COMMUNICATION FROM THE COMMISSION

Community policies in support of employment
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1. INTRODUCTION

The promotion of a high level of employment is a core objective of the Union. Employment plays a central role in raising of average living standards. It contributes to cohesion and social integration. It is an important measure of Europe's success in using its economic and human resources fully and effectively.

Europe is now entering an important new phase in its economic and social development. With stronger growth and an improved economic climate, there are good prospects for further increases in employment and reductions in unemployment. However, if the union is to realise its full employment potential - in terms of the quality and quantity of jobs, equal access to those jobs, and minimum unemployment – it will have to manage change more effectively. Europe must continue to modernise goods, services, capital and labour markets, and become more entrepreneurial.

The production, acquisition and use of knowledge is becoming one of the chief means of improving economic performance and social well-being. Knowledge and innovation redefine and enhance economic competitiveness, while changing the content of what we do at work and the way we do it. One of the goals of the special summit in Lisbon is to find ways of exploiting these new opportunities to promote employment growth and social inclusion, and thereby, to strengthen both competitiveness and cohesion.

Europe needs to mobilise all its resources to create a modern, inclusive, knowledge-based, economy, and to tackle, in an integrated manner, the long standing challenges of regional imbalance and labour market mismatch, along with the new challenges of wider economic, social and technological changes.

This Communication forms part of the Commission's contribution to the Lisbon Summit on employment, economic reform and social cohesion. It has a double purpose.

First, the Communication shows how structural reforms and economic growth are mutually supportive and stresses the employment potential of the Union and the challenges it has to face: gender gap, skills gap, regional imbalances, demographic trends as well as global competitive pressures. It sets them in the context of the transition to an inclusive knowledge based economy. Second, in accordance with article 127 of the Treaty, which provides that "the objective of a high level of employment shall be taken into account in the formulation and implementation of all Community policies", the Communication describes four broad areas of Community policies which are particularly relevant to the agenda of the Lisbon Summit:

- the development of the knowledge-based economy should be fostered by the initiatives related to the Information society, research and development;
- the functioning of the Internal Market and the promotion of enterprises and innovation should be enhanced;
• an integrated strategy to foster inclusion and participation in a productive economy should be adopted;

• finally, job creation at regional and local development level should be actively supported.

2. CHALLENGES AND OPPORTUNITIES FOR EUROPE

2.1. Europe's overall employment potential

It is widely recognised that the EU’s employment record is not good. Levels of employment are low – with an employment rate, relative to the size of the working age population, of only 61 per cent, compared with around 75 per cent in Japan and the US. Likewise, unemployment has barely dipped below 8 per cent for almost 20 years. The estimated ‘full employment potential’ of the Union – the level of employment that would be achieved if all Member States performed as well as the best, or as well as the US – is some 30 million people – twice the numbers of recorded unemployed.

This sub-section will briefly address a number of inter-related problems: the gender gap, the short-fall in service-sector employment, the regional imbalance, long-term unemployment, the mismatch in skills and the age gap. The following sub-section relates them to the process of fundamental change Europe is currently undergoing towards an economy based on knowledge.

The gender dimension

Further increases in employment will involve much higher rates of employment amongst women. At present, only half of women of working age are in employment in Europe, compared with over two-thirds in the United States – see Graph 1. This contrasts with the employment rate of ‘prime age’ men, where the EU and the US are much closer – 86 per cent as against 89 per cent. The unemployment rate for women across the Union is still some 3 percentage points higher than for men.

![Graph 1: Employment rates - EU-US](image-url)
Insufficient job creation in the service sector

The employment gap is also reflected in the structure of jobs across sectors – with the EU having a low average level of employment in services compared with the US. While agricultural and industrial employment in Europe is on a par with the US, the service sector provides jobs for nearly 55 per cent of the working age population in the US, compared with only 40 per cent in Europe – see Graph 2. This imbalance is not restricted to any particular area – employment levels are lower across the board – in business services, health, education etc (see Employment in Europe 1999).

Regional imbalances

There is a large, and persistent, geographical imbalance in the distribution of employment and unemployment across the Union. In many regions of the south, in many regions at the periphery of the Union, as in many older industrial areas of the Member States, employment rate of under 55 or 50 per cent is commonplace, with unemployment rates often twice the EU average (see Employment in Europe 1998).

There has been little overall change in regional disparities in employment rates in the Union over the long-term. If anything, disparities between regions have widened over the past 15-20 years. Over the last two decades, unemployment rates in the high employment regions has remained in a narrow range between 4 and 7 per cent while the low employment regions have seen a marked deterioration from 15 per cent to around 25 per cent.

Even in the Member States where disparities have been reduced in the 1990s, this has been primarily due to a reduction in employment rates in the high employment areas rather than increases in low employment areas. This implies quite serious structural problems in the low employment regions which will need to be comprehensively addressed if the Union's full employment growth potential is to be realised.

Long-term unemployment

Economic and labour market weaknesses in much of Europe have been reflected, not only in high levels of unemployment generally, but also in an apparent incapacity to re-integrate many of those who lose their jobs. In consequence, a high proportion of the unemployed remain unemployed for a year or more, reducing their employability, and further harming their prospects of re-entering employment.
On average in the Union, around half of those recorded as unemployed have been out of work for a year. In this respect, those Member States which have been most successful in lowering overall levels of unemployment, tend to be those which have paid particular attention to reducing the numbers of unemployed who drift into long-term unemployment, by bringing policy measures into play earlier rather than later.

