (17.7%) and Poland (20.6%).

At this time of job cuts and increasing unemployment, there is a real danger that the more serious structural challenges of economic transformation and demographics will be forgotten. Hence, it is important to stress that the recent rise in unemployment and inactivity must be seen as the short-term reflection of the longer-term failure to use the potential of Europe's human resources to the full and to achieve higher rates of economic growth.

It is, therefore, crucial that Member States, in their response to the cyclical economic situation, do not lose sight of the wider picture. It is important that the newly unemployed do not become detached from the labour market so the focus should be on active measures such as retraining to ensure they are available to move back into the world of work as soon as possible.

1.2. Europe must tap its unused human potential

The European Employment Strategy has three main strands: achieving full employment, increasing productivity and quality at work, and promoting cohesion. Many Member States and the EU as a whole are currently underachieving on all three fronts because of under-utilisation of, and under-investment, in people.

While performance varies from country to country, it is clear that, overall, the EU is failing to use its full human resources potential because it is not attracting enough people into work. Nor is it doing enough to help them remain employable.

The European Employment Strategy

The European Employment Strategy was developed in response to the appalling performance of Europe's labour markets since the 1980s. This reached its nadir in the early 1990s when more than 17 million people - over 10% of the active population - were out of work.

The launch of the Strategy at the 1997 Jobs Summit in Luxembourg sent a strong signal to European citizens that Heads of State and Governments considered employment a top priority. The European Employment Strategy (EES) was designed as the main tool to co-ordinate and give direction to the employment policy priorities of the Member States. The Lisbon European Council, in March 2000, gave further impetus by linking the Employment Strategy to the broader economic and social agenda of the EU.

Following an evaluation of the Employment Strategy's first five years, the Thessaloniki European Council in June 2003 endorsed far-reaching guidelines for reform for the period 2003-2006. They

² This figure and the figures below are based on the Commission services' estimates (2003 autumn economic forecasts). See also European Commission (2003), *Employment in Europe 2003*.

covered Broad Economic Policy Guidelines, revised European Employment Guidelines and country-specific Employment Recommendations.

Three overarching objectives were set for the revised European Employment Strategy:

- full employment;
- quality and productivity at work;
- social cohesion and an inclusive labour market.

The new guidelines incorporate ten specific priorities for action and emphasise good governance and partnership to ensure effective implementation. In response to the revised Employment Guidelines, Member States submitted their National Action Plans for Employment for the year 2003/2004 in October 2003.

In pursuit of the goal of full employment, the European Council has set ambitious employment targets for the working age population:

- an overall employment rate of 67% in 2005 and as close as possible to 70% in 2010;
- a female employment rate of 57% in 2005 and more than 60% in 2010;
- an employment rate for older workers (aged 55-64) of 50% in 2010.

Improving the participation of women and older workers along with other groups who are under-represented in the labour market is also central to meeting the goals of increasing economic growth and achieving greater social cohesion.

A review of how Member States are progressing suggests that a significant performance improvement will be needed if the targets are to be met.

1.2.1. Europe faces a significant job creation shortfall

Since 1997 total employment in the EU15 has increased by some 11.5 million. The average annual rate of employment increase, therefore, during what was for the most part a period of solid economic growth, was 1.3%. To reach an employment rate of 70% by 2010, employment must increase by a further 15 million in EU15. This implies that an average annual increase in employment of about 1.5%, greater than that seen between 1997 and 2002, is needed (see chart 4 in Annex 2).

In stark contrast with the performances of the 1980s and early 1990s, the employment growth achieved in the last six years for EU15 was heartening and demonstrates that, where they have been carried out, reforms have paid off. However, the overall result masks considerable variation across the different Member States. Only Denmark, the Netherlands, Sweden and the UK have so far achieved employment rates of above 70%. Employment rates in Belgium, Greece, Spain and Italy are below 60%. While Ireland, Spain and Finland achieved high rates of increase, employment growth stalled in Germany, which as the EU's most populous country has enormous influence on Europe's overall performance (see chart 5 in Annex 2).

The picture for the new Member States is even more challenging. The employment rate has been dropping over the last decade in most of them, due to economic restructuring, and the average employment rate was just about 56% in 2002 (see chart 6 in Annex 2).

Performance also varied by regions with regional disparities in unemployment and employment remaining a problem in many parts of Europe. The worst performing regions in terms of GDP per capita are characterised by persistently poor performance in terms of employment and unemployment and in many cases productivity growth. Regional disparities will become even more striking within the EU after enlargement.

1.2.2. Gender gaps remain

The overall female employment rate for the EU15 saw some welcome progress between 1997 (50.8%) and 2002 (55.6%), and continues to improve but it is still much lower than that for men while the unemployment rate for women is on average 1.8 percentage points higher than for men.

Employment rates are around 17 percentage points lower for women than for men and the gap is nearly 30 percentage points in Greece, Spain and Italy. Clearly these countries have considerable work to do if they are to come anywhere close to the Lisbon objective let alone EU's best performing countries - Denmark, Sweden and Finland - which have a gender gap of less than 10 percentage points (see chart 7 in Annex 2).

In most new Member States female participation used to be high but fell dramatically during the early years of economic restructuring. However the female employment rate remains on a par with, or higher than, the EU average in most new Member States but stands at low levels in Malta, Poland and Slovakia (see chart 8 in Annex 2).

If the Lisbon target of an employment rate of more than 60% for women is to be achieved the average annual increase in female employment experienced since 1997 must be sustained for the next seven years. It is especially important that the momentum is increased in those Member States with particularly low female employment rates.

1.2.3. The EU needs more and longer participation from older workers

The employment picture for older workers is a major cause for concern, all the more so in the light of demographic ageing. Only four Member States – Sweden, Denmark, Portugal and the UK – currently exceed the 50% target for the employment of 55-64 year olds. At the other end of the scale Belgium, Italy, France, Luxembourg and Austria have employment rates for older workers of less than 33%. The new Member States are still lagging far behind the target (see charts 9 and 10 in Annex 2).

The EU15 will miss its 50% target unless it can increase the number of older workers in work by 7 million over the next seven years. This means that two thirds of the current 46-55 age group must still be active in the labour market in 2010. Achieving this would require a significant change in behaviour - only half of those who were 45-54 and in employment in 1991 were still in work ten years later.

Governments and social partners must act now to ensure that not only today's older workers but also tomorrow's older workers – the current 40-50 age group – have the right incentives to remain in the workforce. This means reversing policies that have made early retirement attractive and ensuring that training and career development opportunities do not dry up as workers get older. Member States must not lose sight of this important issue during the current economic downturn. The typical response seen in past economic downturns of encouraging early retirements is entirely inappropriate this time around.

As recognised by the Barcelona European Council of 2002 delaying the average age at which people leave the labour force is crucial. Luxembourg, Belgium and France in the EU15 and Poland, Lithuania, Hungary and Slovakia among the new Member States all have average exit ages that are below the EU average of 59.9 and will be particularly stretched by the Barcelona target of increasing the EU average exit age by five years by 2010.

Allowing low employment rates for older workers to continue in conjunction with early exits from the labour market will seriously impair the EU overall employment and economic growth performance and the social and financial sustainability of pensions systems. This will become increasingly alarming as demographic ageing accelerates in coming years.

1.2.4. Other areas of untapped potential

Too many people drift into long-term unemployment and inactivity due to lack of skills, or lack of incentives or support to enter or re-enter the labour market. Improving participation in the workforce requires the EU to tackle barriers to the labour market experienced by disadvantaged people such as the low-skilled, the long-term unemployed, people with disabilities and non-EU nationals.

The level of educational attainment directly impacts on an individual's chances of finding a job. The employment rate of low-skilled people stands at about 49%, compared to 83% for the high-skilled. The gap exceeds 35 percentage points in Belgium, Italy, Ireland, Finland and the UK. The overall EU employment rate for low-skilled women is a strikingly low 37% in 2002 and in Italy the figure is as low as 27%.

Long-term unemployed people represented around 40% of the total number in unemployment in 2002. The decline in long-term unemployment seen between 1994 and 2002, down to 3%, reflects in part improved employment performances over the period but also the fact that a number of discouraged long-term unemployed people shifted into inactivity (see chart 11 in Annex 2).

In the new Member States long-term unemployment increased between 1997 and 2002 from 6.5% to 8.1% with levels of over 10% in Poland and Slovakia.

Preventing people from drifting out of employment and raising the skills levels of the long-term unemployed are clear challenges for the EU.

Moreover, over 14% of the working age population have some form of disability and are vulnerable to exclusion from work. Their employment rate stands at 40% in the EU15. In most Member States, there is also a striking gap between the employment rates of non-EU nationals and EU nationals - on average 53% compared to 66% - while their unemployment rate is 16% compared to 7% for EU nationals (see chart 12 in Annex 2).

1.2.5. Increased employment must be matched by increased productivity

Achieving sustainable economic and employment growth does not depend solely on the EU's ability to raise employment rates. It must also reverse the decline in productivity that has been witnessed over the last four decades. In this regard, it is not enough to improve the efficiency of production chains. It is also important to build new competitive factors by extended access to new markets in a globalised and knowledge-based economy.

The contribution of labour productivity growth to economic growth has fallen from an annual average rate of 4.6% in the 1960s to 2.8% in the 1970s, 1.8% in the 1980s and 1.5% in the 1990s. It has slowed down further to 1.0% since 1997. This continuing decline contrasts with the sharp increase in employment growth over the recent period. It also contrasts with the US experience where both employment and productivity increased significantly during the 1990s (see chart 13 in Annex 2). It is to be noted, however, that within the EU, Finland, Sweden and Ireland have managed to outperform the US in combining higher rates of both employment and productivity growth.

The decline of productivity growth in the EU can only partly be explained by the decline in the average number of hours worked per person linked to the increasing share of part-time work over the 1997-2002 period. Worryingly, the level of productivity per hour is 15% lower in the EU than in the US. Again, performance per person employed varies markedly across Member States reflecting differences in hours worked and the relative importance of part-time work (see chart 14 in Annex 2). The relative contribution of employment and productivity growth in the Member States and the job content of economic growth also vary significantly across Member States (see chart 15 in Annex 2).

The experience of the new Member States is rather different. Relatively strong economic growth in the accession countries continues to be driven by strong increases in productivity while employment growth remains modest or stagnates (see chart 16 in Annex 2).

1.2.6. Driving up the quality of employment

While it is clear that higher levels of real wages and better working conditions are dependent on higher rates of productivity growth, it is also true that raising the quality of jobs and skills levels helps to boost the efficiency and productivity of the economy and to integrate people more firmly into the labour market. This will become all the more necessary as the workforce shrinks and skills mismatches and shortages arise and as the EU evolves into a knowledge-based society.

Job quality is a complex concept made up of a range of components including pay and benefits, working conditions, job security, access to training and career prospects. Research by the Commission³ on quality in EU jobs has shown that a worrying proportion of employees consider themselves to be in jobs of low quality. This continues to require attention because while low quality jobs are preferable to no job at all, people in this situation are much less likely to progress into jobs of better quality.

1.3. Boosting employment and productivity – key conditions for success

This review of the current state of employment in the EU demonstrates that most Member States – both current and new – face significant gaps in their performance and many are seriously lagging behind in responding to the employment objectives set by the European Council.

Much will depend on the rate of economic growth for the coming years, as the economic slowdown has stopped the progress that was achieved since the mid-1990s. However, employment growth is in itself a key determinant of economic growth. The Taskforce believes, therefore, that Member States should not wait for higher economic growth: the urgency of the current position is such that swift and robust action is required *now* if the EU employment agenda is not to be blown off course. In the light of the challenges Europe is facing, Member States must make sure they have well-trained and adaptable workforces of sufficient size to revitalise their economies and boost growth. Europe needs more people in work, working more productively.

The Taskforce urges governments to give new impetus and attention to policies that both accelerate employment growth and boost productivity - the key drivers of the economic growth potential and vital components of the Lisbon agenda. Member States must increase the supply of skilled and adaptable labour with particular attention to drawing more inactive people into the labour market. Member States must also strive to create an environment in which entrepreneurship and innovation flourishes and enterprises are constantly striving to modernise and invest in research and human capital. Better access to new markets both within Europe and globally is essential for job creation.

There is good practice out there and policies that could be emulated or adapted by others. The Taskforce hopes that this report which seeks wherever possible to identify good practice will prove a useful tool in helping Member States respond to the urgent situation that faces them all. This includes the new Member States that are called on to undertake proportionate action in order to achieve the European employment objectives.

It appears to the Taskforce that improving the EU's employment performance in the short- and medium-term depends on meeting four essential requirements for higher employment:

³ European Commission (2001), *Employment in Europe 2001*.

- ***Increasing adaptability of workers and enterprises***

To create more jobs, the Member States and enterprises must increase their capacity to anticipate, trigger and absorb change whether cyclical or structural.

Enterprises must become more flexible to respond to sudden changes in demand for their goods and services, and to the increasing demand for job quality which is related to workers' personal preferences and family changes. Workers must cope with new ways of working and changes in their working status and be prepared for lifelong learning. Governments must create business environments that support entrepreneurship, innovation and encourage investment in R&D and sufficient flexibility while ensuring genuine security on the labour market.

- ***Attracting more people to the labour market***

To restore and sustain economic growth, it is essential to draw more people into employment. Despite the current economic and employment slowdown, this must be a priority for Member States. Everything possible must be done to prevent unemployment and to ensure that those who become unemployed remain closely attached to the labour market and increase their employability.

Increasing labour market participation is all the more necessary because of the expected decline in the working age population. In the face of an ageing workforce, everyone is needed. Breaking down barriers to the labour market, assisting effective job search, creating attractive working arrangements and ensuring that work pays, are essential to achieving this.

- ***Investing more and more effectively in human capital***

The EU needs higher and more effective investment in human capital for the good of individuals, enterprises, society and the economy. Knowledge-based and service-based economies require different skills than traditional industries; skills which also constantly need updating in the face of technological change. Workers, if they are to remain and progress in work, need to accumulate and renew skills regularly. The productivity of enterprises is dependent on building and maintaining a workforce that can adapt to change.

Governments need to ensure that educational attainment levels are improved and all stakeholders should be mobilised to develop and foster a true culture of lifelong learning.

- ***Ensuring effective implementation of reforms through better governance***

Good policies must be backed up by good implementation. The employment challenges are also compounded by the need to address other issues only partially referred to in this report, such as the complex area of pensions and healthcare.

Member States should reaffirm their commitment to the EU's employment objectives and set clear national targets and priorities.

To succeed, it is essential that governments mobilise the support and participation of the various stakeholders, and secure public conviction in the need for reforms.

Chapter 2. Increasing adaptability: anticipating, triggering and absorbing change

As a result of the acceleration of technological innovations and of globalisation, change has become a constant feature of economic life. Restructuring is no longer just about change in traditional industries: it covers all sectors, including those growing rapidly. Higher employment and productivity, competitiveness, better wages and working conditions directly depend on the ability of enterprises and workers to innovate and adapt to change.

