

COUNCIL RECOMMENDATION
of 22 July 2003
on the implementation of Member States' employment policies

(2003/579/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 128(4) thereof,

Having regard to the Commission recommendation,

Having regard to the opinion of the Employment Committee,

Whereas:

- (1) The Lisbon European Council on 23 and 24 March 2000 set a new strategic goal for the European Union to become 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. To this end the Council agreed overall employment targets and employment targets for women, for 2010.
- (2) The Barcelona European Council of 15 and 16 March 2002 called for a strengthening of the European Employment Strategy through a reinforced, simplified and better-governed process fully integrated into the Lisbon strategy. The Barcelona European Council also requested a streamlining of policy coordination processes, with synchronised calendars for the adoption of the broad economic policy guidelines and the employment guidelines.
- (3) The Council agreement on streamlining of 3 December 2002 considered that streamlining should be guided by the objective to increase transparency and efficiency, avoid overlap and repetitions in the formulation of guidelines, and ensure consistency, complementarity and coherence.
- (4) The spring European Council held on 20 and 21 March 2003 in Brussels confirmed that the Employment Strategy has the leading role in the implementation of the employment and labour market objectives of the Lisbon strategy, and urged Member States to maintain the momentum of reform of national labour markets.
- (5) The Council adopted the guidelines for the employment policies of the Member States by Decision 2003/578/EC⁽¹⁾.
- (6) The joint employment report adopted by the Commission and the Council on 6 March 2003 describes key challenges for employment policy in each Member State and indicates priorities for action which will enhance the contribution of each Member State towards the achievement of the overall objectives of the employment guidelines.
- (7) Sound macroeconomic policies and comprehensive economic reforms are crucial for job creation. Member States should therefore implement this recommendation in a way that is consistent with the broad economic policy guidelines,

HEREBY RECOMMENDS that the Member States should take the actions set out in the Annex.

Done at Brussels, 22 July 2003.

For the Council
The President
G. ALEMANNIO

⁽¹⁾ See page 13 of this Official Journal.

ANNEX

BELGIUM

The challenges posed by an ageing population suggest a need for measures aimed at mobilising the non-occupied potential labour force, thereby increasing employment and participation rates. Despite the positive evolution in recent years, employment rates in Belgium remain markedly below the EU average and far from the EU targets, especially for older workers, for which the employment rate is the lowest in the EU. It is unlikely that measures taken so far to promote a more active ageing will suffice to reach the EU target by 2010. Although long-term unemployment has decreased in recent years and is now below the EU average, it remains a structural problem. The inflows into long-term unemployment remain high and an appropriate preventive approach for all adult jobseekers is still not provided. Notwithstanding recent measures to remove unemployment traps, the risk of benefit dependency calls for a further review of the benefit system, while at the same time strengthening the attractiveness of work. Moreover, wage moderation accompanied by the reduction of taxes and social security contributions continue to be priority axes for improving the competitive position and thus creating employment. Furthermore, the persistent regional and subregional disparities in labour market performance reflects not only differences in economic performance, but also inadequate geographical labour mobility, and initiatives in this area remain of limited scope.

Belgium should therefore:

Prevention and activation

1. strengthen measures to reduce inflows into long-term unemployment by improving the coverage of unemployed adults by the preventative approach;

Labour supply and active ageing

2. develop and implement a comprehensive strategy to increase the employment rate, in particular for older workers and women, based on appropriate targets; take further preventative measures and remove incentives to early withdrawal of workers from work;

Making work pay

3. implement the planned multiannual reduction of the tax and non-tax burden on labour so as to encourage employees to take up work and employers to create new jobs, in combination with a further review of the benefit system in order to remove unemployment traps;

Regional disparities

4. take concerted action to increase labour mobility between regions and further improve the coordination and integration of labour market policies.