**Skills mismatch**

A common problem in periods of economic recovery is the emergence of mismatches between demand and supply in the labour market – reflected in upward pressure on wage differentials as firms compete for scarce skills, or quantitative shortages of particular groups of workers. The problem is made more acute by the structural change towards a knowledge-based economy which creates a gap between the supply of skills – the skills workers possess and the skills in demand due to technological and organisational progress.

The evidence is that in practice, people with only basic education work for far fewer years - with much longer periods of inactivity or unemployment - than people who have had the benefit of higher education. Graph 3 shows that the effective working life for men with low levels of education can be as low as 25 years compared with 35 years for those with higher levels, leading to even greater differences in life-time earnings. Special attention must therefore be given to the development of learning systems which promote access to lifelong education and training for all, and which enable people to adapt to change in their working environment.

Low educational attainment levels are associated with high rates of unemployment, particularly among younger workers. Young people aged 20-24 with no schooling beyond basic education, for example, have an unemployment rate up to 10 percentage points higher than those with a university education. For the workforce as a whole, unemployment rates for those with high educational attainment levels are less than half the rates for those with only basic education – under 6 per cent as against over 12 per cent - with even greater differences in respect of long-term unemployment. This shows the importance of raising the level of qualifications among young people by reducing school drop out rates, improving the training available after compulsory schooling and offering a "second chance" to those who have left school without appropriate qualifications.

**Demographic dimension**
The demographic shift in the Union is now well underway, and affects both the age composition of the working-age population, and the balance of dependency between those of working age, and those outside – notably those who have retired. This makes the low employment rates for workers over 55 years (see graph 1) unsustainable, and employment policies need to be strengthened decisively in this respect (see Broad Economic Policy Guidelines 1999 and Employment Guidelines 2000).

The working age population shift is even more significant in the longer run – with 12 million fewer potential workers under 40 years of age, and an increase of 13 million people over 40 years old, over the next decade. Such changes will affect the recruitment and employment practices of companies and whole sectors, notably those who have traditionally employed a younger workforce. On the other hand, the shift is gradual, with the workforce ageing by an average of only (3-4) months a year, and the faster the increase in the employment rate, the less dramatic the impact will appear.

2.2. Emerging opportunities and constraints

These long-standing challenges are being accentuated by the transition to a knowledge-based economy accompanied by increasing globalisation of production in many industrial and services sectors.

The transition to a "knowledge-based economy" is becoming a major feature of our economies. Today's knowledge is increasingly encoded and transmitted through the information technologies. And more products and services than ever are based on the use of knowledge and information. ICT's and knowledge-processing have major implications for the organisation of work and the nature of jobs: networks - linking businesses together, to their customers or individuals - are reshaping the ways industries operate and how people work. By 'de-linking' many of the time constraints in the production process, they give an advantage to decentralised forms of organisation and lead to a stronger emphasis on service to customers. If appropriate policies are put in place the knowledge economy may thus bring about a substantial increase in service jobs, which will help bridge the gap in service employment.

Furthermore, if sufficient attention is paid to ensuring equal access across regions and individuals the new information technologies may enable less-developed communities, both rural and urban, to create new activities and overcome long entrenched problems, for instance remoteness from major economic centres. This may give a new impetus to overcome the deeply rooted regional discrepancies in the European employment performance.

These changes mean that workers – young and old alike – must be able to handle knowledge in its new forms - digitalisation, networking and real-time processing-, in order to be able to adapt throughout their working life. The knowledge-based economy seems to be accentuating the shift in comparative advantage away from those with traditional manual skills towards those with non-manual, composite and communicative skills, linked in the main to higher levels of education.
This is particularly apparent in fast growing sectors of the economy – where most of the non-manual job growth takes place. The bulk of manual job losses, whether skilled and unskilled, are in slow growing or declining sectors (see graph 4). This calls for more investment in lifelong learning both in basic education and in upgrading skills, especially those of older workers. This is especially important in the context of an ageing European workforce. Active training policies are also needed to reinforce the trend towards the narrowing of the gender gap in the access to ICTs. Knowledge investment means investment not just in ICT-related products and services or education, but also in R&D. Data from 1995 suggest that the EU performance on overall knowledge investment was comparable to the US's. However, in R&D, the Union was spending proportionally less than the US and Japan - under 2 per cent of GDP in 1997 as opposed to close to 3 per cent. Furthermore, if one takes a longer perspective and focuses on absolute spending levels, this gap seems to be on the increase, especially in the 1990s. The current trends in research expenditure could therefore have a negative influence on the development of employment in Europe in the years ahead.

The continuous growth in global trading has been of substantial benefit to the Union. Declining transport costs and improved information through the Internet could open up the prospect of substantial shifts in world structures of production and distribution in the coming years and further increase income and employment in the Union.

On the other hand such changes are accompanied by a continuous process of large scale industrial adjustment in Europe. Such adjustment processes are often far from smooth. Some sectors of the economy, and some groups of professions and some regions will benefit from the growth of new activities – see Annex – but there will also be offsetting losses. This creates challenges, not just for the objectives of inclusion and cohesion, but equally for the effective use of economic resources. There is now a growing recognition of the interaction between globalisation, domestic employment and relative incomes, and of the need for strong supportive policies – in terms of safety nets and re-skilling possibilities.

While the new trends may reinforce the employment/unemployment challenges they could also give appropriately designed policies a new impetus for tackling unemployment, in particular long term unemployment, and effectively reducing the age, gender and skill gaps in employment and the huge discrepancies between the regional labour markets.
3. EMPLOYMENT IN COMMUNITY POLICIES

Having characterised the employment challenges, this section looks at the employment impact of a set of Community policies central to the development of the knowledge-based economy.