For enterprises, an environment that is favourable to new business, R&D and innovation is the main engine of change. Enterprises must be able to respond to sudden shifts in demand for their goods and services and adjust capacities. They will also have to cope with an ageing workforce and fewer young recruits.

For workers, working life is becoming more complex as working patterns become more diverse and irregular. A number of transitions need to be managed successfully, including the transition from school to work, between jobs and working statuses, between work and training, between career breaks and care periods, between working life and retirement. Geographical mobility is also needed to access job opportunities more widely and in the EU at large.

The EU must become more responsive to change. Priority must be given to fostering business and maximising job creation, to developing and disseminating research and innovation across the EU and to promoting flexibility combined with security on the labour market.

2.1. Foster new business and maximise job creation

More must be done to facilitate business creation and development, and to tap the potential for job creation in the EU. Entrepreneurs should benefit from an improved environment allowing them to invest in sustainable businesses. To maximise job creation, the cost of labour - including wages, taxes and other related costs for the employers - must remain employment-friendly.

The Taskforce urges Member States to:

- *reduce administrative and regulatory obstacles to the setting up and subsequent management of new businesses,*
- *develop advisory services (such as one-stop shops) for business start-ups and providing help for SMEs in managing human resources and financial risks,*
- *improve access to finance for start-ups and SMEs,*
- *promote an entrepreneurial culture, particularly by increasing managerial training in tertiary and vocational education,*
- *review insolvency law with the aim of reducing excessive risks to entrepreneurs and removing the stigma of failure,*
- *reduce the level of non-wage labour costs for the low-skilled and those on low wages,*
- *ensure employment-friendly wage developments that reflect the labour market situation and overall levels of productivity, and allow for sufficient wage differentiation across sectors and regions.*

Europe needs more entrepreneurs Europe needs many more new entrepreneurs to help create the 15 million jobs required by 2010 to achieve the Lisbon employment target.

Defined as the percentage of the labour force which is either actively involved in starting a new venture or is the owner/manager of a new business, entrepreneurial activity varies

greatly within in the EU, ranging from around 3% in Belgium and France to 9.1% in Ireland. This compares with 10.5% in the US⁴.

One contributory factor behind this is that in the US entrepreneurship is more frequently considered as a career option than in the EU⁵. Education and training in the EU must value entrepreneurship more and prepare people better to take it up as a career. This calls for action at all levels of education; in particular, courses on entrepreneurship should be part of all higher education curricula, and management training should be improved.

Efforts must also be made to reduce the time and costs involved in setting up a business. Whereas in 2001 the typical number of days⁶ required to set up a private limited company was only seven in the UK and eight in Ireland, it took more than 30 days in Italy and Belgium. Typical costs range from nothing in Denmark to more than € 1,500 in Austria, Greece and Spain. Setting up an individual enterprise can also be time consuming and carry a substantial administrative cost in some Member States, most notably Spain and Italy.

Advisory services, including one-stop shops, can play a valuable role in facilitating business start-ups and should be promoted. Better access to bank loans, as well as alternative sources of financing, is also needed. Full implementation of the European Action Plan for Risk Capital - which aims to eliminate remaining administrative and regulatory barriers that hinder the full development of risk capital at both EU and national level - is important in this context⁷.

In addition to these measures, it is essential that the perceived imbalance between the risks and the rewards associated with entrepreneurship is redressed. Insolvency law should be reviewed where necessary to reduce excessive risks for entrepreneurs and remove the stigma of failure, while protecting creditors' interests and workers' rights.

Business with a fast growth potential must be better supported

The capacity of newly established businesses to grow is key to job creation. On this front also, the EU appears to be less dynamic than the US. Employment expansion among successful start-ups in the US is much stronger in the initial years. With a third of SMEs in the EU stating that they want to expand, it is vital that they are encouraged to do so and that their growth potential, and that of new SMEs as they are created, is unlocked.

Expansion is often hindered by the complexity of personnel rules and regulations such as recruitment formalities, administrative procedures and conditions for dismissals. Simplification has to be pursued as far as possible. In particular, the threshold effects arising if businesses employing more than a specified number of employees face increased regulation must be reviewed as they can discourage small firms from expanding. Long periods of uncertainty arising from disputes over dismissals may also hinder expansion. The need for attractive contractual arrangements is therefore crucial, as argued below under section 2.3.

There are limits, however, to how much regulation can be simplified to ease business life. For this reason, more needs to be done to help enterprises, especially smaller firms, to handle the complexities of business management notably by developing support services and using the potential of information technologies.

4 European Commission (2003), *Green Paper on Entrepreneurship in Europe*.

See Total Entrepreneurial Activity (TEA) Index. Global Entrepreneurship Monitor 2002

5 European Commission (2002), *Attitudes to Entrepreneurship – Some Results from Flash Eurobarometer 107*, Enterprise Directorate-General.

6 European Commission (2002), *Benchmarking the Administration of Business Start-ups. Final Report, Jan. 2002*.

7 The Plan was adopted at the Cardiff European Council in June 1998 on the basis of the Commission's paper *Risk capital: a key to job creation in the European Union* SEC(1998)522.

Entrepreneurs often learn best from other entrepreneurs. Business angel networks offer not only capital to small companies but also management assistance and board membership. Awareness should be raised about such networks and mentoring schemes and their contribution to sustaining new enterprises.

Access to finance, including well-functioning venture capital markets, an employment-friendly taxation of labour and the availability of skilled workers are other factors key to the expansion of business which demand attention.

Europe needs to tap the potential for job creation in expanding markets

Owing to constant changes in products and service markets, European economies need to build up their capacity to re-deploy rapidly and to respond to new potential markets.

Enterprises should be encouraged to exploit the new opportunities emerging in the enlarged EU as well as in the global market beyond the EU boundary. This should be supported by ambitious policies for developing international trade and co-operation.

Within the EU, there is also a considerable potential for development in knowledge-intensive services, environmental services and tourism, for example. This creates new opportunities for private initiatives to develop new jobs. There is also extensive unmet demand in care services⁸. In Portugal, only one third of the demand for support services for older people is satisfied, while in the UK, agencies are often unable to recruit enough workers to deliver the services requested of them. Important unmet demand is also observed in Italy, and is foreseen in Finland and Germany. The demand for childcare services significantly exceeds the available supply in countries such as the UK, Ireland, the Netherlands, Italy, Portugal and Spain.

More efforts should be made through structural reforms to create the right framework conditions for services to develop to meet this increasing internal demand. In particular, this requires a good supply of workers with adequate skills to perform new services, which implies the need to promote new occupational profiles and recognise new qualifications. Other measures, such as targeted reductions of VAT on certain labour-intensive services, currently under discussion at EU level, may contribute to raising employment in the sectors concerned.

Improving the business environment to foster job creation

In order to foster entrepreneurship among students, several schemes are based on virtual enterprises as learning tools. In Austria, the **“virtual firm”** is a business model based on a real firm. It provides a transparent view of internal business processes, external business relationships and other business practices. The virtual firm as a place of learning is a compulsory part of the curriculum in all Austrian schools and academies of business, and is recommended for business training in all schools. In the school year 2001-2002, there were approximately 1,000 virtual firms in **Austria** (out of a total of approximately 3,500 worldwide). Similar types of schemes are run in **Germany** through the JUNIOR project and in **Finland** through “practice firms”.

Enterprise Ireland operates a Mentor Network which offers businesses the benefit of advice from experienced entrepreneurs. Mentors provide input on issues such as financing, production, marketing and quality systems and then help to identify problems and suggest solutions. The service is free of charge and confidential. There is a special panel of start-up mentors to help in the earliest stages of setting up and running a business. In February 2000, Enterprise Ireland announced the expansion of the Mentor Network following positive survey results from clients.

The **Business Information System (BIS)** introduced in **Finland** at the beginning of April 2001 is maintained jointly by the National Board of Patents and Registration and the Finnish Tax

⁸ European Foundation for the Improvements of Living and Working Conditions (2003), *Survey on household services: employment in the care sector*.

Administration. As of 1 June 2001, entrepreneurs only need to fill in a **single registration application when establishing a company** submitted to one contact point.. In connection with this reform, all the entities under this system receive a single common Business Identity Code instead of the previous register numbers and other codes. The codes are administered by a centralised system, into which certain codes and basic data on all Finnish companies and corporations are entered and are made available to all citizens free of charge. In future, other public organisations are expected to join up in the use of the common register.

Belgium has adapted its **insolvency legislation** with a view to allowing entrepreneurs to rescue businesses when facing temporary problems and to liquidate non-viable activities as quickly as possible. Courts can declare honest bankrupt entrepreneurs to be 'excused', allowing them to make a fresh start.

In **Italy**, as part of an overall strategy to make the relationship between citizens and institutions simpler, a plan has been carried out since 1998 to establish in each municipality "**one-stop shops**" for existing and potential entrepreneurs conceived as help-desks and geared towards customers satisfaction. They provide companies (mainly start-ups) with information in order to reduce administrative, time and financial burdens on business.

In **Spain**, the "**New Company Statute**" establishes a "single business window" for newly created enterprises. The objective is to reduce the time taken for the paperwork necessary to create a SME from between 30 to 60 days to two days.

France has drawn up a **Quality Charter for support networks for entrepreneurs**, which lists nine commitments: reception; clarification of the role and performance of networks as support bodies; possible referral to another more relevant network or body; support for setting up a project; project confidentiality; designation of a contact person responsible for follow-up; availability of competent assistance; provision of material means for drawing up the project; and taking into account comments from project managers in order constantly to improve the service provided. The National Council for the Creation of Enterprises (CNCE) is responsible for promoting the Charter and organising, assessing and supervising its implementation. The CNCE will also contribute to exchanges between parties supporting the creation of businesses.

Pursue targeted efforts to reduce non-wage costs for low-skilled workers

To maximise job creation, that is to enhance the job content of economic growth and business creation, it is necessary to ensure employment-friendly labour costs⁹. This is not just important at the level of enterprise, but for the economy as a whole.

A key element in this respect is the share of taxes and social contributions in labour costs. Since the mid-1990s the past trend of increasing non-wage labour costs has been reversed and efforts have been focused on reducing them for low-wage earners.

However, in several Member States, employers' taxes and social contributions for low-paid/low-skilled workers still act as a serious disincentive to job creation. In most new Member States, non-wage labour costs are particularly high, considering the relatively low wages, and are a major impediment to recruitment. Only Hungary and Latvia have reduced somewhat employers' contributions in recent years.

Member States should pursue efforts to reduce non-wage labour costs on low-wage earners, while improving the targeting of such measures so that the budget cost is limited and that those workers who need it most - such as the low-skilled, new entrants, long-term unemployed and older workers - will benefit.

⁹ Labour costs include wages, taxes and other related costs for the employers.

Reforms in non-wage labour costs

In Ireland personal income tax rates especially at the bottom and middle end have been reduced since 1997 by 6 percentage points and the reform on tax credits was completed in 2001. The value of the main personal credits has increased significantly in recent years which has had the effect of moving significant numbers of income earners out of the tax net altogether. Moreover, employers and employees social security contributions were substantially reduced particularly for the low paid. The overall effect was a reduction in the tax wedge for the low paid of more than 8 percentage points between 1997 and 2002.

In Finland the central and local income tax rates have been reduced since 1997, especially at the low to the middle end of the income distribution. In addition the ongoing tax reform introduced reductions in employees' and employers social security contributions. The overall effect was a reduction in the tax wedge for the low paid of about 4 percentage points over the period 1997-2002.

In Germany, the social security regulation for "mini-jobs" and "midi-jobs" provides that workers earning up to € 400 (mini-jobs) are not subject to paying either social security contributions or income tax. Instead, employers pay a 25% lump sum tax to cover pension and health insurance and wage tax. Workers with earnings between € 400 and € 800 (midi jobs) are subject to normal taxes, but they face gradually increasing social security contributions until they pay the full rate as of the € 800 level of pay.

The French scheme on reduction of employers' social security contributions which has been running since 1993 is targeted at the low paid and is associated with a reduction in working time. This was coupled with the introduction of new complementary sources of financing for the social protection system, levied not just on wages, but on all sources of income (in the form of a general social contribution). For firms on a 39 hour base per week the maximum reduction is 18.2% of gross wages at the minimum wage (SMIC) level and up to 1.3 SMIC. For firms working on a 35 hour base the maximum subsidy reaches 26% of wages at the minimum wage, then decreases with wage increases and remains constant at over 1.8 SMIC (€ 600 a year). This scheme will be changed progressively within the next three years to become independent of the hours worked. About 11 million workers are covered by this scheme.

Ensure employment- friendly wage developments

Both the level and the structure of wages play a key role in an employer's decision to recruit or to dismiss workers and as an incentive to make production more efficient. The wage setting mechanisms in existing and new EU Member States deserve to be closely examined from the point of view of their employment impact.

Overall wage developments seem to be more a cause for concern in the new Member States than in the current Member States. In the EU15, overall wage developments have been closely related to productivity in the recent period (2000-2002), and real wage increases have been relatively moderate (at 1% a year), with a few exceptions such as Luxembourg, the Netherlands and the UK, where real wage growth clearly exceeded productivity growth (see chart 17 in Annex 2). In the future Member States, however, wage developments have been much more erratic.

Regional, local and sectoral wage differentiation reflecting levels of productivity and differences in the labour market are needed to respond to the permanent restructuring of the EU economy. Social partners have taken positive steps in this direction over recent years. The issue of wage differentiation across regions is particularly significant in Germany, Italy and Spain where regional employment and unemployment differences are persistent.

Country-Specific Messages:

Creating a business-friendly environment is a necessity for all Member States to boost job creation. Action should encompass setting the right regulatory, financial and administrative conditions for new sectors and activities to expand and for more traditional ones to adapt. Particular attention is needed to simplify regulations concerning the setting up of firms and to support the development of SMEs, notably through better access to financing.

Efforts to limit the cost of labour have started to pay off in a number of countries and should be pursued with priority given to low-paid jobs. Looking at the overall levels of taxation (tax wedge) on low wages, combined with the share of these taxes paid by employers, it appears that Belgium, Sweden, Italy, Greece, Germany, Austria and Finland should give priority to reducing non-wage labour costs further. A particular challenge facing Germany is to further review the financing of the social protection system in order to reduce its impact on labour costs.

Moreover, in Germany, Italy and Spain, social partners should be encouraged to develop wage differentiation further to reflect local, regional and sectoral differences in productivity and labour market conditions. The same applies for sectoral differentiation in Belgium.

In the new Member States, the two main challenges are to promote employment-friendly wage developments and to reduce the high tax wedge on labour. Recent wage developments have tended to overshoot productivity in particular in the Czech Republic, Estonia and Hungary. The challenge is also to ensure there are wage differentials between sectors and regions and to monitor the impact of wage increases on employment. The relatively high tax wedge on labour, which is composed almost exclusively of social security contributions, is also deemed to hamper job creation, especially for the low-skilled. Building a more employment-friendly tax system to reduce non-wage labour costs is therefore a clear priority for these countries.

2.2. Develop and disseminate innovation and research

To raise employment and economic growth, the EU must meet the twin challenge of stimulating research and innovation, and spreading its result more effectively across its economy and territory.