DENMARK

Employment rates in Denmark are already well above the EU targets, including for women and older workers. However, in view of the ageing of the labour force, Denmark needs to ensure an adequate labour supply, in order to safeguard growth potential and the sustainability of the social protection system. Recent reforms have raised the average effective retirement age, but care still needs to be taken in certain sectors, particularly in the health, education and social sector, where there is over-representation of employees aged over 50. Other sources of potential labour supply include immigrants already living in Denmark, whose participation should be encouraged. Reforms have been undertaken to reduce the overall fiscal pressure on labour, but further reforms would be needed to ensure labour force participation in the long term, in particular by reducing the still relatively high marginal tax rates and by providing incentives to postpone early retirement.

Denmark should therefore:

Labour supply and active ageing

1. strengthen efforts to sustain the availability of labour in the long term, in particular by promoting the participation of older workers and by preventing bottlenecks in sectors with an ageing workforce;

People at a disadvantage

2. further strengthen the labour market integration of immigrants by ensuring the right balance between increasing economic incentives and avoiding social exclusion;

Making work pay

3. continue the reforms to reduce the high marginal tax rates and the overall fiscal pressure on labour, in particular on low and medium income earners and assess their impact.

GERMANY

The overall employment rate in Germany is close to the EU target of 67 % for 2005. The employment rate for women already exceeds the intermediate EU target of 57 % for 2005, whereas for older workers it remains below the low starting level of 1997, due to the low participation in the 60 to 64 age bracket. However, labour market participation of women is still negatively influenced by the continuing lack of care facilities and gender pay gaps, particularly in the private sector. The expected deterioration of the unemployment situation in 2003 calls for efficient preventive and active labour market policies. The combined effect of taxation, social security contributions and benefit withdrawal may create disincentives to work, particularly for low wage earners. The latter group has therefore been targeted by recent reforms. The education system also constitutes an important element for tackling unemployment because the low skilled make up a large share of the unemployed. A large job deficit remains, notably in the new *Länder*, with a risk of further increasing regional disparities in the labour market. The degree of regulation may inhibit job creation, and requires a comprehensive review, including of labour market institutions which govern wage formation.

Germany should therefore:

Prevention and activation

1. improve the efficiency of job search assistance and active labour market programmes by improved targeting and tailoring; labour market policies should continue to pay special attention to the New *Länder*;

Address change and promote adaptability

2. support job creation by a systematic review and removal of regulatory barriers which may hamper the development of employment in services and industry; promote a more adaptable work organisation and create a regulatory framework favourable to both employment creation and productivity, *inter alia*, by a consistent and prompt implementation of the labour law reform announced in March 2003 by the Federal Government;

Lifelong learning

3. further develop and implement an overall lifelong learning strategy, addressing all levels of the educational system, with special attention to increasing participation in continuing training, in particular of older workers, and low qualified and SME workers;

Gender equality

4. strengthen action to address gender specific disadvantages in the labour market and in particular to assess the impact of labour income taxation on women's employment and encourage the social partners to take their responsibility to considerably reduce the gender pay gap; promote the availability of childcare facilities and improve their correspondence with working hours and school schedules;

Making work pay

5. continue the reform of the tax and social benefit system, thereby ensuring sufficient incentives to take up work. At the same time, enforce the legal obligation of active job search as a condition for receipt of benefits.

GREECE

Greece's overall employment rate is considerably below the targets set by the European Council, in particular for women. The comparatively low employment rates are partly due to the low incidence of part-time employment in Greece. Unemployment fell for a third consecutive year in 2002 but is still above the EU average, with the unemployment rate for women more than double the rates for men. The reform of the public employment service, which is essential to address the high level of long-term unemployment, is still delayed. In order to increase labour productivity, which suffers *inter alia* from the low levels of skills, the systems for initial and continuous training need to be better integrated. Despite recent reforms, the complexity of the tax system and the high social security contributions remain important obstacles to hiring and to reducing undeclared work. Moreover, reforms aimed to promote flexible forms of employment have had limited impact.