Taking up these challenges requires effective mobilisation of all economic and structural policies, operating in a mutually supportive way. Employment policy has to be embedded in a comprehensive approach encompassing macro-economic policies directed towards growth, stability and employment, economic reform promoting competitiveness and the functioning of the markets, and the Employment Guidelines - designed to improve employability, adaptability, equal opportunities and to promote entrepreneurship with a view to job creation in existing and new enterprises. The Employment Guidelines and the Broad Economic Policy Guidelines, which provide the framework for the definition of overall policy objectives and orientations, are monitored by the respective implementation reports, with the main responsibility of the implementation resting with the Member States.

Article 127(1) of the EC Treaty states that the Community shall contribute to a high level of employment by encouraging cooperation between Member States and by supporting and, if necessary, complementing their action. This support was requested by the European Council at its extraordinary Luxembourg meeting, when it called for the harnessing of all Community policies in support of employment, both framework policies and support policies. This call was echoed by Article 127(2) of the EC Treaty according to which the objective of a high level of employment shall be taken into consideration in the formulation and implementation of Community policies and activities.

Although this Communication deals with the mainstreaming of employment in the policies of the Community with its present membership, it is important to recognise the significant implications for employment policies that an enlarged Union will represent. The integration of countries that are at different stages of development, growth and competitiveness to the present Member States is a challenge that needs to be taken up now. Employment reviews are being carried out in candidate countries at present, with a view to gaining a better understanding of the situation in these countries to enable them to align their employment policies on the Community's.

The following sections concentrate on four areas:

- The development of the knowledge-based economy
- Fostering the dynamism of the internal market
- Inclusion and participation in a productive economy
- EU support for developing employment at regional and local level.

3.1. Towards a knowledge-based economy

EU support for a European Information Society

The information and communication technologies offer Europe new opportunities for growth and job creation. These technologies will affect employment across most economic sectors in different ways: new organisational arrangements and innovation in business processes will boost productivity, leading to lower prices, better quality products and, eventually increased demand; and product and service innovation will generate new jobs and new demand.
Europe's strengths and weaknesses

The US economy has taken up new technologies faster than Europe and been quicker to exploit the "information highways" infrastructure. As a consequence, it has been able to launch successful world-wide applications dependent on these technologies, and is dominant in many sections of the IT markets. For instance, most Internet providers must still use US "backbones" (large bandwidth infrastructures) for carrying Internet traffic. On a positive note, Europe is now the fastest growing market for Internet development with about 50 million Europeans using the Internet as of year end 1999. The figure is expected to rise manifold by 2004. However today, the European Internet penetration rate in homes stands at only one third of the US rate, which means that Europe should promote a much faster pace of Internet penetration than it has at present.

Furthermore, the skills gap is a significant barrier to job creation in Europe, both at the level of basic ICT literacy and at the expert level: there will be as many as 1.6 million unfilled ICT specialist vacancies by 2002.

The EU, however, occupies a leading position regarding mobile communications and digital TV. In December 1999, the EU had 136 million mobile subscribers, and the growth rate in many Member States is currently 1 per cent per month. Some prediction refer to a penetration rate close to 100% within the next 5 years. GSM, originally a European standard, has become a global standard. Third generation mobile telephony, offering the possibility of effective mobile e-commerce and wireless Internet access, will build on this success and give European companies a strong lead, as there will be over 600 million mobile phones with these capabilities by 2004.

EU initiatives

- The initiative "eEurope – An Information Society for All", launched by the European Commission on 8 November, aims to bring the benefits of the Information Society within reach of all Europeans. It addresses the necessary framework conditions such as bringing all schools online, cheaper Internet access, accelerating e-commerce, fast Internet for researchers and students, risk capital for high tech SMEs, e-participation for the disabled and ensuring easy access to public information. Giving policy priority to the ten areas addressed in the e-Europe initiative will enable Europe to create a substantial number of high-skill jobs in areas of growing demand. The initiative also focuses on providing people with cheap and accessible tools to upgrade their skills, thereby enabling them to grasp new opportunities.

- The Communication "Strategies for Jobs in the Information Society" adopted on 4 February, sets out recommendations to Member States, social partners, and industries to overcome present shortcomings in four areas: learning, working, public services, and the enterprise in the Information Society. The Commission proposes ambitious objectives, which provide the basis for benchmarking the Knowledge Society dimension within the European Employment Strategy. The Commission will encourage Member States to promote the Information Society and new skills by focusing Structural Funds investment on human resources and the relevant infrastructure.

EU support for a common European Research Area: building knowledge for growth and employment
The generation and dissemination of new knowledge through research support employment by laying the foundations for the new growth industries of the future and by enabling people to expand their knowledge and skills. In fact, the major world economies have experienced an increase in the number of jobs in industries and regions with high R&D intensity and high technology levels.

**Europe's strengths and weaknesses**

In terms of employment researchers account for only 2.5 in every thousand of the industrial workforce in Europe, as against 6.7 in the United States and 6 in Japan. Between 1988 and 1997, domestic expenditure on research and development in the European Union failed to keep pace with GDP. The average research effort in the Union is currently only 1.8 % of Europe’s GDP, as against 2.8 % in the United States and 2.9 % in Japan, and this gap is on the increase since 1995, especially as regards the investment in research by the private sector, medium-sized business and small enterprises.

![Gap in R&D spending between Europe and the US](image)

Furthermore, Europe's research effort suffers from fragmentation and compartmentalisation. The regulatory and administrative frameworks and the reference systems for research show a wide variations, and there is no real “internal market” for scientific knowledge and technology today.

Yet Europe has a high potential in research. It produces a third of the world’s scientific knowledge. It is in the forefront in areas such as medical research and chemistry. And it has notable success stories in technology, in sectors such as aeronautics and mobile communications. This potential must be maintained, increased and fully exploited.