The Taskforce urges Member States to:

- *encourage networks and partnerships for the promotion and the dissemination of innovation at regional or sectoral level, involving universities and research centres, enterprises and public authorities,*
- *spread the use of ICT by making it more accessible and increasing training at all levels,*
- *ensure proper incentives both fiscally and through intellectual property rights to encourage increased levels of private investment in research and innovation,*
- *exploit the potential of the European Single Market through common standards, cross-country co-operation and mobility of researchers.*

The ability of new businesses to grow and create jobs is dependent on their capacity to innovate. For the EU as a whole, the challenge is both to spread innovation across the EU economy and territory and to increase investment in R&D.

Better dissemination of innovation is key for success

The EU is not good enough at disseminating innovation. While ICT spending has risen significantly since the mid-1990s in the EU, this increase does not seem to have brought about a similar or uniform boost to productivity across the EU economy, as has been the case in the US¹⁰.

¹⁰ Over the period 1995-2002, the annual productivity growth in ICT-using industries has been 1.6% in the EU and 4.7% in the US. ICT spending amounts to about 4.2% of GDP in the EU in 2002, compared to 5.3% in the US.

Member States must make it a priority to foster better dissemination of innovation across their economies, drawing on good practices that already exist in the EU.

ICT is in itself a key source of innovation; it also plays a central role as a means for the collection, storage and dissemination of knowledge. Enhancing ICT skills and the use of ICT at all levels of education and throughout the population should be viewed as a prerequisite for successful dissemination of innovation.

Access to new technologies or processes alone is not enough to ensure successful use of innovation. A crucial factor is how workers assimilate innovation: this calls for modern work organisation and human resources management.

Partnerships and networks for innovation - bringing together companies, education, training and research institutions - should be promoted both within and across sectors as a major instrument for dissemination. As part of such initiatives, the mobility of staff between research and enterprises should be encouraged to foster cross-fertilisation. Regional development agencies can play a major role in this respect.

Dissemination of innovation

The Italian industrial districts illustrate how regions specialising in specific sectors and dominated by small firms can grow rapidly and develop global leadership in those sectors. Industrial districts are characterised by high productivity and specialisation in complementary phases of production, founded on the presence of sub-contractors, component suppliers and fierce competition among them. Accumulation of know-how is an important factor behind the lasting competitiveness of such clusters. One example is the Prato region near Florence, an international leader in the production of yarns for knitwear, and knits and textiles for the garment, upholstery and other industries. This success is complemented by the construction of textile machinery, which is also cutting-edge.

A **network promoting regional innovation strategies in Greece** supported by the European Regional Development Fund was launched in 1997, and brought together regional authorities and university liaison offices, technology parks, technology intermediaries and private companies. The network allows members to exchange experience and best practice between regions and to organise technical help for projects.

PROVINOV, the Integrated Programme for Innovation, was established in 2001 in **Portugal** as a co-ordination structure involving five ministries dealing with policies related to innovation under the chairmanship of the Prime Minister. PROVINOV aims to raise awareness among stakeholders and develop well functioning co-ordination mechanisms. One priority is to encourage clusters in different industries and to create networks for innovation bringing together industry, research institutes and investors. Each cluster should develop an action plan for its development and set targets for the different members. While still focussing on the co-ordination of innovation policies, the emphasis has lately turned more to the implementation of specific measures.

The **GoodNIP project** – good practices in Nordic innovation policies – brought together institutes from the five **Nordic countries**, Denmark, Finland, Iceland, Norway and Sweden. They put together a database of innovation policy measures from the five countries, and compared their policies and policy-making structures. GoodNIP was funded by the Nordic Industrial Fund SME Forum, part of the Nordic Council of Ministers, so its focus was on measures that directly or indirectly targeted small and medium-sized enterprises. The GoodNIP project has also looked at the innovation processes taking place within ministries and organisations responsible for innovation policies.

In **Austria**, a **programme aimed at increasing the innovative potential of SMEs** awards investment premiums to innovative and/or better quality products/services; the application/use of new technologies; the setting up of co-operation projects, clusters and networks; the maintenance or increase of local supplies. A major criterion in the assessment of a project's suitability for support is the positive impact on employment of the investment plan.

The challenge for the EU, however, is not just to innovate using new, available technologies; it is also to steer levels of innovation overall and to enhance R&D capacities. The EU is clearly lagging behind the US in this respect.

R&D expenditure currently stands at 1.9% of EU GDP, compared to 2.6% in the US. Whereas levels of public investment in R&D are comparable in the EU15 and the US, business investment in the US is nearly double that of the EU, partly due to different business structures¹¹, and partly due to the considerably higher R&D intensity of its manufacturing sector.

Within the EU15, there are wide differences among Member States: Sweden and Finland out-perform the US, whereas both public and private investments are particularly low in Greece, Portugal and Spain.

The objective set at EU level of raising R&D expenditure to 3% of GDP, of which two thirds is financed by the private sector, must be pursued vigorously in line with the Action Plan endorsed by the European Council in March 2003¹². While most of the increased efforts must come from the private sector, public policies must create the right conditions for research and innovation. This includes the training of researchers, establishing strong connections between public research and industry, and ensuring proper incentives both in fiscal terms and through intellectual property rights.

Increasing the levels of investment in R&D is necessary; but this alone will not be sufficient to increase the capacity to innovate. Innovation can take many forms. Innovation in processes is very important for productivity growth. But experience shows that innovation in products and services, which also has a direct impact on employment, is particularly weak in Europe.

The 2002 the European Innovation Scoreboard¹³ confirms that the innovation performance of the EU is still low compared to global competitors such as the US and Japan. However, it also shows that the world's leading countries for many innovation indicators are to be found within the EU and include Finland, Sweden and Denmark. The UK is the most innovative of the larger economies. Of the new Member States, Estonia, the Czech Republic and Slovenia are good performers whereas Cyprus, Slovakia and Poland perform less well.

Full use should be made of the possibilities offered by the European market. This includes co-operation to ensure common standards, to facilitate the mobility of researchers and to pool research efforts, thus realising important economies of scale. An EU approach to innovation policy should be pursued to support the Lisbon strategy¹⁴.

¹¹ The business sector R&D activities concentrate in Europe, US and Japan in firms with more than 500 employees with the exception of Spain and Portugal. See European Commission (2003), *Third European Report on Science and Technology Indicators*.

¹² Council conclusions of the Brussels European Council in March 2003 endorsing the Communication from the Commission, *Investing in research: an action plan for Europe*, COM(2003)226.

¹³ European Commission (2002), *2002 European Innovation Scoreboard*, Commission Staff Working Paper, (SEC)1349. The European Innovation Scoreboard has since 2000 been published by the European Commission as an instrument for the annual follow-up of the Lisbon strategy, describing strengths and weaknesses in all the Member States, using various indicators such as science graduates, employment in high tech sectors, ICT expenditure, patents registered, or home internet access.

¹⁴ European Commission (2003), *Innovation policy: updating the Union's approach in the context of the Lisbon strategy*, COM(2003) 112.

Country-specific messages:

All Member States need to do more to promote and disseminate R&D and innovation across the economy. There is also a common need to boost private investment in R&D and to increase the level and/or the effectiveness of public investment in line with the objective of 3% of GDP set at EU level. Levels of R&D are particularly low (less than 1% of GDP) in Cyprus, Latvia, Greece, Estonia, Slovakia, Poland, Hungary and Spain. Overall, Sweden, Finland and Denmark clearly stand out as best performers within the EU. Their experiences should serve as benchmarks.

2.3. Promote flexibility combined with security on the labour market

Better responsiveness of EU economies to change requires a high degree of flexibility in labour markets, in particular through modern work organisation and a diversity of contractual and working arrangements. This can only succeed if combined with adequate security for workers in terms of their capacity to remain and progress in the labour market. Since flexibility is in both employers' and workers' interest, social partners' involvement is desirable.

The Taskforce urges Member States and social partners to:

- *examine and, where necessary, adjust the level of flexibility provided under standard contracts, to ensure their attractiveness for employers and workers,*
- *review the role of other forms of contracts with a view to providing more options for employers and employees depending on their needs,*
- *ensure there is adequate security for workers under all forms of contracts and prevent the emergence of two-tier labour markets,*
- *remove obstacles to the setting up and development of temporary work agencies as effective and attractive intermediaries in the labour market, offering improved job opportunities and high employment standards,*
- *promote the use of ICT and working time flexibility as tools to modernise work organisation,*
- *remove obstacles to, and raise the attractiveness of, part-time work for employers and workers,*
- *adapt social protection systems to support mobility in the labour market and facilitate transitions between different statuses, such as work, training, career breaks or self-employment (job-to-job insurance).*

Better responsiveness of EU economies to change requires a high degree of flexibility in the labour market, to the benefits of both workers and enterprises. Flexibility encompasses the terms and conditions of employment but also depends on a number of other factors, including work organisation and working time, wage setting mechanisms, the availability of different contractual arrangements and the occupational and geographical mobility of workers.

Resistance to increased flexibility is fuelled by the view that it automatically leads to increased insecurity and precariousness for workers. Member States must overcome this perception.

Flexibility is not just in the interest of employers. Modern workers also have a need for flexible working arrangements and modern work organisation to help them combine work and care, to make time for education and to respond to their personal preferences and lifestyles. This opens scope for negotiations at plant or branch level and creates perspectives for mutually beneficial solutions, provided all are prepared to put aside old pre-conceptions.

While promoting flexibility on the labour market, it is also important to foster new forms of security. Security in today's labour markets is not a matter of preserving a job for life. In a more dynamic perspective, security is about building and preserving people's ability to remain and progress in the labour market. It is related to decent pay, access to lifelong learning, working conditions, protection against discrimination or unfair dismissal, support in the case of job loss and the right to transfer acquired social rights when moving jobs.

Attractive contractual arrangements must be available to both employers and workers

In order to stimulate job creation, it is important for both employers and workers to have access to a range of contractual arrangements to suit their needs.

Employers must be able to adapt the size of their workforces by interrupting contracts without excessive delays or costs when other measures, such as working time flexibility or re-training of workers, have reached their limits. Overly protective terms and conditions under standard employment contracts¹⁵ can deter employers from hiring in economic upturns or encourage them to resort to other forms of contracts, which can have a negative impact on the ability of less advantaged workers - notably young people, women and the long-term unemployed - to access jobs.

While not losing sight of the positive features of employment protection - such as fostering employee commitment and encouraging employers to invest in the training of their workforce - Member States should assess and where necessary alter the level of flexibility provided in standard contracts in areas such as periods of notice, costs and procedures for individual or collective dismissal, or the definition of unfair dismissal. In parallel, the role of other forms of contracts may need to be reviewed, with a view to providing more options for employers and employees depending on their needs and adequate security for workers.

In pursuing such reforms, it is important to take into account the interplay between the contractual framework and the many other factors that impact on the levels of flexibility and of security in the labour market, such as the social protection system, the availability and accessibility of active labour market measures, the role of collective agreements and access to lifelong learning opportunities.

The Taskforce draws particular attention to the examples of Denmark and the Netherlands. They represent two different approaches which have proven their value in practice.

The Danish approach provides parties with a maximum of freedom to shape their employment relationship in combination with good access to unemployment benefits and measures supporting employability. According to the OECD, Denmark has one of the lowest indices of employment protection in the EU. This is reflected in a short period of notice for dismissal and comparatively low financial compensation for workers when dismissed. However, over 70% of the workforce is covered by the unemployment insurance, while most of the remaining 30% is covered by social assistance schemes. The level of unemployment benefits for low-wage earners and their duration are comparatively high. Strong emphasis on activation and re-integration on the labour market is also essential in the Danish model. Denmark has the highest spending on active labour market measures as a share of GDP in the EU.

The Dutch approach relies on the availability of different contractual forms, carefully balancing rights and obligations for each individual contract form, while also providing for active measures for the unemployed. An important consideration under this approach is the

¹⁵ The term "standard contracts" is meant to cover contracts of unlimited duration, whether full-time or part-time.

need to prevent a two-tier labour market – where “insiders” benefit from a high level of employment protection, while “outsiders” are recruited under competing forms of contracts. Long sequences of consecutive fixed-term contracts are considered an abuse. When a working relationship has acquired a more stable nature, legal provisions ensure that this is reflected in the contract. Another important aspect is the equal treatment of workers on different types of contract. Particularly important in this respect is: access to training, entitlement to work-related insurance schemes such as health care or employment services and entitlement to social protection including the transferability of social protection rights.

A number of Member States have introduced reforms in this direction.

Promoting flexibility and security on the labour market

In **Spain**, the **National Agreement for Stable Employment** signed by the social partners in 1997 aimed to increase the number of permanent contracts. In particular, it reduced severance pay from 45 days to 33 days per year worked for certain categories of workers. More recently, some **sectoral agreements between social partners** include improvements in the rights of fixed-term workers, over and above those provided by legislation, relating to the giving of notice and severance pay.

A government order adopted in **Portugal** in March 2002 aims to **encourage permanent employment by means of financial subsidies for companies that convert a fixed-term contract** into an open-ended contract. Employers with fewer than 50 employees which, on expiry of a fixed-term contract convert it into an open-ended one, may apply for financial support in the form of non-refundable subsidies. For every fixed-term contract made permanent, a grant of four times the national minimum monthly wage is awarded. This aid is also available for companies with more than 50 employees if the jobs in question are filled by people with a disadvantage.

Italy had one of the highest degrees of employment protection legislation according to the OECD index. Measures tending to reduce rigidity in labour law were taken in the late 1990's in the field of temporary work and fixed-term contracts. More recently, the framework legislation implementing the social pact between the government and the social partners (Pact for Italy) provides for **a number of new contractual arrangements**, such as staff leasing, job on call, job sharing and occasional work. Legislation on part-time work has also been eased. Many elements of the new legislation are to be complemented and defined through collective agreements between the social partners before being put into practice.

The potential of temporary work agencies should be better exploited

To allow enterprises to have some flexibility to increase or decrease the size of their workforces, while ensuring sufficient security for the workers concerned, the use of temporary agency work should be better exploited. Discrepancies between Member States with respect to agency work are particularly striking. Approximately two million people are employed by temporary work agencies every day on average, representing slightly more than 1% of total employment. Agency work is particularly developed in France, the UK, and the Netherlands, as well as Belgium and Luxembourg. It has been the most rapidly growing form of employment in the EU15 during the last decade.

Temporary agency work can be an effective stepping stone for new entrants into the labour market and hence contribute to increased job creation, for example by facilitating recruitment instead of overtime. Acting as human capital managers – rather than mere manpower suppliers – these agencies can also play the role of new intermediaries in the recruitment and management of both qualified and unqualified staff, offering employers an attractive alternative to traditional recruitment channels.

Temporary work agencies should have their place in a modern labour market as new intermediaries that can support flexibility and mobility of firms and of workers, while offering security for workers in the form of improved job opportunities and high employment standards, including in terms of pay, working time and training opportunities. SMEs would particularly benefit from greater opportunity to use temporary work.