Greece should therefore:

Address change and promote adaptability

1. implement fully and in close cooperation with the social partners the labour market reform package, with a view to improving access to part-time work and supporting the adaptability of workers and enterprises while ensuring the balance between flexibility and security on the labour market;

Lifelong learning

2. complete and implement the comprehensive lifelong learning strategy, building on coordination initiated between education and vocational training and employment systems. Take measures to increase the levels of educational attainment and the participation of adults in education and training;

Gender equality

3. take effective actions to narrow the high gender gaps in terms of employment and unemployment rate, and continue efforts to increase care facilities for children and other dependants;

Making work pay

4. simplify the tax system and reduce social security contributions, in particular for the low paid, while offering greater incentives for part-time employment. Implement an adequate policy mix to reduce substantially undeclared work, including by the reduction of taxation on low-paid labour and increased incentives for the transformation of undeclared work into regular work;

Delivery services

5. complete the reform of the public employment services and fully implement the preventative and individualised approach, in particular for women and young people; further upgrade statistical monitoring systems.

SPAIN

Notwithstanding the great efforts and progress made in recent years, the unemployment rate remains significantly above the EU average, while the employment rate remains below the EU average. The reduction in unemployment has been greater for women than for men, but the female unemployment rate is still more than double that of men. Other features of the Spanish labour market remain almost unchanged: the slow improvement of productivity, the high share of fixed-term contracts and the low use of part-time contracts, which are still much less widespread than in other Member States. Moreover, employment creation in the different Autonomous Communities has not succeeded in closing the large existing gaps among regions as regards unemployment rates. Geographic labour mobility is limited, partly on account of structural obstacles, notably the poor functioning of the housing market. In this context, it is important to complete the modernisation of the public employment service and to increase coordination between regional employment services.

Spain should therefore:

Address change and promote adaptability

1. improve, in consultation with the social partners, work organisation and the participation in lifelong learning with a view to strengthen productivity and quality at work. Revise the regulatory framework, putting emphasis on reducing the high share of fixed-term contracts and increasing the use of part-time contracts;

Gender equality

2. take effective action to increase the overall employment rate and to close gender gaps in employment and unemployment. Improve the provision of care facilities for children and other dependants;

Regional disparities

3. improve the conditions conducive to employment creation in regions lagging behind and eliminate obstacles to geographic labour mobility. This should include reinforcing the coordination between the different regional employment services with a view to reducing regional disparities in employment and unemployment;

Delivery services

4. complete the modernisation of the public employment services so as to improve its efficiency and to increase its capability to mediate in the labour market. These efforts should include the completion of the statistical monitoring system.

FRANCE

France still has a relatively low overall employment rate and a very low employment rate for older workers (among the lowest in the EU). In the context of an ageing population, the challenge is therefore to encourage labour force participation, in particular for older workers. Despite the implementation of active and preventative policies, the level of structural unemployment remains high in certain parts of the country, and there is a continuing mismatch between labour supply and demand, posing recruitment problems in certain sectors. In this context, the number of young people leaving school without a qualification is particularly problematic. Finally, despite its potential to play an important role in several fields, the social dialogue suffers from certain weaknesses.

France should therefore:

Prevention and activation

1. pursue and develop measures to prevent unemployment by strengthening a personalised approach for the unemployed and by ensuring effective job search incentives and coordination of the various employment services. To this effect, ensure that the new unemployment insurance system is accompanied by appropriate requirements and effective job search incentives;

Lifelong learning

2. pursue a comprehensive lifelong learning strategy, which accounts for the needs of initial training and encourages access to training for less qualified employees, in particular in SMEs;

Labour supply and active ageing

3. implement a coherent policy to appreciably increase the participation in the labour market of older workers, in particular by offering incentives to remain active, strengthened access to training, and a reform of the early retirement systems;

Social partnership

4. stimulate and strengthen the social dialogue, in particular to address issues connected with active ageing and lifelong learning.

IRELAND

Ireland is making steady progress towards achieving the Stockholm and Lisbon employment targets. However the sharp slowdown in economic growth and the recent increase in the unemployment rate present a major challenge. Female participation in the labour force has significantly improved, but there is still a significant gap between employment rates for women and men, as well as a high gender pay gap. This is exacerbated by difficulties in the supply and affordability of childcare. Although progress has been made, disparities continue to exist between the two regions, in terms of equal access to the labour market and of economic activity. A strategic framework for lifelong learning has not yet been implemented and the development of in-company training, in particular for older workers is still awaited.