**EU initiatives**

In the Communication "Towards a common European research area", the Commission proposed an overall strategy for enhancing scientific and technological activities in Europe, while fully taking advantage of the high level potential already existing in the Member States. A better integration of Europe's scientific and technological activities and a determined move
towards a real European research policy are indispensable conditions for invigorating research in Europe.

The communication calls for in particular the mapping and networking of centers of excellence, increased mobility of researchers and the creation of better framework conditions for the private investment in research. Benchmarking exercises should be undertaken, leading to the preparation of a regular report on the situation of research in Europe. This benchmarking and the report should be based on a set of key indicators which are the most relevant to assess the impact of research and development on competitiveness and employment, in the context of the knowledge-based society.

Measures will need to be implemented by the Member States and the Union. The full panoply of practical, legal and policy instruments available should be brought into play and the range of possibilities provided by the Treaty should be re-examined in this respect.

**EU support for developing a European area of lifelong learning: addressing the education gap**

Progress made in information and communication technologies is changing the way in which knowledge is accumulated and supporting the transition to a knowledge-based society. However, this newly emerging model is still giving rise to many challenges: How to stimulate innovation, not only in processes, but also in products and services, in order to boost enterprise and job creation? How to equip the workforce for much more rapid changes in occupational activities? How to cope with the risk of new social activities?

The educational systems throughout the Union have to be responsive to the need of all citizens to be equipped to face rapid change in the overall framework of the knowledge-based economy. Moreover, education policies must take into account the changing social trends, in relation to population ageing, household and family structures as well as the related behavioural changes associated with gender and intergenerational issues.

**Europe's strengths and weaknesses**

Current low employment partly reflects a mismatch between the skills in demand and in supply. High youth unemployment emphasises the need to focus more on a successful transition from school to work by improving the quality of education and training including the development of core skills and strengthening links between the labour market and educational and training institutions. For older workers improved access to high-quality continuing education and training is needed to help them adapt to the new labour market's requirements.

There is a strong political commitment to change. The Employment Strategy and the Community programmes for education, training and youth contribute to the development of a common European area for Education and Training through co-operation and mobility. Indeed, one of the cornerstones of the Employment Guidelines is to bring about the full participation of all in the knowledge-based economy through a partnership approach to lifelong learning, involving the Member States, the social partners, enterprises and the individuals.

**EU initiatives**
• The Commission is preparing a Memorandum on “Implementing Lifelong Learning for Active Citizenship in a Europe of Knowledge”, with ideas for a comprehensive lifelong learning strategy and development of indicators to facilitate the assessment of the Member States’ policies and systems, and Community programmes and initiatives. The Commission is also preparing a "European report on the Quality of Education" based on the results of the working group on indicators of quality in educational systems. The Commission will also analyse how the curricula and the definition of qualifications evolve and monitor whether they match the needs of the labour market and whether they promote the transition to a knowledge-based society.

• In response to the skill shortages, the Commission's Communication "Strategy for jobs in the Information Society" puts particular emphasis on a new, integrated, life-long learning approach. Member States should provide every student and worker with the opportunity to become ICT-literate, and enhance the training of ICT specialists both at university and technical level. Particular attention should be paid to gender mainstreaming of Information-Society related training. The Commission is also launching a study on the economic cost of the skills gap.

In addition, the Commission intends to present this year an initiative aimed at Designing tomorrow's education and promoting innovation with the new technologies, in line with its initiative on e-Europe and with the employment strategy.

**EU support for using knowledge to promote employment compatible with sustainable development**

It should be easier to achieve sustainable development, i.e. development supporting long-term economic social and environmental objectives, in a knowledge-based economy. New industries that deal in knowledge pollute less than traditional manufacturing, and a better educated workforce makes for more environmentally aware consumers. Research and innovation will make it possible to meet their demand for environmentally friendly products.

**Europe's strengths and weaknesses**

Technological progress and improved regulation have reduced the amount of pollution produced by many industrial processes, but growth in the scale of activity has worked in the opposite direction. The recent European Environment Agency ‘State of the Environment Report’ predicts that some environmental problems would be alleviated if current policy is implemented in full. However, in a number of important sectors (e.g. climatic change, waste, soil), the "business as usual" scenarios show a further environmental deterioration by 2010.

Use of market-based instruments, including taxes, remains patchy. Despite frequent announcements, little progress has been achieved in a broader use of fiscal instruments, such as taxation of energy production and consumption and in shifting the tax burden from labour to resource use. The integration of environmental concerns into various sectoral policies (e.g. transport, energy, agriculture) has only started.

The EU's commitment to sustainable development and high standards may become a motor for innovation, technology, new entrepreneurial activity and high quality jobs. The EU is a world leader in environmental technology, creating jobs and income in Member States.

**EU initiatives**
• At the Helsinki European Council, strategies for integrating the environmental dimension into agriculture, transport and energy sectors were agreed. Work on similar strategies has started in the areas of internal market, development and industry. The Council has been requested to submit to the European Council in June 2001 comprehensive strategies with the possibility of including a timetable for further measures and a set of indicators for these sectors. The European Council also asked the Commission to prepare a long-term sustainable development strategy. Furthermore, the environmental dimension is mainstreamed in the Employment Guidelines for 2000.

• The Communication on "Environment and Employment" underlined the importance of policy integration, mobilising all stakeholders, particularly public authorities. The Commission has launched a dialogue between the Ministries for Employment and Social Affairs, for the Environment, and for Industry on the integration of competitiveness, environmental and employment policies.