In some Member States, the development of temporary agency work is impaired by legal obstacles affecting the setting up of agencies, conditions imposed on firms using agency services and restrictions on the length of contracts that can be negotiated. Removing obstacles to temporary agency work could significantly support job opportunities and job matching. This is the direction the Taskforce advises Member States to go. At the same time guaranteed minimum levels of protection and access to training for temporary workers would be required to ensure equal treatment of all workers and to raise the attractiveness of agency work. Collective agreements for temporary agency workers can support this.

Promoting temporary agency work

In the **Netherlands** recent legislation (on Flexibility and Security) and collective agreements have allocated new **responsibilities to temporary work agencies (TWA), while at the same time deregulating the TWA market.** The relationship between a TWA and a temporary agency worker is to be treated like a normal employment contract, with normal entitlements for the workers to social security, although the first 26 weeks allow for more freedom in hiring and firing. Once the temporary agency worker has worked for 18 months at the same client firm or for different client firms for three years, he or she gets a **permanent employment contract with the agency**, including dismissal protection that goes with these contracts. The law also stipulates that TWAs no longer need a permit to operate in the labour market and abolishes the maximum period, formerly six months, during which temporary agency workers could be deployed. A collective agreement for the years 1999-2003 introduces a four-phase model in which temporary agency workers gradually acquire more rights, including rights to training, as the length of the employment relationship increases. TWAs in the Netherlands are increasingly involved not only in training and active labour market integration policies but also in the provision of childcare services for their employees or their clients' employees.

In January 2002 a **collective agreement for temporary workers** was concluded in **Austria**. The agreement specifies a minimum wage for almost 27,000 workers – mainly in the metalworking sector – that is applicable even if the worker is not actually hired out. Besides pay, it also provides for protection against dismissal within five days after employment by the user company and guarantees continued payment in cases of illness and other eventualities.

The **German** social partners recently concluded their first two agreements for temporary workers. The agreements provide for nine wage groups linked to the workers' qualifications, additional grants depending on the length of work and a flexible annual working time schedule.

Flexible and productive work organisation must be promoted

The 20th century has seen important reductions in standard working time, contributing to improved work/life balance and quality at work. Today, in the EU, the possibilities offered by working time flexibility deserve to be better explored, bearing in mind its impact on quality at work and the need to balance work and private life. A number of Member States (in particular Germany, the Netherlands, France or Luxembourg) have addressed this issue through legislative reforms or collective agreements. Social partners have key roles to play in modernising work organisation.

Removing obstacles to part-time work is of particular importance in some Member States where it remains significantly under-used, for example Portugal and Greece (where only 4.8% and 3.5% respectively of all employees are part-timers, compared to an EU average of

18%) and the new Member States. It is a key ingredient for increasing participation in the labour market, notably among women, and to enable older workers to remain longer in the labour market. Some countries, such as Germany, have even introduced a right for workers to part-time work. Implementation of the 1997 European directive on part-time work, based on an agreement between the European social partners, ensures access by part-time workers to adequate working conditions.

Beyond working time flexibility, modernised work organisation, notably in relation to the effective use of ICT, should be encouraged to boost quality, flexibility and productivity at work and improve returns on investment in the training of workers. There is also a growing number of individual enterprises in almost all Member States that are pioneering innovative models of capacity adjustment through human resource management, for instance through result- or performance-oriented pay, cost-sharing or training investments, flat hierarchies and teamwork, working time credits or training accounts. The potential of these experiences could be diffused more quickly. Several Member States have launched nationwide programmes to this effect, which could usefully serve as examples to other countries.

Continuous adaptation of the work organisation and of the workforce, notably through vocational training, is also the best way to manage change, anticipate company restructuring and to limit negative employment consequences. A factor for success in this context is workers' involvement through information and consultation mechanisms and social dialogue. Public authorities and the social partners should draw on existing good practices in the management of company restructuring, to reduce resistance to change among workers and improve the adaptability of firms.

Fostering adaptability through work organisation

In **Ireland** the government-sponsored agency **National Centre for Partnership and Performance (NCPP)** is involved in supporting and encouraging firms to address organisational change through partnership-style arrangements, in particular through a learning by monitoring project, training for trainers programme, guidelines for partnership in the workplace and guidelines on financial participation.

In **Finland**, the 2004-2009 **Workplace Development Programme for the Improvement of Productivity and the Quality of Working Life (TYKES)** will support employees' vocational development, work ability and well-being at work, together with functional work communities and, ultimately, the ability of employees to remain longer in employment. TYKES builds upon the experiences made with the former Work Place Development Programme and National Productivity Programme. The former focused on changing the mode of operation at workplaces (e.g. introducing team work, learning opportunities, innovative use of ICT), disseminating knowledge on workplace development and strengthening the workplace development structure. The latter aimed to speed-up productivity improvement and to promote Finland's competitive edge.

Social protection systems should facilitate labour mobility

Beyond reforms in relation to specific dimensions of flexibility or security, EU governments should examine the extent to which social protection systems promote and facilitate occupational and geographic mobility, serving not only as effective safety nets, but also as springboards (back) into employment and between jobs.

Employment insurance systems, social protection systems and personalised employment services should operate so that they cover not only transitions from unemployment to employment (and vice-versa) but also facilitate transitions between different statuses, such as work, training, career breaks or self-employment. The portability of acquired rights, notably in relation to pensions and healthcare, is crucial in this respect.

In the longer term, it may be useful to examine the possibility of allowing for new forms of work-life insurance through the establishment of personal accounts - such as individual learning/training accounts. These would provide entitlements to individuals to facilitate their transition from one status to another.

Facilitating transitions on the labour market

Under the **Swedish career transition agreements**, employees in the wake of dismissal take part in an active transition process that may start before they are given notice. Work is based on an intensive co-operation between the managing authorities (employment security councils) and the people concerned, analysing personal assets and qualifications, identifying needs for upgrading knowledge in response to concrete needs of potential employers. The agreements can also provide financial compensation for the part of the salary that exceeds the unemployment benefit ceiling. Compensation may also be paid for a limited period to employees who find a new job with a lower salary.

A recent national collective agreement in **Belgium** establishes a right to a **time credit** that allows employees, for a maximum total of one year over their entire career, to interrupt their work or reduce it to a part-time job without interrupting the employment contract or losing social security rights.

Under the **Austrian Severance Act** ("Abfertigungsgesetz") passed in 2002, employees now have the choice between a one-off payment when they are dismissed, or they can acquire a claim with an employee benefit provision fund and later receive a tax-free additional pension. The new severance pay scheme applies to all private employment contracts concluded from 1 January 2003 onwards with two main preconditions: the employee must have worked for at least three years for the same employer; and the termination of the employment must not have been caused by the employee's resignation or by justified dismissal.

Country-specific messages:

The degree of flexibility in work organisation and on the labour market, and the types of security associated, vary widely across the Member States. There is certainly no quick fix: the challenge in a modern society and economy is to develop a well-functioning labour market, backed by appropriate social protection systems, to widen the range of choice for both individuals and employers. Social partners have a clear role to play to find collective or firm-level solutions.

In Spain, Italy, Portugal and France in particular, more attention should be paid to countering the segmentation of the labour market between standard and non-standard forms of contracts which make sustainable integration of young people and other disadvantaged people particularly difficult. Encouraging social partners to explore further improvements in job protection legislation should contribute to attracting and keeping more people in work.

Removing obstacles to part-time work is called for especially in Greece, Italy, Spain and Portugal.

In the new Member States, the shares of fixed-term work and of part-time work remain substantially lower than in the EU15. More diversity of working arrangements, both in terms of working time and labour contracts, is needed to facilitate adjustments for business, to attract more people in the labour market and to increase the job content of economic growth.

Chapter 3. Attracting more people to the labour market: making work a real option for all

The EU as a whole underutilises its labour force potential, and unemployment and inactivity remain unacceptably high in most Member States. With the prospect of ageing and shrinking workforces, Member States must find ways to exploit their human resources far more effectively to tap the unused potential that exists in their labour forces.

The Taskforce urges Member States to take a much more proactive approach to breaking down barriers to the world of work.

The need is not only to attract more people to the labour market, but to make sure they can achieve sustainable integration in jobs. Retaining people in employment and ensuring effective transition, especially from unemployment into work, is as important as getting people into the labour market in the first place.

With this in view, efforts must be pursued to ensure that working is always a more lucrative option than depending on benefits, i.e. 'make work pay'. This must be supported by an enhanced system of active labour market measures. More can also be done to facilitate the integration of women on the labour market and developing comprehensive active ageing strategies is a matter of priority for all Member States. Finally, it is crucial to demonstrate a greater ability to integrate minorities and immigrants in the labour market and to manage labour migration successfully.

3.1. More should be done to make work pay

There still exist serious financial disincentives for people to enter, remain and progress in the labour market. The common challenge is to ensure that each hour worked results in a net income gain relative to other sources of income, but also that taking up a job effectively opens the way for further career development, preventing people from being trapped in low wage/low quality jobs and recurring periods of unemployment.

The Taskforce urges Member States to:

- *seek to end unemployment, inactivity and low-pay traps by adjusting the balance between tax and benefits,*
- *strengthen efforts to transform undeclared work into regular employment.*

Combined with the level of wages, the impact of the tax and benefit systems in many Member States continues to provide serious disincentives for people to enter, remain and progress in work, or to move from undeclared to regular work.

Inactivity and unemployment traps must be tackled

The unemployment trap - in other words, the disincentive for unemployed people to move from unemployment benefits to employment - remains considerable in many Member States¹⁶. This is particularly the case at the low end of the wage scale. While the level of benefits compared to potential wage (replacement rate) is important, it cannot be assessed independently from benefit duration, effective enforcement of job-search conditions and eligibility criteria. Denmark, for example, is a country with comparatively high unemployment benefits, but the combination with active policies to help people back into work minimises the risk of unemployment traps. In the new Member States, benefit systems remain poorly developed in comparison to present Member States, but can still generate unemployment traps.

¹⁶ Marginal rates of taxation exceed 85% in NL, DK, BE, Lux, SW, P and FR, against 70% in the US; calculations based on OECD/Eurostat figures for an unemployed person moving to a job paid at 67% of the average production worker's wage in 2001.

The disincentives for inactive people to take up a relatively low-paid job are also serious issues in several Member States, usually due to the loss of income-dependent social assistance benefits combined with other obstacles to participation. Inactivity traps for beneficiaries of disability/sickness benefits are particularly serious in some Member States such as the UK with 2.7 million recipients, the Netherlands with 985,000 people and, to a lesser extent, Sweden with 320,000 people on long-term sick leave, and Luxembourg.

In other cases, the phasing out of income-dependent benefits above a certain income level combined with the impact of progressive taxation create a low wage or poverty trap. This discourages workers from working more hours or moving up the wage ladder.

Reforming tax/benefit systems is particularly difficult as it calls for a subtle balance between sometimes conflicting priorities such as increasing employment, alleviating poverty and minimising the budgetary costs of reforms. However, recent experience demonstrates that there are many practical measures that can be taken:

- in-work benefits to complement low wages where necessary, as an incentive for workers to accept low-paid jobs, while maintaining wages at a level reflecting productivity; this can be particularly relevant where minimum income is set at a low level. The issue of the phasing out of the in-work benefit as income grows must be handled carefully to prevent “low income traps”, i.e. situations where workers have no financial incentive to move up the wage ladder,
- ensuring that income-dependent benefits (such as family or housing allowances) fulfil their role of alleviating poverty without constituting a disincentive to take up a job. This can be achieved by better targeting the beneficiaries or by phasing out the benefits in such a way that it clearly pays off to earn - even a low - wage,
- moving from family-based taxation systems - still in force in a minority of Member States - to taxation systems based on individual income, in order to make it more rewarding for secondary earners, usually married women, to enter or re-enter the labour market,
- making part-time work financially more attractive for parents or lone parents wishing to combine family with working life, and older workers wishing to combine gradual retirement with part-time work, for example by extending in-work benefits or other financial incentives to part-time workers or by reducing social contributions for these workers.

The financial incentives should be part of a comprehensive policy mix to make work pay. Reforms in tax-benefit systems interact in particular with levels of minimum wages: by ensuring an adequate level of earnings, minimum wages can act as an effective instrument to make work more attractive to unemployed or inactive people as well as to reduce the number of the working poor.

Reforms should also take into account other financial factors such as housing and commuting costs or childcare facilities, as well as non-financial factors, in particular the need for rigorous enforcement of benefit eligibility criteria and duration of benefits.

Making work pay in practice

The Working Family Tax Credit (UK) is an in-work benefit scheme reaching 1.3 million households. The beneficiaries are working parents on low incomes working a minimum of 16 hours per week.

In the **Netherlands**, the 2001 tax reform introduced the **Employment Tax Credit**, an in-work tax credit intended as a financial incentive for those in low paid jobs or taking up a job. The maximum amount was increased in 2003. Amounts are higher for older workers.

The Back to Work scheme in Ireland was introduced in 1993 to encourage long-term unemployed people to take up opportunities for employment or self-employment. It provides for retention of parts of the social security benefits over three to four years, with the amount received being reduced over time. This scheme was progressively developed and extended to other disadvantaged groups such as people with disabilities and lone parents.

A French scheme (“mécanisme d’intéressement”) aims at making it more attractive for unemployed **people to return to work** – notably part-time, short-term and low-paid jobs. Previously unemployed people continue to receive benefits for up to six months as long as they work less than 136 hours per month and their earned income is less than 70% of their wage in their last job.

We need to cut undeclared work by transforming it into regular jobs

Inadequate tax and benefits systems contribute to fuelling the informal economy, which is a major source of concern in a number of existing and new Member States. Undeclared work creates unfair competition between businesses and acts against a lasting integration of the workers concerned in the labour market. The situation is particularly aggravated in the new Member States due to wide-scale restructuring and the lack of sufficient administrative capacity to tackle the problem.

Efforts should be strengthened to transform undeclared work into regular jobs, combining measures to simplify the business environment, remove disincentives and introduce incentives into the tax and benefits systems (such as the “service cheques” in Belgium) with effective sanctions, improved statistics and law enforcement capacity and through improved co-operation between relevant authorities.

Addressing the issue of undeclared work

In order to cope with the emergence of the black economy, the **Italian** law 488/98 has established a national **Committee for the regularisation of undeclared work** and the corresponding **Partnership Commissions** in regions and provinces. Sub-national minimum wage and working conditions were allowed on a temporary basis for those firms and workers emerging from the black economy and signing up ad-hoc collective agreements. Under the new “Legge Biagi”, the local and partnership approach has been strengthened.

In **Belgium**, **service vouchers** can be purchased by consumers of certain services, for which there is a large share of presumed undeclared work (e.g. household services). The vouchers are a means of payment (with which the provider constitutes social security rights) largely subsidised by national and regional authorities. The service providers (which include job seekers) are recruited under a legal work contract by authorised companies (non-profit organisations and public bodies such as municipalities). At the Employment Conference of September 2003, it was agreed that the system will be simplified and extended in order to create 25,000 additional jobs by 2005.