Ireland should therefore:

Job creation

1. take further comprehensive action to address regional imbalances in employment, unemployment and job creation, including through assistance from the Community Structural Funds;

Lifelong learning

2. increase in-company training and expedite the implementation of a coherent lifelong learning strategy, with overall targets. Promote the active involvement of the social partners in pursuing these objectives;

Gender equality

3. strengthen efforts to mobilise and integrate into the labour market economically inactive people, in particular women, by continuing to remove tax barriers, increasing the number of affordable childcare places and addressing the factors underlying the gender pay gap.

ITALY

Despite improvements in recent years, there remains an important gap between the employment rates in Italy and the Community average, especially for women and older workers, and national targets have been set in accordance. There continues to be a large regional gap, with the north recording high rates and almost full employment on one side and the south characterised by low rates and high unemployment on the other. While past reforms have contributed to increase employment and to reduce the level of unemployment in both parts of the country, the relative distance has remained virtually unchanged. The effectiveness of the implementation of an adequate policy mix to reduce substantially undeclared work has been mixed and below the expectations. Whilst flexible contracts have been introduced over the last five years, the Italian labour market continues to suffer from unequal job protection. On the other hand, the system of unemployment benefits and social assistance is still very limited in Italy. Initiatives aiming at labour market flexibility and security, *inter alia* the introduction of new labour contracts and the liberalisation of employment services, were taken by the Government at the beginning of 2003. However, long-standing plans such as the reform of the public employment service and the lifelong learning strategy are lagging behind.

Italy should therefore:

Job creation

1. take further comprehensive action to address regional imbalances in employment, unemployment and job creation with an effective use of all means of action, including the assistance from the Community Structural Funds. Further strengthen the policy mix to substantially reduce undeclared work, notably by inviting the social partners to raise their level of commitment and by increasing the incentives for the transformation of undeclared work into regular work;

Address change and promote adaptability

2. implement, where appropriate in consultation with the social partners, measures to increase labour market flexibility and modernise work organisation, while promoting the synergy between flexibility and security and avoiding marginalisation of disadvantaged persons;

Lifelong learning

3. take action to implement the lifelong learning strategy, in particular by increasing the continuous training offer through agreements with the social partners;

Labour supply and active ageing

4. take action to raise the employment rate of older workers in accordance with the national target, in particular by increasing, in consultation with the social partners, the effective exit age and by widening the offer of continuous training opportunities. Take action to increase the employment rate of women, in particular by increasing the supply of flexible work arrangements and of care facilities for children and other dependants;

Delivery services

5. improve the functioning of the market for employment services by implementing a national computerised labour market data system available for all the operators, while at the same time improving the delivery capacity of the employment services to provide active and preventative measures to the unemployed.

LUXEMBOURG

Labour force participation in Luxembourg is below the EU average, in particular for older workers. Employment growth has been possible thanks to cross-border workers and increased participation of women, while virtually no progress has been achieved regarding the employment rate of older workers despite some measures undertaken with the aim of increasing incentives to remain active. Mobilising part of the unutilised national employment potential is of great importance to enhance labour supply and thus provide impetus to growth. Incentives to remain active could be improved by further reforms of early retirement and pre-retirement schemes. Also the effects of the latest revisions in the disability pension scheme should be closely monitored. There is a risk that the progress achieved in raising the female employment rate could let up in a less dynamic labour market. The transition of young people without vocational qualifications into the labour market remains a major difficulty as well. In relation to these aspects (young people, women and older workers) and important aspects of quality in work (lifelong learning, gender pay gaps), Luxembourg has not yet established an appropriate follow-up to verify the impact of the measures and reforms decided on since the first national action plan for employment (NAP).

Luxembourg should therefore:

Lifelong learning

1. ensure effective implementation of the framework law on continuous training through developing, with strong involvement of the social partners, a coherent lifelong learning strategy. Combat early school leaving and undertake a revision of the overall learning system with a view to achieving better coherence between the education and training sectors;

Labour supply and active ageing

2. further strengthen action aimed at significantly increasing labour market participation rates amongst older workers by reviewing the early retirement pension scheme and by closely monitoring the effects of the latest revisions in the disability pension scheme;

Gender equality

3. continue efforts aimed at increasing labour market participation rates amongst women, by improving services to facilitate a better reconciliation of work and private life, by encouraging their return to work after long periods outside the labour market and by adopting measures to promote gender equality particularly by addressing factors underlying the gender pay gap.