[ ] A mixture of financial incentives and disincentives are needed to encourage investment in new, cleaner, capital stock. Together with investment in human resources, this will improve both competitiveness and the quality of (working) life. Building on the Communication on "Environment and Employment (Building a sustainable Europe)’ the Commission will give further support for the development of long-term national strategies and help develop indicators applicable to all industries.

[ ] The Commission will continue to investigate measures with a potential for improving the environment, the competitiveness of the economy and employment. Examples include eco-taxes and pricing policies. The Commission will also study the impact of environmentally harmful subsidies. The Commission will consider i.a. environmental concerns and the security of supply when assessing such subsidies under the state aid rules. A 6th Environmental action Programme will be proposed by the Commission before the end of the year.

3.2. Fostering the dynamism of EU Internal Market

**EU support for the development of the internal market**

The expanding trade in intangible goods makes market integration all the more necessary. Innovation, creativity and economic and financial integration are essential for boosting efficiency and competitiveness by promoting competition and reducing costs.

*Europe's strengths and weaknesses*

The removal of trade barriers and market liberalisation accelerate integration of the Member States' markets and create new opportunities: by widening their customer base and achieving economies of scale, companies can expand their business and create additional employment.

However, problems remain - e.g the protection of intellectual property rights is still insufficient, which may hamper innovation and investment in technology, research and other forms of immaterial capital. Certain industries too are obstructed from integrating, particularly in the service sector, which employs twice as many people as industry and agriculture combined. The European market in financial services is still fragmented. Lack of appropriate regulation on some key sectors, such as e-commerce still undermines consumers confidence. Widespread inequalities and lack of universal service obligations prevent the EU from taking full advantage of the potential for the creation of high-quality jobs.
**EU initiatives**

- The Community should continue to improve co-ordination of fiscal policies and avoid harmful tax competition, which can interfere with efficient resource allocation in the internal market.

- The proposals to protect industrial and intellectual property rights should aim to encourage innovation, investment and high quality employment. Swift adoption of the proposal for a Directive on "Certain aspects of e-commerce in the internal market" will help create an appropriate regulatory environment for this major potential source of new jobs. Enhanced competition in the IT and telecommunications industries will have a major impact on the growth rate of e-commerce. The Commission will therefore pay more attention to the enforcement of competition rules and to specific problems, such as network-access pricing in the telecommunications industry.

- Progress made in economic reforms provides the basis for benchmarking exercises. They are monitored within the framework of the Cardiff report and the NAPs as well as more comprehensively in the Broad Economic Policy Guidelines and its implementation report.

- The EU must be forceful in implementing the target measures agreed on, in the New Strategy for the Internal Market. In particular, the Commission will focus its initiatives on the financial services sector and it will monitor implementation, with a first review at the Internal Market Council in spring 2000.

- The Commission will continue to examine the beneficial effects on labour markets of removing obstacles to occupational and geographical mobility for workers, such as differences in social security systems, particularly pensions. The situation of migrant workers or retired people depending on a social security system in one country while paying income taxes in another country is to be reviewed, when it leads to a less favourable treatment than the one they would receive if they were subject either to the tax system of the country where they pay social contributions, or to the social system of the country where they pay taxes. More generally, in order to avoid distortions of treatment, the co-ordination of national policies should aim at greater compatibility between tax and social contributions schemes throughout the Union. Member States will be encouraged to take measures through the European Employment Strategy and co-operation on social protection.

**EU support for enterprises and a culture of entrepreneurship**

To derive optimum benefit from economic reforms geared towards competitiveness and job creation, Europe must build a culture of entrepreneurial dynamism, particularly in the new knowledge and ICT-related industries.

*Europe's strengths and weaknesses*

Europe is considered to have a predominant *employee culture*. The proportion of people who set up their own business in Italy and the United Kingdom is half the US rate. In Europe, school-leavers and graduates have a strong preference for *finding*, rather than *creating* a job. Many Member States have acknowledged the importance of this entrepreneur shortage and have already taken steps to include entrepreneurship in the curriculum, beginning at primary-school level.
In many Member States, the volume and complexity of regulations and administrative procedures makes setting up a new business an expensive and cumbersome affair. Research from 1997 has shown that the countries with the fewest and quickest procedures for registering companies were also often those with the highest overall employment rates.

As a rule, European SMEs are undercapitalised; their level of indebtedness is on average twice the level of own funds. This can be explained by cultural barriers (the reluctance of some SME entrepreneurs to let outsiders acquire equity in their company), as well as by the number of obstacles SMEs face in access to equity finance (for instance, the underdevelopment of European venture capital markets and stock markets specialised in smaller firms). The availability of risk capital is especially crucial to the development of innovative and high-growth enterprises.

To bridge the gap between the US and the EU, employment needs to grow fast in all sub-sectors: hotels, restaurants and distribution; financial and business services; local services (education, health and social services). This should be a major goal for Europe over the next 10 years.

**EU initiatives**

- In its Communication *Promoting Entrepreneurship and Competitiveness*\(^1\) the Commission proposed a *BEST Action Plan* which was endorsed by the Council on 19 April 1999. The Action Plan draws conclusions from the BEST (*Business Environment Task Force*) reports, which reviewed the existing regulatory environment for businesses and made recommendations for improvements. It proposes concrete measures in various areas, in particular the teaching of entrepreneurship, training, access to finance, research, innovation and improving public administration. It constitutes a reference framework for measures at Community, national and regional level and complements the SLIM (*Simpler legislation for the Internal Market*) initiative which aims to simplify and improve Internal Market rules. The Action Plan requires the Commission to report by the end of 2000 on implementation.