Country-specific messages:

Given the complexity of national tax and benefits systems, each Member State should undertake a close examination of the risk of unemployment, inactivity or poverty traps for specific family situations and/or income level. Progress in developing relevant indicators at EU level should be of assistance.

In some Member States such as Denmark, the risk of unemployment traps - which exists if financial factors alone are taken into consideration - is mitigated by the existence of strong incentives to take up a job. In Belgium and Germany, as well as Finland, such compensating factors are not strong enough and steps should be taken to eliminate the trap.

The Netherlands, the UK, Sweden and Luxembourg are currently confronted with a high or rising level of people of working age claiming sickness or disability benefits. These benefits should be managed to ensure a strict assessment of working capacity and to promote work-oriented solutions.

Making work pay is also a matter of concern in the new Member States as a result not of benefits - in view of their relatively low levels - but of high taxation of labour income, combined with a lack of supporting services such as childcare and transport facilities. Reforms in the tax system should contribute to attracting and maintaining more people in the formal sector of the labour market, therefore reducing levels of inactivity and of undeclared work.

Transforming undeclared work into regular work is a particular challenge for all new Member States and most of the existing ones, particularly Greece and Italy. Action to improve the tax and benefits systems should go hand-in-hand with stricter law enforcement.

3.2. Strengthen active labour market policies

Measures aimed at preventing unemployment and supporting (re-)integration of unemployed and inactive people into employment are essential to tap the potential of the workforce. They are even more crucial in a period of economic downturn and for regions and sectors experiencing restructuring to prevent people becoming detached from the labour market.

The Taskforce urges Member States to:

- *offer personalised services to all unemployed and job-seekers at an early stage, in the form of guidance, training or new job opportunities, in line with the European Employment Guidelines on prevention and activation,*
- *improve the efficiency of their activation programmes by identifying the real needs of job seekers and by giving preference to tailor-made measures over general large scale programmes,*
- *develop rapid response schemes in the event of plant closures or large scale company restructuring, including ad hoc services such as counselling, retraining and placement for the workers concerned, in order to avoid unemployment or early-retirement,*
- *equip employment services so they can deliver tailor-made services and strengthen local partnerships for employment,*
- *address the specific needs of the most vulnerable, including disadvantaged young people and people with disabilities.*

A strong commitment from public authorities to support the (re-)integration of people into the labour market is a necessary corollary to an increased flexibility in the labour market and a stronger set of financial incentives (making work pay).

Prevention and activation have a crucial role to play in a period of economic downturn

Active labour market policies (ALMPs) - which encompass various types of measures to bring people back to work or to maintain their employability¹⁷ - have a particularly important role to play in the current macro-economic situation in preventing cyclical unemployment from becoming long-term and structural unemployment. Increased effectiveness of active measures in the current period of downturn and increasing unemployment is essential to avoid people becoming detached from the labour market.

Member States' investment in ALMPs varies widely, whether it is measured in terms of spending related to GDP, spending per person unemployed or per participant. New Member States have a substantially lower spending on ALMPs and face considerable constraints in terms of staff as well as financial resources to develop ALMPs.

¹⁷ The Eurostat classification of Labour Market Policies covers the following categories of active measures, in addition to labour market services such as job search assistance: training; job rotation and job sharing; employment incentives; integration of the disabled; direct job creation; start-up incentives.

A forceful implementation of the European Employment Guidelines on prevention and activation is necessary. This includes: the offer of personalised services to all unemployed people at an early stage; providing access to active measures for young people and adults within six or 12 months respectively of becoming unemployed and the participation in active measures for at least 25% of all long-term unemployed¹⁸.

ALMPs also have a critical role to play in the event of plant closures or company restructuring. Successful past experiences point to the value of properly defined, relevant active measures in three areas: managing the staff that cannot be kept in the company; managing the local impact of the restructuring; and reorganising the new firm and its workforce rapidly. Priority should be given to active rather than passive measures. Unemployment should be treated as the last resort, while emphasis must be put on the placement of the workers to be made redundant into other jobs. Public authorities should support ad hoc placement services, involving all the local actors concerned, and work with the public employment service, which have proven their worth in this context by defining individual pathways to employment.

The role of activation measures in company restructuring

In the late 1990s the UK Government introduced the Rapid Response Fund and **Rapid Response Teams** operating at a regional level, in an attempt to 'fast-track' its services in response to significant impending job losses. This experience led to the establishment the Rapid Response Service (RRS) in April 2002. As a flexible and responsive service, it does not offer a fixed support programme, but a menu of possible actions from which appropriate activities can be selected. These might include information, **advice and guidance to workers facing redundancy, re-training programmes or consultancy for the company concerned**. Many of these services are available from existing Jobcentre Plus provision, and the RRS builds on rather than replaces existing services. A preliminary assessment drew a broadly positive picture of progress made, suggesting that RRS is having significant and beneficial effects in its areas of operation. Between 2002 and 2003 RRS allocated nearly € 24 million to 178 projects, covering over 210 employers and 70,000 redundancies.

In Austria, Work Foundations ('Arbeitsstiftungen') serve as transition agencies to support job-to-job placement in case of threatened mass dismissals. The case of 'Voest-Alpine-Stahlstiftung' can be seen as a prototype. The novelty is the co-ordination of various financial sources and **the co-operation of key local actors**. Finance for the Work Foundations comes from four sources. First, the remaining workers of the company that is cutting jobs donate 0.25% of their monthly wages as a solidarity contribution to the Foundation. Second, the company provides the base capital for the Foundation, topped up by another 50% of the solidarity contributions. Third, the redundant workers themselves make a contribution by depositing 50% of their redundancy payments into the Foundation. Fourth, the public employment service guarantees unemployment benefits for four years which covers the majority of costs. The Foundation provides or organises training and other relevant services to help individuals find new jobs in the regional labour market. Overall 79% of the redundant workers finally found a job with 45% returning to the labour market within six months. The average length of stay with the Foundation was 18 months. Careful econometric evaluations based on matching procedures have given these transition agencies high scores for efficiency¹⁹.

¹⁸ These commitments have been included in the European Employment Guidelines since 1998 and are confirmed in the revised Guidelines for 2003 (Council Decision of 22 July 2003 on guidelines on the employment policies of the Member States (2003/578/EC).

¹⁹ Source: Schmid, G. / Gazier, B. (2002): *The Dynamics of Full Employment. Social Integration Through Transitional Labour Markets*, Cheltenham, Edward Elgar, p. 417.

In Sweden, the case of the **Future Forum** for former employees of Ericsson provides a good example of **off-the-job placement**. Since 2000, the Swedish telecommunication company Ericsson has faced job losses due to declining demand and has had to dismiss about 10,000 people. Ericsson created the so-called Future Forum²⁰ to help these ex-employees find a new job. The dismissed workers learn how to write job applications and to perform well in job interviews. The Future Forum also offers retraining measures for those unable to find a job in IT related sectors. Some of them had the possibility to attend further studies and became teachers. Many of those who are cushioned by the Future Forum receive their normal pay due to extended notice periods. According to the manager of the Future Forum, 80% of the former Ericsson employees found new jobs within one year of their dismissal.

Young people and other groups at risk deserve urgent attention

Another cause for concern in many existing and new Member States is the integration of young people in the labour market. The unemployment rate for young people is typically double that of adults. In Greece, Italy, Spain, Finland, France and Belgium, this rate is close to, or above, 20%. Among the new Member States it is especially high in Poland and Slovakia.

The difficulties are compounded in many cases by a tendency for young people to enter the labour market via jobs which do not offer prospects for further training and career progress, and then to swing back into unemployment or inactivity.

Both public authorities and the social partners should consider it their responsibility to foster a lasting integration of young people into the labour market. Building pathways to work and training, with an effective use of preventive and active measures, including intensive coaching, is important.

Other people are also more vulnerable to unemployment, inactivity and exclusion from work, due, for example, to their origin, social status or some form of disability. Approximately 26 million people of working age have some form of disability in the EU²¹ and only 40% of them are employed. Activation is all the more necessary for these people, as part of a broader inclusion strategy. Tailor-made programmes addressing their specific needs and personalised advice and guidance are crucial.

ALMPs must be managed in an efficient way

At the same time, the quality of public expenditure on ALMPs needs to be further improved. Available data show that there is still a high rate of return into unemployment or inactivity among those who have been targeted by ALMPs. Member States must draw the lessons from available evidence on the effectiveness of various types of ALMPs and invest more in evaluation in this area.

Lessons learnt include the need for early identification of job seekers' needs and the tailoring of ALMPs to these needs. The experience with job search assistance demonstrates that it may be a cheap and effective tool for integration of certain people on the labour market. While some people may not require participation in an active measure at all, ALMPs are essential for others to gain skills or work experience to achieve sustainable integration on the labour market.

Training measures, which often constitute the bulk of active measures, prove to be effective if they are targeted at the needs of particular groups such as women re-entering the labour market or immigrants. Non targeted programmes and those of longer duration have less convincing results.

²⁰ The future forum is a 'transition agency' in the terminology of the concept of transitional labour markets.

²¹ Figure corresponding to 14 Member States, as there is no data for Sweden in the European Community Household Panel (ECHP).

Delivering effective ALMPs calls for highly efficient employment services able to offer personalised counselling and guidance services to each job seeker, leading where appropriate to the definition of a personal action plan for (re)integration. Additionally, their role is to maintain active job search through case management and they should offer intensive placement activities, follow-up advice and monitoring after participation in a programme.

There is a considerable margin for improvement in many countries. This calls in particular for qualified staff in sufficient numbers, the use of ICT, decentralisation of public employment services, management by objectives and increased co-operation between public and private services. The situation in the new Member States is particularly worrying in this respect.

While much needs to be done to improve the efficiency of ALMPs, it is important to bear in mind that, even if they do not immediately lead to a job, ALMPs help maintain the longer-term employability of the labour force and prevent long-term unemployment and the shrinking of the labour force. They therefore represent an investment which is likely to generate returns in the medium and long-term.

Country-specific messages:

The coverage and content of preventive and active measures are very unevenly developed across Member States. The first specific priority under the European Employment Guidelines sets a number of targets to which all Member States have committed themselves; they should be enforced without delay.

Creating sufficient capacity in employment services to offer personalised guidance, counselling and advice to job seekers, as well as adequate access to ALMPs, remains a major challenge, especially in Greece and Italy. Both countries display a combination of high unemployment, well below average spending on ALMPs and on employment services, and a low share of unemployed people benefiting from active measures.

Other Member States, notably Germany, France and Finland, can do more to improve the efficiency of their preventive and active measures, as suggested by insufficient performances in terms of re-integration of the unemployed in the labour market.

Developing preventive and active labour market measures is particularly needed in the new Member States to accommodate changes resulting from economic restructuring. A clear priority in these countries - particularly in Poland and in the Baltic countries - is the setting-up of modern public employment services which are responsive to the needs of both employers and employees. Mobility and access to training should also be supported in order to reduce mismatches in the labour market.

3.3. Take decisive steps to increase the participation of women

Tapping the potential of female participation is both an issue of gender equality and a matter of economic effectiveness.

The Taskforce urges Member States and social partners to:

- *remove financial disincentives to the participation of women, notably in relation to wages and taxation, including the gender pay gaps,*
- *increase the availability, affordability and quality of childcare and eldercare,*
- *improve working arrangements, with measures to boost the attractiveness of part-time work and facilitate career breaks and flexible working,*
- *tailor measures to the specific needs of disadvantaged women.*

In the EU15, 6.4 million women of working age are not in paid employment, although they want to work. When the 6.6 million women who are unemployed are added in, it is clear that the scale of the unused female labour supply is considerable.

The design of policies must take into account the impact on women participation

In designing employment policies, it is crucial to consider carefully their direct and indirect impact on female participation. For example, Member States should avoid using the household income as a basis for individual taxation as this is likely to create disincentives for women to participate in the labour market, due to excessively high marginal taxation of the second household income.

The availability of different working arrangements - such as flexible working, part-time work or career breaks - should be encouraged as they can be crucial factors for women deciding whether to enter or stay in the labour market. Parental leave arrangements can help reconcile work and family life, although they need to be designed in a way that does not lead to women having long absences from the labour market. Policies that enable men to share parental leave are a step in the right direction. Eligibility and access to labour market measures need to encourage inactive women wanting to work to make the move into work.

Wage formation structures often have an in-built bias against women that can act as a disincentive. The considerable gender pay gap which persists in most Member States (around 16 percentage points in the EU on average) can also act as a disincentive for many women to enter the labour market or to move from part-time to full-time work. In this respect, stricter enforcement of non-discrimination legislation is needed, but also a wider range of measures involving the social partners to address the roots of the problem, looking at wage classification systems, seniority-based wage structures and sectoral and occupational segregation, as well as the availability of different working arrangements and of childcare and eldercare. These measures, in addition to reducing inequality in pay between women and men, would also contribute to raising female labour market participation²².

More investment in childcare and eldercare

One practical measure with a direct impact on the levels of female participation, and the take-up of full-time rather than part-time work, is the provision of care facilities for children and other dependants. Increasing the availability of care services will also create new job opportunities, often to the benefit of women.

Available data shows that countries with low availability of childcare such as Italy and Spain display low female employment rates and that countries with high female employment rates such as Sweden, Denmark and Finland provide wide access to childcare facilities (see chart 18 in Annex 2). Moreover, women are more likely to work part-time where childcare services are not so widely available as, for example, in Germany and Austria.

At the Barcelona European Council in 2002, Member States agreed targets for childcare provision. These stated that childcare should be provided for at least 90% of children between three years old and the mandatory school age and at least 33% of children under three years of age by 2010. However, very few Member States, with the exception of the Nordic countries, come close to the Barcelona targets. Most other Member States still have a long way to go. Not only should meeting these targets be made a matter of priority, but also Member States should be more ambitious and guarantee the availability of adequate services after the mandatory school age, until children reach 12 or 14 years of age.

²² The importance of women's labour market participation behaviour for explaining gender pay gaps is analysed in detail in the final study report "Methodological issues related to the analysis of gender gaps in employment, earnings and career progression" by M. Beblo, D. Beninger, A. Heinze and F. Laisney from the Centre for European Economic Research (ZEW), Mannheim, carried out for the European Commission, DG Employment and Social Affairs, August 2003.

Childcare can be provided in many ways, whether as a public or as a private service. Whatever the approach taken, the public authorities must ensure such services are affordable and widely accessible in terms of geographical coverage and opening hours. Recognised qualifications for staff and accreditation for providers are also important to ensure good quality.

Facilitating access to childcare: recent reforms

In **Sweden**, as from 2002 there is a provision for three hours a day **free childcare for children** of unemployed parents and of mothers having a second/further baby. The main purpose of the scheme is to provide parents of small children with greater opportunities to work.

In **Spain**, it has recently been agreed to grant an allowance of € 100 per month for working women with children of three years or less to contribute to the costs of childcare.

A targeted approach to women with most difficulties

Some women face specific difficulties in accessing the labour market, which call for specific action in addition to the above measures.