THE NETHERLANDS

Despite the recent rise in unemployment, the Netherlands continue to score well above the overall employment rate target set by the European Council. Although the female employment rate exceeds the EU target, the gender pay gap is still comparatively high. Further improvement of employment rates will depend on continued growth of female employment, and on a stronger activation of older persons and minorities, as well as on mobilising the unutilised labour potential. In this context, the high number of people on disability benefits is a matter of concern and unemployment traps in the social benefit schemes continue to create disincentives for people to take up work. The persistence of unfilled vacancies due to skill gaps points to an insufficient ability of lifelong learning policies to bridge the gap between labour supply and demand. With unemployment on the increase, this may add to the risk of job loss among the low skilled workers.

The Netherlands should therefore:

Lifelong learning

1. target, in close cooperation with the social partners, lifelong learning policies to the demands of the labour market in order to tackle inactivity and to prevent low skilled workers from drifting out of the labour market;

Gender equality

2. further develop, together with the Social Partners, a strategy for addressing the factors underlying the gender pay gap;

Making work pay

3. improve the transparency of the benefit system by an increased use of tax-based measures instead of subsidies and by a better coordination of national and local income support. Ensure that the disability scheme addresses both the need to contain the inflow into the scheme and to activate those who already receive benefits.

AUSTRIA

The employment rate targets set by the Lisbon and Stockholm European Councils have already been largely met by Austria with the exception of the employment rate for older workers. This situation is also reflected in the fact that the average exit age on the labour market is very low. The unemployment rates started to increase from mid 2001, notably for young persons, but continue to be of the lowest in the EU. Structural changes on the labour market, the adaptability of the workforce and the removal of skill mismatches remain a constant challenge. Although the female employment rate is already very high, the gender pay gaps and the lack of childcare facilities constitute important weaknesses.

Austria should therefore:

Lifelong learning

1. continue to implement a comprehensive strategy for the development of lifelong learning, underpinned by the necessary mobilisation of all actors involved and including relevant targets on financial resources and participation;

Labour supply and active ageing

2. develop, together with the Social Partners, an action plan, based on relevant targets, for increasing the employment of older workers, notably older women, and the effective exit age;

Gender equality

3. develop, together with the Social Partners, a strategy, based on relevant targets, for addressing the factors underlying the gender pay gap, and enhance action to offer more childcare facilities; assess the impact of the present childcare allowance scheme on the quality and quantity of female employment.

PORTUGAL

General economic indicators have deteriorated since 2001, and unemployment has increased significantly in 2002. However, progress towards the EU-wide targets has been positive since 1997 and the employment rate is already above the 67 % target for 2005. However, labour productivity in Portugal is the lowest in the EU and is growing slowly. The average level of educational attainment of both the adult population and the younger age groups continues to be low. Although Portugal has substantially increased spending on education in recent years, the share of early school leavers without upper-secondary education and not in training is by far the highest in the EU. In spite of recent progress, the levels of vocational training are significantly below the EU average. It has been particularly difficult to involve the large number of small and micro companies in the national programmes designed to upgrade the skills of their staff and increase worker qualification levels. Although the employment rate for women is above the Community average, important gender imbalances persist in terms of sectoral distribution and pay gaps in the private sector. Important agreements have been signed recently between the social partners and the Government, but their implementation will require a strong involvement of the signatories.

Portugal should therefore:

Lifelong learning

1. pursue the implementation of the national lifelong learning strategy; improve the education system to reduce the high level of early school leavers and ensure the supply of skilled labour, and implement targets for education and training of workers in enterprises;

Gender equality

2. pursue efforts to reconcile work and private life, in particular by extending care facilities for children and other dependants. Take action to promote a better gender balance at sectoral level and address the factors underlying the gender pay gap in the private sector;

Social partnership

3. building on existing agreements between the Government and the Social Partners, strengthen Social Partnership in the areas of wage policy and productivity, adaptability, work organisation and quality at work.