- In its annual Cardiff Report, the Commission quantitatively assesses the performance of European product and capital markets. On that basis, it proposes a certain number of policy recommendations aiming to foster economic reform or eliminate obstacles preventing markets from performing efficiently. These can provide input for the preparation of the Broad Economic Policy Guidelines and serve as the basis for Commission proposals to update target actions included in the Internal Market Strategy.

- In its October 1999 Communication *Risk Capital: Implementation of the Action Plan. Proposals for moving forward*\(^2\), the Commission has assessed the progress made with the implementation of the Action Plan\(^3\) to promote the development of risk capital markets in Europe. This Action Plan is part of the Communication adopted in 1998 by the Commission and endorsed by the Council, *Risk Capital: a key to job creation in the EU*, analysing the importance of pan-European risk capital markets for the European Union, highlighting the barriers to their development and proposing measures to remove them.

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\(^1\) COM (98) 550 final of 30.09.1998  
The October 1999 Communication concluded that, despite the progress made, the EU still suffers from major weaknesses and made proposals for further progress. The Commission will review progress regularly.

- **The Action Plan for innovation** sets three major priority areas: promotion of a culture of innovation, setting-up of a favourable framework for innovation and creation of stronger links between research and enterprises. The 5th Framework Programme includes a horizontal programme to promote participation of SMEs and innovation, with a Community budget of €362 million over the period 1998-2002.

- The Commission continues to work on ongoing activities such as CREA, a programme which supports seed capital funds for small innovative businesses, and the European Business Angels Network (EBAN), which brings together business starters with potential investors.

- The impact of teaching entrepreneurship and business knowledge more generally will be addressed as part of the mid-term review of the Employment Guidelines.

- In line with the conclusions of the Luxembourg Jobs Summit, an update of the Employment Rates Report data will be included in the next Employment in Europe Report.

- To raise entrepreneurial awareness among young people, more must be done within educational institutions. The implementation of Community programmes and activities, such as the Leonardo II programme, will encourage Member States to include entrepreneurship in all curricula, and will provide practical support.

- A 4\textsuperscript{th} multi-annual programme targeted at enterprises and SMEs is due to cover the period 2001-2006.

- The Commission will implement its strategy endorsed by the Council on enhancing tourism's potential for employment.\(^4\)

3.3. **EU support for inclusion and participation in a productive economy**

Primary responsibility for combating social exclusion – both the old forms and the new, associated with the Information Society — lies with the national authorities, social partners and non-governmental organisations. However, in accordance with the new provisions of Art. 137 of the Treaty, the EU role is to support and complement the initiatives implemented in the Member States.

Preventing and combating social exclusion in all its dimensions calls for comprehensive and integrated strategies. Within this framework, the EU has a particular role to play in promoting job creation, which is a fundamental precondition of welfare, as well as change in the workplace and in the way work is organised and in helping people to adapt to it. It can also support the modernisation of social protection systems to deal with new challenges (ageing, changing world of work), and help strike a new balance between flexibility and security.

\(^4\) COM (1999)205 of 28 April 1999
Europe's strengths and weaknesses

According to current Eurostat data, some 18% of the EU population live with less than 60% of national median incomes, the low income threshold taken to measure relative poverty. This figure is EU average reflecting national poverty rates which vary from 11 to 24%, and has been roughly stable during the last ten years. This share would be 26% in the absence of social benefit systems other than pensions. When social benefits are taken into account, it falls to 18%, which indicates both the successes and the limits of income redistribution policies. Eurostat data also show that those living under this poverty line are experiencing deprivation and serious difficulties in fully participating in society. A purely market-based income distribution without the redistribution effect provided by the European welfare systems would keep a significant proportion of the population under the poverty line.

Changes in the economy, the labour market, society's demographic profile and family patterns weaken social cohesion, by increasing income inequalities and vulnerability. The problem of permanent poverty is compounded by more widespread insecurity: a high percentage of people experience poverty or are threatened by it at some point in their lives. This is notably due to labour market segmentation, which confines a number of people to low-paid, precarious jobs alternating with frequent spells of unemployment, making it extremely difficult for them to escape from poverty. The Community's strength lies in the political commitment to an EU-wide strategy to prevent unemployment, promote activation and the adaptability of the workforce, develop education and training policies and modernise social security systems. Discrimination-free access to the labour market will be stimulated by the adoption of the proposals recently made by the Commission, as well as by the strengthening of the efforts which are under way with regard to gender equality.

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5 Eurostat, Statistics in Focus, 1/2000 Social exclusion in the EU Member States and 13/1999. The figures relate to second wave of the European Community Household Panel and refer to the income situation in 1994 in 13 Member States (EU except Sweden and Finland). Applied to the 15 Member States, the 18% rate would represent more than 65 million people.

6 Eurostat, Statistics in Focus, 8/1999. European welfare systems remain an important instrument to reduce poverty, keeping in mind that the presence of a large welfare system itself affects people’s behaviour and household structure, for example, allowing people to live in their own households while relying on benefits.

7 Eurostat Statistics in Focus 1/2000; see also the Commission Communication "Social Trends: prospects and challenges"

8 See the statistical annex to the communication "Building an inclusive Europe".

9 COM(1999) 565 to 567
EU initiatives

The following initiatives are part of a coherent strategy and demonstrate the EU’s commitment to combining modernisation, growth and employment with European social values.

- The Structural Funds, including the EQUAL initiative, will be used to support the National Action Plans for employment in the fight against exclusion. Community programmes, particularly Socrates II, will fund measures aimed at people who left school with no qualifications. In line with the Employment Guidelines, vigorous measures will be encouraged to cut the number of people who leave school early.