Single parents, who are most often women, find it particularly difficult to reconcile work and family life and find adequate and affordable care services. Low-skilled lone parents are especially prone to the risk of poverty. In its New Deal for lone parents the UK has combined several important features such as personal advice, job search support, training and help with arranging after-school care to encourage women on benefits to enter the world of work.

Moreover, women wanting to return to work after a period of absence face difficulties. They need access to appropriate training to up-date skills and qualifications, and recognition of competences acquired outside the labour market which could include organisational and social skills and care and educating skills. A pilot project in Germany on skills analysis has shown positive results. The role of public employment services should be enhanced to encourage this recognition.

Country-specific messages:

In most Member States, there is still considerable scope for improving the participation of women in the labour market. While the employment rate of women is generally catching up, some EU countries - particularly Italy, Spain and Greece - still have very low female participation rates. As regards new Member States, the declining participation of women is a cause for concern.

Particular attention should be paid to developing childcare facilities in Germany, Greece, Spain, Ireland, Italy, Austria, Portugal and the UK. This should go hand-in-hand with efforts to improve the attractiveness of part-time work for women and men, in Spain, Italy, Greece and Portugal, in particular. Removing tax disincentives for women to take-up a job, which could imply moving towards a more individualised tax system, is also a particular challenge for Germany.

Member States must seek to address the roots of the gender pay gap, which is striking in Ireland, Austria, the UK, Germany, the Netherlands as well as Portugal.

In the new Member States, more attention must be given to providing affordable childcare facilities, family-friendly working contracts and working-time arrangements. Particular efforts are needed in Malta, where the employment rate of women is alarmingly low, to raise the participation of women in the formal sector of the economy.

3.4. Implement comprehensive strategies in response to ageing

Without urgent and drastic measures to reverse current trends, there is no chance of getting near, let alone reaching, the European targets for increasing the employment of older workers and raising exit ages from the labour market. The challenge is not only to ensure that a higher share of those currently aged 55-64 stay in work; but also to enhance the employability of those currently in their 40s and 50s.

The Taskforce urges Member States and social partners to define a comprehensive active ageing strategy that focuses on the following elements:

- *providing incentives for workers to retire later and for employers to hire and keep older workers. This includes adjusting specific tax-benefits mechanisms, employment and pensions rules to enhance incentives for older workers to stay longer in employment and to discourage early exits from the labour market. Efforts to discourage early retirement should be pursued in all Member States,*
- *promoting access to training for all regardless of age and developing lifelong learning strategies, in particular workplace training for older workers, who are under-represented in training,*
- *improving the quality of work to provide attractive, safe and adaptable work environments throughout the working life, including the provision of part-time and career breaks.*

Building on the targets set in Lisbon for the employment rate of the whole workforce and of women, the Stockholm European Council set a specific employment rate target of 50% by 2010 for older workers (aged 55-64). Moreover, the Barcelona European Council called for an increase of five years by 2010 in the average exit age from the labour market, which was estimated at 59.9 years in 2001.

Building comprehensive active ageing strategies

Raising the employment rate for older workers and postponing the average exit age from the labour market is a major challenge for Europe. In most Member States, this requires a radical shift in policy measures, away from a culture of early retirement, towards comprehensive active ageing strategies.

Such strategies should encompass three lines of action: providing appropriate incentives for workers to remain longer in work and for employers to recruit and keep older workers; developing lifelong learning, with a particular focus on increasing participation in training for the low-skilled and for older workers; improving quality in work and working conditions over the life-course. These three dimensions are developed below.

Incentives for workers to work longer and for firms to employ experienced workers

Reforming pension rules to encourage longer working lives is a priority.

As part of pensions reforms, it is important to remove incentives for early retirement, which has too often been used as an expedient for people to leave the labour market and for enterprises to both rejuvenate their staff and reduce labour costs. Efforts have been made or are ongoing in many existing and new Member States; they should be pursued in all Member States. Such reforms are difficult and often imply a radical culture shift for enterprises, workers, and public authorities.

Measures may also include providing higher pension entitlements for people to stay at work longer, including beyond the age of 65 (e.g. Sweden), and reviewing the weight given to seniority in wage structure to take account of productivity.

Flexible retirement schemes combining gradual retirement with part-time work can also contribute to retaining workers longer in work. In such cases, financial incentives may consist in reduced social security contributions, or in the preservation of full pension rights in spite of working-time reduction. Such schemes must be designed properly to ensure that they effectively result in delaying the exit age.

Moreover, targeted wage subsidies (e.g. in the form of reduced social contributions for employers) for hiring unemployed older workers or tax credits for older workers to remain longer at work may be useful to foster a culture change. Such schemes must be targeted to meet specific needs and avoid unnecessary dependency on public subsidies. They may not be justified in the longer-term, as working over the age of 60 should gradually become the norm.

Reforms in financial incentives or in legislation are essential; but they can prove insufficient if they fail to address the other underlying causes of inactivity, such as skills obsolescence or poor health.

Older workers' skills deserve to be both valued and enhanced

Participation in training is low in most Member States, but it is particularly poor for older workers. Efforts to increase participation for older workers, especially for the low-skilled, must be intensified, as part of a new impetus to build effective and responsive lifelong learning systems and increase participation in training for all, as described in Chapter 4. Some Member States are promoting integrated programmes combining training with job placement for older workers (e.g. Germany, Greece and the UK).

Sweden, with the highest employment rate of older workers, also provides a striking example of the value of emphasising the importance of lifelong learning for all ages. In contrast to most Member States, the participation in training of older workers is about the same as for the rest of the workforce.

Improving quality in work

Finally, quality in work is important for increasing participation at all ages and over time. This calls for strong initiatives to improve working conditions, providing adequate or sheltered work arrangements, increasing the possibilities for part-time work or career breaks and improved health and safety at work. For those people having undertaken physically strenuous work, governments and the social partners should facilitate timely transitions into forms of employment more suitable to mature age.

Promoting active ageing

The Finnish Programme on Ageing Workers (1998-2002) followed a comprehensive approach involving changes in legislation, research projects, training, and extensive communication aimed at changing attitudes towards ageing throughout Finnish society. The launch of the programme (1998-1999) was marked by changes to legislation and a major publicity campaign. The middle phase involved a number of research and development projects, and the final phase (2000-2001) was characterised by **training to maintain the "work ability"** of management and employees. There has been a ten percentage point increase in the employment rate of older workers over the years of the programme.

The **UK's** active ageing strategy is focused on increasing recruitment and retention in employment of the over 50s and ensuring all employers adopt positive employment practices. Particular initiatives in the New Deal 50+ include a **tax-free employment credit for persons aged 50+** who have been on social benefits for at least six months. The employment credit is paid on top of an individual's wages when they go back to work, and can be paid for up to 52 weeks. Besides, **the Age Positive Campaign** is promoting the Code of Practice on Age Diversity in Employment through awards, advertising initiatives and events. The code encourages employers to apply age positive practices by highlighting the business benefits of having an age diverse workforce and **implementing best practice in recruitment, selection, training, promotion, redundancy and retirement**. Evaluation of the impact of the Code indicates that it has improved employer policies on age. Sweden also provides an example of ambitious reform, where financial incentives - in the form of higher pension entitlements - are provided for people to stay at work up to and even beyond the age of 65.

In **Denmark**, the 1999 reform of the early retirement scheme aimed to make work more attractive for people who were entitled to early retirement and encouraged them to postpone the date of retirement. With this reform the **incentives for later retirement were strengthened especially for the 60-61 year olds**. The reform introduced the financing of the scheme according to the principle

that future generations can only take early retirement if they have paid contributions to this scheme for 25 of the last 30 years of work. The reform seems to have had a positive impact since the share of those 60-61 year-olds taking early retirement has dropped.

In Spain, recent regulation has opened the possibility to combine partial retirement with part-time work. In addition, it provides that pensions entitlements will increase for people working beyond the age of 65, whereas employers' social contributions will be reduced for employing these workers.

Country-specific messages:

All Member States should design comprehensive active ageing strategies composed of the three elements described above. Sweden has achieved the highest employment rate for older workers in Europe. Finland stands out as the country where employment trends of older workers have been the most favourable since 1995. Their experience should serve as an example to the many countries that are lagging behind the Stockholm and Barcelona targets.

The need for action is particularly urgent in France, Belgium, Italy, Austria and Luxembourg, which all have very low levels of participation of older workers. Action is as urgent and necessary in the new Member States, where a vast number of older workers have left the workforce as a result of economic restructuring. The situation is particularly challenging in Poland, Slovenia, Slovakia and Hungary.

3.5. Achieve the integration of minorities and immigrants

The EU is not performing well enough with respect to the integration of migrants and non-EU nationals in the labour market. The Taskforce believes that it is vital that Member States strengthen their capacity to integrate those minorities and migrants already present in the EU, if they are to be prepared for and able to reap the full benefits from new immigration.

The Taskforce urges Member States and social partners to implement multi-dimensional integration policies that:

- *facilitate access to education, training and support services,*
- *combat discrimination at the workplace,*
- *address the specific needs of immigrant women,*
- *promote business creation by migrants, and*
- *improve the recognition of competences and qualifications acquired abroad.*

In addition, Member States should develop a more active and co-ordinated immigration policy at EU level.

Better integration of minorities and immigrants is a priority

The labour market position of migrants or non-EU nationals is considerably worse than the position of EU nationals. Their unemployment rate is twice that of EU nationals and their employment rate, especially among the high-skilled, is substantially lower in most Member States. Even more marked differences exist for women²³.

The main causes of this situation are inappropriate or low levels of skills in general, as well as cultural and language barriers. Member States should pursue a variety of actions to improve labour market integration. More participation in training and recognition and proper assessment of qualifications obtained outside the EU is important to facilitate integration. This should be combined with other labour market information and guidance schemes tailored to the needs of the heterogeneous group of immigrants. Assistance for setting up of businesses can be particularly useful.

²³ The unemployment rate of non EU-nationals, used as a proxy, was 16% in 2002, against 7% for EU nationals; their employment rate was 53% against 66%; the employment rate for high-skilled EU nationals was about 83% at the EU level, compared to only 66% for high-skilled non-EU nationals.

Discrimination must be tackled effectively. The competent national administrations, as well as the social partners, should raise awareness about direct and indirect discrimination and to promote more positive attitudes towards non-nationals in the workplace.

Immigrant women encounter particular difficulties in integrating into the labour market, due to factors such as a lack of language skills and other formal qualifications, a lack of affordable childcare, strong cultural patterns of a male bread-winner model in many cases and a generally low level of integration into the host country's society. These women need active support (e.g. language training, vocational guidance and intensive counselling) to acquire basic skills and gain confidence to enter the labour market.

Broader issues should also be considered, namely ways to build more open societies and their implications for social and political integration, including access to citizenship.

Integration of immigrants and minorities in the labour market

The intercultural opening of the public service project was designed by the Employment Office in Göttingen in **Germany** in close co-operation with ethnic minorities associations. It aimed to provide better services for ethnic minorities by meeting their specific demands. Specific training courses and information measures were designed as well as an evaluation of the inter-cultural opening of the public service. The public administration in Göttingen has introduced most of the practices in its mainstream activities.

The Commission for Racial Equality (CRE) in **the UK** is a publicly funded, non-governmental body set up to tackle racial discrimination by providing information and legal advice to victims and raising awareness about rules regarding equal treatment. An interesting co-operation has developed with the **Confederation of British Industry (CBI)** to inform small businesses about the issue of cultural diversity. The project relies strongly on a multi-level approach and combines different measures, including a special telephone hotline, workshops, training and information campaigns about the issue of cultural diversity at work.

The **positive action plans** supported by the Flemish Government in **Belgium** aim to increase the employment of migrants and people from an ethnic minority and are implemented by enterprises and public institutions. The action plans comprise training of human resources staff and others on cultural diversity as well as measures focussing on the recruitment of ethnic minorities.

The **EQUAL project Center for post-information and accreditation of technical skills for migrants, repatriates, refugees – sub-project Ifestos in Greece** aims to register those migrants, repatriates and refugees who possess a diploma from a technical school or college in their country of origin as part of efforts to proceed with an official recognition of their technical abilities and skills.

*At the same time,
the EU must better
manage
immigration*

A more active and co-ordinated policy for immigration at EU level can play a role in facilitating the integration of immigrants into the labour market. About one million new immigrants enter the EU every year and this number is likely to increase, not only due to external, so-called push factors (such as war and poverty), but also due to the future needs of the EU labour market in the context of a shrinking working age population.

Labour migration has to be managed more effectively if it is to be an effective response to labour market needs and in order to achieve better integration. While priority must be given to using the existing labour reserves in the EU, carefully managed immigration could help prevent imbalances in the European labour force, both in terms of age and of skills structure.

The EU needs to provide co-ordinated responses, working with other OECD countries and source countries. The European Commission has presented proposals²⁴ to set up a more coherent framework at EU level. The procedures for admission of workers from third countries should be made simpler, quicker and more transparent. Mobility from one Member State to another by third country nationals already legally present in one Member State should also be facilitated.

Country-specific messages:

Achieving better integration of minorities and immigrants in the labour market is a challenge for all existing and new Member States. Within the EU15, more attention to this issue is especially needed in Belgium, France, Sweden, Finland, Denmark, Germany, the Netherlands and the UK, where the gap between nationals and non-nationals is striking. Within the new Member States, the Czech Republic, Hungary, Slovakia, as well as the Baltic countries, face a particular challenge in integrating minorities.

²⁴ European Commission (2001), *Proposal for a directive on the conditions of entry and residence of third-country nationals for the purpose of paid employment and self-employment* (COM(2001)386) and European Commission (2003), *Immigration, integration and employment* (COM(2003)336).

Chapter 4. More investment in human capital: making lifelong learning a reality

Raising educational levels and developing an adaptable workforce suited to the challenges of a knowledge-based economy is key to productivity and employment growth in a modern economy.

Too many people fail to acquire basic literacy and numeracy skills at school and there is inadequate provision for subsequent updating or accumulation of skills.

The demographic projections create an additional challenge in terms of managing our human capital: it is imperative to prevent an obsolescence of skills in order to maintain people at work longer, and this means that training has to be targeted also at older workers and low-skilled workers.

Member States have long recognised the need to promote lifelong learning but tangible progress has been limited. For it to become a reality a culture shift is needed with public authorities, employers and individuals collaborating to promote the provision and take-up of training opportunities responding to skills' needs.

Member States should develop comprehensive strategies for lifelong learning by setting ambitious objectives for raising levels of human capital, by facilitating access to lifelong learning and by supporting new ways of sharing the costs between public authorities, companies and individuals.

4.1. Set out ambitious policies for raising levels of human capital

Member States must demonstrate their commitment to raising overall educational levels and developing systems of lifelong learning, by formulating ambitious policies.

The Taskforce urges Member States to:

- ***give everyone a right of access to secondary education and a minimum level of basic skills,***
- ***cut the number of young people who drop out of school early,***
- ***promote access by a larger share of young people to university,***
- ***increase access to training throughout the life-cycle, with particular attention for the low-skilled and other disadvantaged people,***
- ***better anticipate future skills' needs, including through a European network of forecasting agencies.***

Member States must set themselves transparent and ambitious targets, to complement those set at European level, for establishing effective lifelong learning systems.