FINLAND

Finland exceeds the EU-wide overall and female employment targets for 2005 set by the European Council, as well as the Lisbon target for the female employment rate to be reached by 2010. Finland is one of the Member States most exposed to the effects of ageing population. Thus an increase in the employment rate and in the labour supply will require that older workers remain longer in the labour market. The overall unemployment rate remains above the EU average, with high structural unemployment. The coexistence of high unemployment in some regions with difficulties in recruiting indicates that there is still room for further improving the effectiveness of active labour market programmes in addressing the mismatch between supply and demand of labour. Although measures have been taken to reduce the high tax burden on labour, the reform of tax and benefit schemes still deserves attention, especially with regard to low-paid labour. National sources indicate also a high gender pay gap, which can only be partially explained by gender segregation across sectors.

Finland should therefore:

Prevention and activation

1. improve further the effectiveness of active labour market programmes with a view to combating structural unemployment and reducing regional disparities;

Labour supply and active ageing

2. strengthen efforts to sustain the availability of labour in the long term. In particular, continue action to increase the effective exit age in line with the national strategy for active ageing, and encourage participation in the labour market by further reforming tax and benefit schemes, notably by targeted tax measures for low-paid labour;

Gender equality

3. strengthen efforts, in the context of gender mainstreaming to address the factors underlying the gender pay gap and gender segregation.

SWEDEN

The Swedish labour market is characterised by very high employment rates, including among older workers and women, and all the EU-wide targets have already been exceeded. However, in view of the ageing population, there will be a need to sustain labour supply by exploiting potential sources of labour among immigrants, the young and the long-term sick. Early retirement and the rapid increase in long-term sickness deserve particular attention in order to sustain an adequate labour supply. Despite the ongoing tax reform, the tax burden on labour is still the highest in the EU. Benefit schemes are relatively generous in an international perspective and include tight eligibility criteria. However, further efforts appear necessary to improve incentives to work.

Sweden should therefore:

Labour supply and active ageing

1. strengthen efforts to sustain labour supply in the long term by fully exploiting all potential sources of labour, in particular through an increased participation of immigrants;
2. reduce the numbers of people on long-term sick leave by improving conditions of work, and adapting the regulatory framework to promote an effective reintegration into the labour market;

Making work pay

3. pursue the reforms of tax and benefit systems to improve work incentives, in particular for those groups for which the interplay between taxes and benefits has the most negative impact upon labour supply, and complete the tax reform on labour income.

UNITED KINGDOM

The United Kingdom exceeds the EU-wide overall employment rate target set by the European Council, including the targets for women and for older workers. However, high employment rates are associated with relatively low levels of productivity in part due to insufficient levels of basic skills, and specific job quality-related problems like the gender pay gap and lack of access to training for some categories of workers. These challenges constitute a concrete agenda for further developing social partnership at all levels. In addition, the continuous rise in the number of working-age people claiming sickness and disability benefits may constitute a constraint for a further increase in labour supply. Although the overall unemployment rate remains well below the EU average, there are significant disparities in terms of access to the labour market, with a concentration of economic inactivity and long-term unemployment in certain communities and amongst particularly disadvantaged persons (lone parents, households with no one in work, certain ethnic minorities, male older workers, disabled people and the low skilled). This calls for strengthened and well targeted active labour market policies.

The United Kingdom should therefore:

Prevention and activation

1. implement active labour market policies leading to sustainable integration in the labour market in order to alleviate the high concentration of unemployment and inactivity in certain communities. Special attention should be paid to people facing particular problems in the labour market and at risk of becoming long-term unemployed, working poor or inactive;

Labour supply and active ageing

2. ensure that all those who are able to work have the opportunities and incentives to do so, in particular by modernising sickness and disability benefit schemes;

Gender equality

3. strengthen efforts to address the underlying factors of the gender pay gap, in particular by improving the gender balance across occupations and sectors, and increasing access to training for low-paid women part-time workers. Further improve the provision of affordable care services for children and other dependants;

Social partnership

4. further develop social partnership at all levels to help improve productivity and quality in work, in particular by addressing low levels of basic skills and skills gaps amongst the workforce.
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