- The European Strategy to promote employment and labour market reforms will continue to focus on the prevention of long-term unemployment. Member States will give special attention to equal opportunities for women and men, the disabled, ethnic minorities and other disadvantaged groups and individuals.

- Helping people adapt to the changing world of work strengthens social cohesion and prevents exclusion. The Vienna European Council asked Commission and Council to follow up the High Level Expert Group's recommendations on economic and social implication of industrial change, which include a proposal for a Forum on Industrial Change. The Commission is examining how best to respond to these requests. The Commission will also encourage companies to produce Managing Change Reports as an important anticipation tool to become learning businesses that help their workforce respond to economic change.

- In line with the Commission's Communication A Concerted strategy for Modernising Social Protection, the Commission and Member States have initiated a dialogue on social protection. This should develop into cooperation on four objectives: to provide people with secure income through work; to make pension systems safe and sustainable; to promote social inclusion and to ensure high-quality and sustainable health care. The cooperation process will be linked to the European Employment Strategy.

- Social inclusion will be taken into consideration in the other Community policies. The Commission intends to suggest further activities in this field, including the development of expertise trans-national co-operation, exchange of good practices, common indicators and policy dialogue on social inclusion, in full compliance with the subsidiarity principle. The forthcoming Commission Report on the Social situation in the European Union 2000 provides information and analyses on underlying trends and future needs.

For the implementation of the above strategy, the Commission will continue to co-operate with the Member States and all actors, including social partners. This will help them to invest in balanced economic development and will provide a competitive advantage in a globalised economy.

3.4. EU support for developing employment at regional and local level

Local initiatives and local development are essential for promoting innovation and entrepreneurship, tackling unemployment and fostering inclusion:
• Would-be entrepreneurs and businesses benefit from support from local research networks, businesses services, public administrations and financial institutions which can pool their knowledge of the local market.

• Public employment services can implement active measures tailored to specific patterns of unemployment and labour market requirements.

• All actors, including NGOs, may be involved in local measures to fight social exclusion, particularly in deprived urban areas.

*Europe strengths and weaknesses*

The commitment of people working locally for employment and social cohesion – be it in the public or private sectors – is real. The social or intermediary sector provides a good deal of support to local job creation. The synergies where fully exploited between these three partners have a considerable impact on employment.

The NAP process has not taken sufficient account of the local dimension of regional development. Co-ordination of activities directed at the local level has been poor, irrespective of whether they originated from national governments or the EU. Local agencies of national or regional authorities (e.g. local employment services, local agencies of welfare ministries, etc.) have not always been given sufficient encouragement to work together with local authorities.

*EU initiatives*

• The Community intends to provide support for employment at local and regional levels through the Employment Strategy and the Structural Funds. Both are strongly geared towards helping local actors to launch new job-creation initiatives, promote participation and fight exclusion. The Territorial Employment Pacts, involving representatives of local interests, will be assessed to determine what changes could be made to maximise their effect on local development and employment creation. In view of their success, the Pacts will now be integrated into the mainstream of the Structural Funds.10

• The **Employment Guidelines for 2000** call for the promotion of measures to exploit fully the possibilities offered by job creation at local level and to support the special role and responsibility of partners at the regional and local levels. The review of the National Action Plans in 2000 will give greater consideration to views and experiences of people responsible for local responses to unemployment.

• A new campaign "Act Locally for Employment" is being prepared in co-operation with the Committee of the Regions, in order to support the major role concerted local actions can play in the European Employment Strategy. To underpin it, a budget of 12 million euros has been made available for 2000 to increase awareness of the local dimension of the Strategy, promote co-operation and exchange of best practice, develop local enterprise especially in the social economy, and evaluate what impact National Actions Plans are having at regional and local levels.

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• The regulations governing the Structural Funds in the period 2000-2006 have been adjusted to increase the amount of support they can give to new activities and partnerships at regional and local levels. The overall transfer of €195 billion, including phasing out support, Community initiatives and innovative actions should have a significant impact on development and economic growth at regional and local levels when combined with national expenditure.

• The European Regional Development Fund and the Cohesion Fund have a major role to play in enhancing competitiveness and social cohesion and thereby creating the right conditions for sustainable jobs. The focus on integration, thematic and geographic concentration, and partnership in the new ERDF regulation should increase the efficiency of structural measures. Employment issues are given special consideration in programmes aiming at the economic and social conversion of "Objective 2" areas. Under the ERDF, employment creation is also helped by two Community initiatives: INTERREG, which supports cross-border, trans-national and inter-regional co-operation and URBAN, concerned with restructuring in deprived urban areas.

• The European Agricultural Guidance and Guarantee Fund (EAGGF) promotes sustainable rural development, which is becoming the second pillar of the EU Common Agricultural Policy, notably through the diversification of activities and job creation, with the aim to use existing potential more effectively. The related LEADER initiative supports this integrated rural development policy and stimulates responses to new demands for employment intensive services in a range of sectors.

• The ESF is the main financial instrument to promote the employment strategy and has a horizontal priority for local employment development. The ESF regulation provides that programmes implemented at Member States level promote the priorities put forward in the Employment Guidelines and in the National Action Plans for employment. In this framework, activities co-funded by the ESF should include active and preventive labour market measures, support for lifelong learning schemes, and the vigorous promotion of a skilled, well trained and adaptable workforce. The Community Initiative EQUAL, funded by the ESF, provides support for new means of combating all forms of discrimination and inequalities in connection with the labour market.

- The Commission is envisaging to adopt a Communication ("Acting Locally for Employment") to promote employment at local level. This will tie the above initiatives in with other European measures, and launch a consultative process. Through this, the Commission hopes to develop a consensus on the measures to be taken, at the appropriate levels, to enable Europe to take full advantage of its untapped local potential.