High levels of education and access to lifelong learning are essential to increase the aggregate level of skills in society, to adapt to economic restructuring and to sustain a competitive knowledge-based economy. But despite the Lisbon Strategy's demand for a substantial increase in investment in human capital, levels of investment are not increasing significantly and lifelong learning systems remain inadequately developed.

The investment is also unevenly distributed, with those enterprises and workers most in need (SMEs, the unskilled, older workers) investing or benefiting the least. This increases the gap between the knowledge-rich and knowledge-poor within society and across the EU.

*Raising
educational
levels*

To grasp all the benefits from the knowledge-based economy, it is necessary to increase educational levels. Around 150 million EU citizens have not achieved a basic level of secondary education (see chart 19 in Annex 2). Research by the European Commission and the OECD suggests that the EU still has considerable work to do to improve even the basic literacy and numeracy skills levels of its workforce.

In a knowledge-based and open economy, a number of basic competences are required, whether personal (e.g. learning to learn, team working, creativity), technical (e.g. ICT user) and theoretical (e.g. foreign languages). Member States must ensure that everyone has a right to at least lower secondary level of education and that all workers are equipped with the new basic competencies required in a modern workforce. They must also give new workers the best possible start by reducing the numbers who leave school early without a sufficient level of qualifications and skills.

At the same time, it is essential to facilitate access to university degree for a wider share of the population. Compared to the US, where 39% of working age population attains tertiary education, only 20% does so in the EU. Moreover, one third of the students drop out before they complete their first degree, indicating that the education system may not be meeting their needs. Facilitating access to a university degree is a particular challenge for the new Member States: while the percentage of people having completed upper secondary education is on average higher than in most existing Member States, the percentage of adults going on to university is lagging behind.

*Increasing the
recourse to
continuous training*

Raising educational attainment levels is all the more crucial as skills gaps are not adequately addressed by training during the working life. In fact, those who lack basic skills are less likely to receive or have access to training in work than the high-skilled, and those with a tertiary education are up to four times more likely to participate in training than those with only basic schooling (see chart 20 in Annex 2).

Member States have to make it easier for all workers to get the training they need by improving access to training throughout life. Priority should go to those most in need namely the low-skilled, older workers and employees in small firms. Furthermore the training made available must be appropriate and delivered effectively. Employees should be able to access the training they need, taking into account current and future skills' requirements.

*Better anticipation
of skills needs*

In this respect, Member States must improve their ability to anticipate skills needs. This is essential to avoid skills mismatches and to counter the rapid obsolescence of the skills gained in school and at university. Taking the example of graduates in science, mathematics and technology, it seems that the rate of enrolment will be insufficient to meet the needs of the modern economy²⁵. Better anticipation of skills needs is a responsibility of employers, public employment services, education, research and training institutions. This should become a key axis for developing lifelong learning strategies. Co-operation between national forecasting agencies should also be enhanced by the creation of a European network for skills needs forecasting.

²⁵ European Commission (2003), *The role of universities in the Europe of knowledge* (COM(2003)58).

The Lisbon objectives make it explicit that more needs to be done to raise levels of human capital. A major step towards delivering these priorities came in May 2003 when Education Ministers agreed a series of benchmarks for education and training, against which to measure progress²⁶. A number of these benchmarks have also become EU targets under the European Employment Strategy.

The Taskforce urges Member States to demonstrate their commitment to lifelong learning by translating these EU benchmarks and targets into national targets, and by backing them up with appropriate measures. It is particularly important that those Member States that are lagging behind set ambitious targets. The case of Ireland is illustrative of the potential returns of higher investment if managed efficiently.

Investment in human capital: the case of Ireland

The transformation of the Irish economy into a "Celtic Tiger" is based, among other factors, on the value placed on education. This is reflected in a 150% increase in public expenditure on education since 1985. Over the last ten years, the number of full-time students in tertiary education has increased by almost 80%. Ireland ranks fourth in the OECD in relation to the increase in tertiary education enrolments since 1995. Business expenditure on in-company training increased from 1.5% of payroll in 1993 to 2.4% in 1999. An important contribution to investing in human capital has come from the European Social Fund, which accounted for around 35% of the Structural Funds allocated to Ireland (compared to 17%-22% in Southern Member States).

Country-specific messages:

All existing and new Member States need to strengthen efforts to raise human capital and improve their lifelong learning systems. Denmark, Sweden and Finland stand out as the best performers, as they combine relatively high levels of initial educational attainment and access to university with high levels of participation of adults in training.

4.2. Sharing costs and responsibilities for increased investment in human resources

All actors – public authorities, individuals and particularly business – must accept their share of responsibility for raising the levels and the efficiency of investment in human capital. Governments must lay the foundations for lifelong learning for all. Employers must take on responsibility to build employees' skills throughout their career. Individual citizens must also invest in their own futures.

The Taskforce urges Member States and social partners to:

- *make transparent the rights and obligations in terms of education and training for each party,*
- *define and control standards to ensure quality of education and training, whether provided by public authorities, companies or training specialists,*
- *guarantee a sufficient level of investment by employers as well as a fair sharing of costs and benefits between them, through a combination of compulsory and voluntary schemes, such as sectoral or regional training funds, and through other measures such as tax credits and support services.*

²⁶ The benchmarks, set by the Council Decision of 5 May 2003, aim that by 2010:

- at least 85% of 22 year-olds in the EU should have completed upper secondary education;
- the total number of graduates in mathematics, science and technology in the EU should increase by at least 15% and the extent of the gender imbalance should decrease;
- the percentage of low-achieving 15 years-old without reading literacy should have decreased by at least 20% compared to 2000;
- no more than 10% of pupils should leave school early;
- at least 12.5% of the working-age population should participate in learning.

There may well be a consensus on the need to invest more in human capital, and of its many returns; but two questions arise: who pays? and who takes responsibility? Delivering more and better investment in human capital requires a transparent and equitable sharing of the relative costs and responsibilities – more in line with the pay-off.

Investment in human capital rewards the individuals, the enterprises they work for and society as a whole; therefore, it is appropriate that each party should share responsibility for financing part of this investment. At present these roles are unclear and responsibility for investment is not shared fairly.

Enterprises in cutting-edge sectors can be put off from long-term investment in transferable skills because trained staff are poached by other employers gaining the benefit of the training without paying for it, while enterprises in more traditional technologies are less keen on training their staff. Workers may also be discouraged from raising their skills if acquired competences and qualifications are insufficiently valued or recognised.

As long as the respective rights and responsibilities of each party remain unclear, each will rely on the other, and investment is likely to remain insufficient.

Governments: lay the foundations for lifelong learning for all

Governments are certainly key actors: they must lay the foundations of lifelong learning systems that are accessible to all. Public finances should be used as a lever to foster such systems. As much attention must be paid to the quality of public spending as to its level.

The public sector has the primary obligation for investment in compulsory schooling and initial training, the quality of which is critical for a learning society and high labour force participation.

Public authorities also have a specific responsibility to secure the participation of vulnerable citizens in a learning society. This is particularly important for the low-skilled, the unemployed, adults with poor basic skills, early school leavers and older workers.

Public authorities must oversee the quality and efficiency of education and training for adults as part of provision for lifelong learning. This requires setting standards, providing proper incentives and developing systems for the validation of qualifications and competencies.

Public expenditure in education has remained constant in the EU15, at around 5% of GDP (with similar levels in the new Member States). While this level is, on average, comparable to the level in the US, there is considerable variation between countries, ranging from 8.5% in Denmark to 3.5% in Greece.

Although there has been progress in reducing the number of early school leavers (the rate has fallen from 26.6% in 1998 to 18.8% in 2002), this progress falls short of the level required to halve the number of early school leavers by 2010 and there is still considerable variation between Member States.

Employers should build employees' skills throughout their career

In the light of the substantial returns on investment in human capital for firms in terms of productivity and competitiveness, there is a strong case for employers to invest in their workforce. This is also important on efficiency grounds. Enterprises are generally more aware of their own specific skills needs and hence are better able to design efficient, relevant training that meets their needs than public organisations. Yet many firms under-invest in training either because they are not fully aware of the benefits or because trained workers may leave before an employer fully realises the benefit of the training (poaching).

Although expenditure by enterprises on continuing vocational training has increased steadily over recent years from 1.6% of total labour costs in 1993 to 2.3% in 1999, it remains too low and unevenly distributed across enterprises and employees. There are considerable differences in the level of investment between current and new Member States. Training as

a proportion of labour costs ranged from 3% in Denmark to 1.2% in Portugal. Amongst the acceding countries this figure ranges from 1.9% in the Czech Republic to 0.8% in Lithuania²⁷. Investment also varies considerably by size of firm and between the type of worker, particularly by their level of skills and age. Only 19% of workers employed in small enterprises (those with less than 20 employees) participated in training in 1999 compared with 33% in medium-sized enterprises (50 to 249 employees) and 48% in large ones. This gap was common to all Member States but particularly marked in Greece and Portugal where the figure for small firms is only 1-2%.

These market failures may be addressed through measures aimed at ensuring sufficient levels of investment as well as a fair sharing of costs between employers:

- on the one hand, ensuring a minimum level of investment in continuing training by firms. Compulsory financial contributions by all firms, for example as a proportion of payroll, is one possible approach to costs sharing.
- on the other hand, providing effective incentives for firms to go beyond minimum requirements and invest more in the training of their workforce. This can take the form of specific tax credits or support services, such as help in the replacement of workers, which respond to a particular concern of SMEs.

A number of Member States have implemented this approach on a voluntary, compulsory or mixed basis through sectoral or regional training funds. Such funds allow for a pooling of resources and can respond to specific sectoral and local needs.

Supporting employers investment in training

Compulsory financial contributions for firms. Some Member States require employers to spend up to a certain threshold on training or pay a training levy. In **France**, for example, firms with more than 10 employees must spend at least 1.5% of their wage bill on training.

Tax credits to firms. In **Austria** employers are allowed to deduct 120% of training costs from profits as an operating cost. In **the Netherlands** a new tax incentive has been introduced to train previously unemployed persons.

Skills centres (Centres de compétences) in **Belgium** focus on a specific industries and pool resources of local partners to finance and deliver training relevant to the sector concerned. These sectoral funds are constituted by employers' contributions partly on a compulsory and partly on a voluntary basis.

Other forms of support to firms include compensating for workers' loss during training. **The UK's Employer Training Pilots** aim to reduce barriers that prevent people – particularly those with lower skills – from accessing training. Support includes free training programmes, aid for employers to meet the costs of giving staff paid time off, and information and advice for learners and employers, including identifying skills needs.

Workers and individual citizens: invest into one's own future

Lifelong learning means that individuals will need to update their competences beyond initial education to maintain their employability and enhance their career prospects throughout a more diversified working life. The level of initial education and the degree of participation in continuing training are clearly correlated to future career prospects in terms of employment and pay. Individuals should therefore be encouraged to take more responsibility and participate financially in the development of their own human capital.

²⁷ Eurostat, Continuing Vocational Training Survey, 2002.

This is especially the case for transferable skills that bring benefits to individuals or the labour market at large. Public authorities can encourage and support individuals' initiatives. The system of vouchers is designed to target support to people with specific needs of training. Learning accounts are generally addressed to a wider population; experience suggests they generate demand, especially for more general training, but that they must be very carefully designed, in co-operation with all stakeholders, to avoid misuse. Public authorities can also play a valuable role in providing guidance services for people about the most relevant choice of training available.

In addition access to training should become a central element of the contractual relationship between individuals and their employers. Workers have a collective responsibility to increase participation in training and collective agreements in this area must be encouraged (see 4.3 below).

Tools targeted at the individual

Training vouchers: consist in personal tokens to finance targeted study or training chosen by the individual. A number of regional administrations and autonomous provinces in Italy are piloting the use of "training vouchers". In the UK a new adult learning grant of up to 45 euros a week will be available for students aged over 19 studying a full-time course.

Individual learning accounts: have been tried in **the Netherlands, Belgium, Spain, and the UK**. An investment from the individual is matched by the public sector or enterprise and put in a savings account.

Time accounts: are associated with collective agreements in **Germany and Sweden**. Under this type of scheme individuals are able to accumulate working time to undertake learning.

Financial bonus: The Swedish multinational Skandia encourages staff to save to finance training in excess of their normal in-company training entitlement. Skandia matches individual investment 100%, and for the lower skilled at 300%. Results indicate a significant impact in terms of increased responsibility, mobility, overall knowledge level, and ability to handle change. In **Austria**, individuals are allowed to deduct from taxable income the costs of education and training required for either their present job or new forms of employment.

Right to training: Following three years of negotiations, **French** social partners have concluded an agreement which aims to transform the lifelong learning concept into a practical reality. The individual worker's right to training is designed to ensure a more equitable distribution of access to training, independent of workplace or level of qualification. The French Parliament is set to ratify the agreement before the end of 2003.

Country-specific messages:

More attention should be paid to raising the educational attainment of the workforce in Portugal, Spain, Italy and Greece. Increasing access to tertiary education is a particular challenge in most of the new Member States. Reducing the number of early school leavers is essential everywhere but especially in Malta, Portugal, Spain, Italy, Latvia, Luxembourg and Greece.

All existing and new Member States must do more to provide the right incentives for enterprises to invest more heavily in human capital. While no Member State has yet developed a widespread culture of business investment in training, Denmark, Sweden, the UK and the Netherlands stand out as countries where employers invest more in their staff. More attention should be paid to raising the level of investment by enterprises in training, especially in Greece, Spain, Austria, Portugal, as well as in most of the new Member States.

4.3. Facilitate access to lifelong learning

Setting ambitious objectives and increasing the levels of investment by all actors is not enough. To ensure that supply meets demand in practice, lifelong learning systems must be affordable, accessible and responsive to changing needs. Significant barriers to lifelong learning exist in most Member States, in particular for the low-skilled.

The Taskforce urges Member States and social partners to:

- *improve the identification of individual needs and access to training. This could be achieved by making training a central element of contractual relationships, improving advice and guidance in creating personal development plans and enhancing the recognition and validation of competences and qualifications,*
- *broaden the supply of training by better exploiting new tools that are available such as e-learning,*
- *facilitate the development of the education and training sector,*
- *promote networking and partnerships between actors at all levels to foster co-operation and sharing of best practice.*

Supporting demand for learning

Member States must ensure that a range of conditions are put in place to encourage individuals and firms to take up training opportunities.

Firstly, access to training needs to be a central element of the contractual relationship between employer and employee. Collective bargaining and individual labour contracts should incorporate more explicit rights and duties concerning lifelong learning. In this context, flexible arrangements for training and working time are also essential: employers should be flexible in facilitating training during working hours, and employees should accept that some training may be delivered outside working hours.

Secondly, more or better information and guidance is needed about training needs and opportunities. Every individual should be encouraged to have his/her own personal and professional development plan. This should come from a regular assessment of competences and through effective guidance services. For example, several Member States - Finland, Greece, Spain and the Netherlands - all have initiatives for learning officers in the workplace trained to advise on learning needs and opportunities. In addition, guidance services or relevant authorities should provide information on quality standards in training programmes. Spreading information on new occupational profiles is particularly important: public employment services should design and regularly update a framework of basic competences and main occupational profiles.