4. CONCLUSIONS

4.1. Conditions for progress

This Communication has examined key characteristics and dimensions of the EU's employment performance and has considered how the transition towards an inclusive knowledge-based economy impacts on the employment challenges that Europe faces. The Communication analysed in section 3 a set of Community policies that form an important part of the comprehensive policy approach that is necessary to building an inclusive and dynamic knowledge-based economy.
Intensifying the positive interactions between growth and structural change, encouraged by the range of structural policies discussed in this Communication, will further support this policy strategy. Such a comprehensive policy approach could enhance the rate of growth and create the conditions for a gradual return to full employment. If an average rate of yearly economic growth of around 3 per cent was ensured over 5 years, for example, the EU’s employment rate could be increased by some 4-5 per cent – to more than 65 per cent – a rate last achieved by the Union three decades ago. Similar growth performance for 10 years could bring the employment rate close to 70 per cent. The impact on the rate of unemployment is much less predictable – since it would depend, inter alia, on the scale of new entries onto the labour market – but it could fall to 6-7 per cent after 5 years, and around 4 per cent after 10.

At the heart of many of the employment challenges identified in this Communication, and of the Community policies discussed, lie questions of human resources and capabilities. Ensuring a wide distribution and high level of skills and knowledge is central to the development of a dynamic and inclusive knowledge economy and can make a major contribution to the solution of different aspects of the employment challenge, including regional imbalances, employment of older workers, gender gap issues, skills gaps and long run unemployment.

Policies addressing human resources cover a wide-range of issues from lifelong learning, training of researchers, and entrepreneurial skills, to the minimum skills necessary for effective participation in work - and in wider society - in the knowledge economy. In a situation of continuous change, exemplified by the knowledge economy, such human resources policies must reflect and match the changing conditions people, businesses and governments face. They must be policies that face up to the different needs of different groups and areas, and to differing individual needs over the life cycle.

Human resources policies must be complemented by effective policies promoting the competitive infrastructure and investment necessary for the successful knowledge economy. Furthermore, as shown in the discussion of the internal market and entrepreneurship, policies for competition and openness in product markets have a very important role in tackling employment challenges in the knowledge economy, such as the imbalance in the services sector.

Developing and taking forward the policy approaches described in this Communication will require close cooperation between the Community and the Member States. National, regional and local authorities will also have to look for increased synergies and co-operation.

Furthermore, in order to free resources for the promotion of an inclusive knowledge based economy Member States will need to put decisively into practice the conclusions of the Florence European Council to focus public spending on investment in emerging activities, education, training, R&D and infrastructure, notably in the knowledge area.

Most Member States have a lot to gain - in terms of both budgetary savings and improved policy outcomes - from such a restructuring of public expenditure. Seeking to cut social support in order to drive the people concerned into work, but without any compensating positive actions to improve their ability to obtain, and keep, regular employment - risks serious negative consequences - driving down actual living standards, and reducing both aspirations and motivation.

However, the positive impact of the comprehensive strategy outlined in this Communication risks being reduced if taxation systems keep on being employment adverse. The reversal of
the upward trend of effective labour taxation is one of the guidelines of the European Employment Strategy. Achieving this aim could imply in many Member States a change in the financing structure of social protection, and/or a reduction of public expenditure and/or an increase in revenues from other tax bases (an increase in public deficits being excluded).

Successful promotion of this policy approach also requires dialogue and partnership between public authorities and other stakeholders. The ongoing macroeconomic dialogue and the discussions with the Social Partners in the framework of the social dialogue are major contributions to this.

Finally, as set out in section 3 of this Communication, the benefits of growth and structural change must be distributed in such a way as to ensure inclusion. A return to full employment will represent an essential step in this direction. This implies the removal of the barriers making it difficult for many groups and individuals to access the labour market. Actions to create more and better jobs are a major dimension of a comprehensive strategy to promote inclusion, but they must be complemented by policies designed to tackle multiple deprivation, as well as discrimination. Successful promotion of inclusion will have economic as well as social benefits and contribute to a positive interaction between competitiveness and cohesion in the knowledge economy.

4.2. The Lisbon European Council and beyond

The Council Presidency is looking to the Extraordinary European Council in Lisbon to establish short and long term objectives for employment, economic reform and social cohesion in the Union, paying particular attention to the need to develop the necessary broad capacity to respond to new policy challenges – notably the potential of the knowledge-based economy. Such objectives should be pursued within a common methodology - developing common objectives, translating them into benchmarks, and monitoring success and failure. The Commission will follow up the policy orientations and initiatives of the Lisbon Summit in its submissions for the Broad Economic Policy Guidelines 2000 and the Employment Guidelines 2001. In order, to follow up the Lisbon Summit and to pursue the mainstreaming of employment in Community policies in line with the Employment title, and especially Article 127 of the Treaty, the Commission will:

- Strengthen and deepen its examination of developments and prospects in employment and labour markets across the Union and its international environment through the annual Employment in Europe Report. This will include a more extensive analysis of the linkages between employment and the broader structural changes highlighted in this Communication.

- Develop a systematic, multiannual assessment of the relevance of Community policies for employment. This will be based on a more in-depth examination of the employment and labour market effects of major areas of Community policies. It will include the monitoring of the achievement of agreed objectives and a review of benefits of the EU's financial instruments on the development of employment and its structure.

- Improve the targeting of Community incentive measures to support innovative actions by the Member States in the employment area.

- Further strengthen the dialogue at all levels between Community institutions, Social Partners and other actors with a view of enhancing their responsibility and commitment to promote EU employment objectives.
Employment in advanced services, 1998