Thirdly, the individual return on investment should be clear: individuals should be rewarded, for instance in terms of career prospects or wages when they have completed training that is relevant to the employer. Such an approach would modify traditional seniority-based wage structures. Recognition and validation of formal and informal competences is also particularly important in this respect. The pay-off for an individual investing in learning would be clearer with a system of universal recognition and validation of acquired competencies. A growing number of countries, including France, Portugal and Finland, have introduced, or are in the process of introducing, national systems of validation. More progress is needed in recognising informal learning.

Specific measures are also necessary to improve equality of access and effective take-up of training schemes for the low-paid, the low-skilled, older workers and non-permanent workers. Participation of the low-skilled in training varies from 10.5% in Sweden to 0.1% in Greece.

Expand supply

While supporting demand, it is essential to expand the supply of learning opportunities, to ensure a greater share of the population has access to training. This goes beyond a further reform of education and training systems: it demands a fundamental culture change to create a learning society. Member States must take full advantage of the wide range of new tools now available to provide more customised solutions.

Schools and training centres should evolve into open learning centres providing customised services to several target groups and should exploit e-learning possibilities. Libraries, multi-media databases and other products should be more available through the Internet and CD-ROMs. Interactive television and specialised cable channels should be encouraged to address more particular demands. Lastly companies should be encouraged to adopt new forms of work organisation to become learning organisations.

The goal should be the creation and expansion of a new sector providing diversified services of education and training, combining public and private initiatives, with the potential to create many new jobs.

The role of partnerships

Closer partnerships between business, social partners, the public sector and private providers are critical to improve the interface between supply and demand for learning. These partnerships should ensure Member States are in a better position to anticipate skills needs, set concrete targets and share costs and responsibilities. Vocational training agreements at cross-industry and/or at sectoral level exist in nearly all Member States. Indeed, in ten Member States, collective agreements set the framework for continuing training actions. More needs to be done to ensure this becomes standard practice.

Through partnerships for innovation and employment companies, workers, universities and the public sector must combine efforts to spread innovation, increase competitiveness and raise the quality of human resources.

Social partners training agreements

In **Portugal**, a 2001 agreement between the Government and the social partners on Employment Policy, Labour Market and Education and Training addresses the problems related to the country's competitiveness, employment sustainability, the improvement of school and occupational qualifications, and the promotion of the quality of employment.

In **Belgium** social partners agreed at interprofessional level that investment in training should represent 1.9% of total wages by the end of 2004, with 0.1% reserved for groups at risk.

In **Italy**, the law 388/2000 diverted an already existing payroll tax in favour of so called inter-professional funds for lifelong learning. These funds, which are gradually becoming operational, aim to finance training programmes at company and local level. They are agreed between social partners and cover the main economic sector (industry, agriculture, services and craft industry).

The metal and electrical industry in the German federal state of **Baden-Wurtemberg** focuses on improving the availability of and participation in training to improve adaptability to change. All employees, including those on parental leave, are entitled to discuss qualification needs. Time spent on training is paid as regular working time. Focus is placed on older workers and special training programmes for low-skilled workers are to be designed by the employer and the members of works councils. Employees who have worked for the company for at least five years have the right to take a sabbatical of up to three years and to use this time for their personal job-related development.

The **Debis AG collective agreement** in Germany commits the employer to present yearly qualification plans. Employees have the right to obtain personal training interviews and can express their own interest concerning content. Training regarded as necessary both by the employer and the employee is paid by the employer and can be attended during official working time. The agreement contains the right to receive additional training for at least five days annually that can

be bundled up for five years. The employer pays for this training but employees contribute half of the training time using their working time account.

Country-specific messages:

Barriers to participation in training exist in all Member States. More must be done to break down these barriers through policies and partnerships that stimulate the demand and supply of lifelong learning. The social partners have a crucial role to play.

Increasing participation in training for the entire workforce is a priority in all Member States. It is particularly pressing for Greece, France, Portugal, Hungary, Lithuania, Poland, Cyprus, Italy, Spain, Belgium and Germany.

Another related challenge is to facilitate access for the low-skilled. The low take-up of training by this group is a problem across the EU, but is especially worrying and requires urgent action in the countries mentioned above.

Chapter 5. Mobilising for reforms: better governance for employment

Implementing the reforms proposed in this report is a major political challenge. The Taskforce stresses the need to mobilise our societies to support reform; to ensure effective delivery; and to use EU instruments more effectively as a lever.

More and better jobs can only be created through co-operation between all relevant actors. The success stories of a number of Member States show that apart from a clear vision about the path to sustainable growth and social cohesion, strong political will and co-ordinated efforts of all actors are crucial for increasing adaptability, activating labour supply and equipping people for jobs. Sustainable reform requires investment in “political capital” and efforts to develop intelligent and effective institutions.

Action at national and EU level should be inspired by the principles of proportionality and subsidiarity to ensure decisions are taken at the appropriate level and are proportionate to the objective; participation of stakeholders, openness and accountability towards citizens; and effectiveness, efficiency and coherence within an increasingly complex system.

These principles imply the mobilisation of all actors involved in innovation, job creation and social cohesion at all levels - firm, regional and national - through appropriate legal infrastructures, co-ordination and political and financial support. While the responsibility for implementation lies with the Member States, the EU also has a role to play in supporting the reform agenda, by encouraging the spread of good practice and mobilising resources to promote employment and innovation.

5.1. Mobilising our societies to support reform

The reforms suggested in this report will often require public authorities, social partners and citizens to question old certainties and accept new practices.

Moreover, the suggested action overlaps with the wider agenda of the Lisbon strategy. In the present context of high unemployment, rapid global economic integration and fast demographic ageing it is clear that the necessary social reforms are inter-linked and inter-dependent. The need to increase employment, for example, is dependent in part on modernising social protection systems in the fields of pensions and healthcare, which are under strain because of demographic change. In turn, higher employment is necessary to improve the sustainability of social protection systems.

Governments need to improve their communication with the public to explain why these reforms are desirable and necessary even if this dialogue does not always bring quick results. By demonstrating that the reforms are a matter of common interest and by trying to reach compromises between apparently conflicting interests, they will win public support.

Building on the links between different reforms, particularly in the form of Employment Pacts at national and regional level, proved its worth in several Member States during the 1990s, helping to ensure wage moderation, promoting higher employment and supporting progress towards economic and monetary union. The success of these Pacts stemmed from a common understanding of all stakeholders of the overall gains that could be achieved by joint effort.

Similarly, at a time when the issues of globalisation, economic restructuring and ageing are becoming more pressing, new **reform partnerships** may provide a way of finding solutions of mutual advantage to different stakeholders by balancing concessions and advantages in the fields of competitiveness, employment, social protection and other relevant policies.

For example, with a view to achieving such a balance:

- *employers* could make commitments to improve workers' access to training and the balance between work and family life and to help with the integration in work of disadvantaged people,

- *workers* could agree to more diversified contractual and working arrangements, increased mobility, deferred exit from the labour market, wage moderation and differentiation,
- *public authorities* could undertake to improve the business environment, develop effective lifelong learning systems, with appropriate incentives for training, support research and innovation, provide for effective active labour market measures and review social protection systems to facilitate flexibility and mobility on the labour market.

Building partnerships for reforms: recent examples

In the **Netherlands**, the recent “**Autumn Agreement**” between the Government and the social partners called for a freeze in the development of wages for 2004 and a wage development approaching zero for 2005. The Government agreed to postpone its plan to abolish tax facilities for early retirement. Government and social partners agreed to further discuss these proposals with a view to reaching agreement before April 2004. Additionally, the Government agreed to reinstall the system of automatic alignment of benefits with the general wage developments as from January 2006 and to drop certain adjustments in the unemployment benefit schemes. For the disability benefit scheme, a number of measures will be taken to alleviate the burden on employers and improve benefits for recipients, provided the number of new recipients does not rise above the forecast of 25,000 annually and provided the social partners refrain from negotiating additional pay on top of the legal entitlement of 70% of the wage during the second year of disability.

The **Social Pact** signed in **Italy** in June 2003 between the Italian Federation of Industry (CONFINDUSTRIA) and the three most representative employees’ organisations (CGIL, CISL, and UIL), aims to enhance competitiveness, employment and economic growth. The Pact confirms the importance of social dialogue, proposes networks for innovation and research and provides for a systematic evaluation of the effectiveness of public policies.

5.2. Delivering reforms

The scope for improving delivery varies considerably across the EU and is linked to the extent of the reforms needed in each Member State to meet the employment objectives and targets. Member States, especially those where performance is lagging behind, should strongly reaffirm their commitment to the EU employment objectives and put in place a clear plan of action. This would be likely to include:

- Formulating clear national policies with targets reflecting those agreed at EU level. This concerns in particular the employment rate targets, the effective age of exit from the labour market and the EU benchmarks for education and training.
- Ensuring that reforms are implemented within the budget constraints advocated by the Stability and Growth Pact. If the need to find adequate resources in order to implement reforms gives rise to budgetary problems, redirection of spending and greater efficiency in the use of public funds should be guiding principles.
- Increasing the effectiveness of public delivery and control systems - in particular employment services that need to be modernised in several Member States - with a greater emphasis on management by objectives; benchmarking for quality; inter-departmental co-ordination and monitoring and evaluation tools.
- Promoting active participation and shared responsibility of the social partners in particular through collective agreements on issues such as lifelong learning, work organisation, wages, gender equality and active ageing.
- Supporting partnerships and networks for innovation and employment bringing together businesses, education and training organisations and local authorities in areas such as lifelong learning, research and innovation and work organisation.

The National Action Plans for Employment (NAPs), called for under the EU Treaty, are an obvious tool to bring together these different elements in the programming of reforms. They should also serve to monitor progress. However, this potential is not fully recognised by most Member States. To have an impact, NAPs need to have political legitimacy and the approach of several Member States of involving their national parliaments in the preparation of NAPs, and consulting social partners and civil society, could become the norm throughout the EU. Parliamentary scrutiny should be real and approval more than a rubber-stamping exercise to ensure commitment and ownership by national governments. Social dialogue will also be particularly important to bring about the necessary changes.

In countries where competences for employment policy lie within regional or local authorities, the option of strengthening the regional commitment to employment reforms should be considered. One approach might be to implement an open method of co-ordination between the national and regional levels of government. This would imply introducing open and transparent negotiation between national and regional government to agree regional objectives and reporting and monitoring mechanisms.

5.3. Using the EU instruments more effectively as a lever

The European Jobs Summit in Luxembourg in 1997 and the Lisbon Agenda in 2000 gave strong political backing to the goal of full employment and action to tackle unemployment and inactivity. Several Member States responded to the establishment of the European Employment Strategy in 1997 by introducing reforms that made an important contribution to Europe's strong employment performance up to 2001 and to the reduction of unemployment.

The role of the EU

In accordance with the Treaty, the EU role in relation to employment policies is mainly to:

- examine the employment situation in the EU, shed light on country-specific strengths and weaknesses and pool policy experiences. The main instrument for this is the annual joint European Commission-Council report on employment,
- put in place the European policy framework in the form of the European Employment Strategy with guidelines for Member States' employment policies and broad economic policy guidelines,
- on the basis of the implementation of the guidelines, make recommendations for policy changes to the Member States concerned,
- improve employment opportunities through financial support from the European Social Fund and the other Structural Funds, particularly by promoting economic and social cohesion in the EU, and from other EU programmes, such as R&D and EU-wide co-operation in education and training,
- set appropriate legislation to ensure a level-playing field across the Union, in accordance with the principle of subsidiarity.

The draft European Constitution has reaffirmed these responsibilities and has made full employment an EU objective.

In June 2003, the European Council endorsed a new set of European Employment Guidelines and new Broad Economic Policy Guidelines for the period up to 2006.

The Task Force considers that the concrete reforms presented in this report are consistent with this overall EU framework. The report highlights that reforms have been too slow and patchy in many current Member States and are equally urgent in most new Member States. The emphasis at EU level, therefore, should now be on stronger monitoring of reforms undertaken by the Member States rather than engaging in a process of further changes in the EU Guidelines. It is also essential that the Council and the Commission ensure overall consistency of the various processes that have developed under the Lisbon Strategy and co-ordination with macro-economic policies.

The priority must be to translate the overall EU policy framework into action and to this end the Taskforce suggests improvements at EU level could be made in four main directions:

- *Strengthen the role of EU country-specific recommendations.* Within a more diversified EU after enlargement, and with simpler Employment Guidelines designed to cover all national situations, it is all the more important that country-specific recommendations at EU-level are focused and forceful. There must also be adequate reporting back by the Member States on implementation and close monitoring by the European Commission. The co-ordination and consistency of the country-specific recommendations under the European Employment Strategy and the Broad Economic Policy Guidelines should be improved. Better evaluation, up-to-date statistics and indicators and clearer benchmarking are also required to improve the follow-up process.
- *Use the EU budget as a lever.* The EU mobilises considerable financial resources especially to promote the development and structural adjustment of Member States and regions that are lagging behind. The next generation of EU funding needs to be more closely targeted at addressing the Lisbon agenda, and the employment guidelines and targets in particular. Increased emphasis should be given to promoting and improving public and private investment in research and human capital. Greater attention should also be given to using EU financial resources for the practical follow-up by the Member States of EU recommended reforms. This also requires a greater focus on capacity building. Finally, the EU should boost its efforts to support EU-wide co-operation in employment and labour market mobility to promote the integration of European labour markets and the development and diffusion of research and innovation.
- *Encourage strong commitment from the European social partners.* The joint multi-annual work programme²⁸ adopted by the social partners in 2002 identified a number of themes and actions of direct relevance to the reforms discussed in this report. The success of these initiatives will depend on the active involvement of social partners at national and sectoral level and the capacity to develop practical conclusions. This could result in the adoption of Joint Frameworks for Action, as have been developed in the case of lifelong learning, that define role and responsibilities for carrying out reforms. The establishment at EU level of a tripartite summit for growth and employment should also strengthen the social partners' input in EU decision-making by reinforcing dialogue on macro-economic, employment, social protection and training policies. Greater weight could be given to the regular macro-economic dialogue at EU level with regard to following national macro-economic and wage developments.
- *Reinforce dissemination and mutual learning through exchange of experiences.* The existing peer review of employment policies carried out at EU level, which brings together representatives from national ministries and researchers several times a year to review national policies, is a valuable tool to support the identification and dissemination of good practice. However, the number of good practices reviewed each year is limited and conclusions are not widely debated. More needs to be done by the EU and national authorities to support the exchange of information between all stakeholders concerned. In part this requires a culture change to create an environment where governments and enterprises see themselves as learning organisations open to good ideas from others and keen on sharing best practice.

²⁸ ETUC, UNICE, UEAPME, CEEP, *Work programme of the European Social Partners 2003-2005*. The work programme includes actions related to lifelong learning, restructuring, ageing, young people, mobility, quality in work, gender equality, etc.